CHEMED CORP
Form 10-Q
July 30, 2018

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 June 30, 2018

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

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	16,089,379 Shares	June 30, 2018

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

Index

	Page No.
PART I. FINANCIAL INFORMATION:	
Item 1. Financial Statements	
Unaudited Consolidated Balance Sheets - June 30, 2018 and December 31, 2017	3
Unaudited Consolidated Statements of Income - Three and six months ended June 30, 2018 and 2017	4
Unaudited Consolidated Statements of Cash Flows - Six months ended June 30, 2018 and 2017	5
Notes to Unaudited Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures about Market Risk	38
Item 4. Controls and Procedures	38
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	38
Item 1A. Risk Factors	38
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 3. Defaults Upon Senior Securities	39
Item 4. Mine Safety Disclosures	39
Item 5. Other Information	39
Item 6. Exhibits	40
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

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)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$12,668	$11,121
Accounts receivable less allowances (2017 - $15,175)	119,206	113,651
Inventories	5,696	5,334
Prepaid income taxes	19,666	29,848
Prepaid expenses	16,205	16,092
Total current assets	173,441	176,046
Investments of deferred compensation plans	67,573	62,067
Properties and equipment, at cost, less accumulated depreciation of $242,070 (2017 - $230,034)	145,903	143,034
Identifiable intangible assets less accumulated amortization of $32,961 (2017 - $32,887)	55,250	54,865
Goodwill	478,202	476,887
Other assets	7,845	7,127
Total Assets	$928,214	$920,026
LIABILITIES		
Current liabilities		
Accounts payable	$48,236	$48,372
Current portion of long-term debt	-	10,000
Accrued insurance	42,826	46,968
Accrued compensation	49,372	62,933
Accrued legal	823	1,786
Other current liabilities	25,159	23,463
Total current liabilities	166,416	193,522
Deferred income taxes	18,811	16,640
Long-term debt	103,400	91,200
Deferred compensation liabilities	66,154	61,800
Other liabilities	17,042	16,510
Total Liabilities	371,823	379,672
Commitments and contingencies (Note 10)		
STOCKHOLDERS' EQUITY		
Capital stock - authorized 80,000,000 shares $1 par; issued 35,141,361 shares (2017 - 34,732,192 shares)	35,141	34,732
Paid-in capital	744,228	695,797
Retained earnings	1,129,289	1,038,955
Treasury stock - 19,135,008 shares (2017 - 18,694,047)	(1,354,538)	(1,231,332)
Deferred compensation payable in Company stock	2,271	2,202
Total Stockholders' Equity	556,391	540,354
Total Liabilities and Stockholders' Equity	$928,214	$920,026

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Service revenues and sales	$441,813	$415,059	$880,989	$820,923
Cost of services provided and goods sold (excluding depreciation)	305,741	285,852	610,277	570,992
Selling, general and administrative expenses	68,297	68,654	137,297	138,112
Depreciation	9,718	8,833	18,985	17,726
Amortization	34	32	61	78
Other operating expenses/(income)	(118)	90,636	(169)	91,509
Total costs and expenses	383,672	454,007	766,451	818,417
Income/(loss) from operations	58,141	(38,948)	114,538	2,506
Interest expense	(1,524)	(1,121)	(2,731)	(2,116)
Other income - net	1,038	1,653	2,056	4,116
Income/(loss) before income taxes	57,655	(38,416)	113,863	4,506
Income taxes	(2,684)	16,760	(13,896)	3,682
Net income/(loss)	$54,971	$(21,656)	$99,967	$8,188
Earnings Per Share:				
Net income/(loss)	$3.43	$(1.35)	$6.22	$0.51
Average number of shares outstanding	16,035	16,010	16,067	16,114
Diluted Earnings Per Share:				
Net income/(loss)	$3.27	$(1.35)	$5.93	$0.49
Average number of shares outstanding	16,811	16,010	16,854	16,758
Cash Dividends Per Share	$0.28	$0.26	$0.56	$0.52

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	$99,967	$8,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,046	17,804
Stock option expense	7,305	6,055
Noncash long-term incentive compensation	2,942	1,783
Provision/(benefit) for deferred income taxes	2,173	(34,876)
Noncash directors' compensation	766	766
Amortization of restricted stock awards	446	638
Amortization of debt issuance costs	288	258
Litigation settlement	-	90,000
Provision for uncollectible accounts receivable	-	8,250
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	(6,057)	5,804
(Increase)/decrease in inventories	(362)	137
Increase in prepaid expenses	(113)	(1,573)
Decrease in accounts payable and other current liabilities	(14,909)	(6,931)
Change in current income taxes	10,136	2,982
Increase in other assets	(5,667)	(4,152)
Increase in other liabilities	4,889	3,754
Other sources	186	1,437
Net cash provided by operating activities	121,036	100,324
Cash Flows from Investing Activities		
Capital expenditures	(23,872)	(28,133)
Business combinations	(1,875)	(525)
Other sources	533	87
Net cash used by investing activities	(25,214)	(28,571)
Cash Flows from Financing Activities		
Proceeds from revolving line of credit	358,350	135,800
Payments on revolving line of credit	(281,150)	(115,800)
Purchases of treasury stock	(84,304)	(85,063)
Payments on other long-term debt	(75,000)	(3,750)
Capital stock surrendered to pay taxes on stock-based compensation	(21,022)	(5,716)
Proceeds from exercise of stock options	20,209	10,398
Dividends paid	(9,016)	(8,396)
Debt issuance costs	(968)	-
Change in cash overdrafts payable	(711)	(1,090)
Other (uses)/sources	(663)	307
Net cash used by financing activities	(94,275)	(73,310)
Increase/(Decrease) in Cash and Cash Equivalents	1,547	(1,557)
Cash and cash equivalents at beginning of year	11,121	15,310

Cash and cash equivalents at end of period	$12,668	$13,753

See accompanying notes to unaudited consolidated financial statements.

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, 2017 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, 2017.

CASH FLOW CLASSIFICATION
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 was to reduce diversity in practice related to eight specific cash flow issues. The guidance in this ASU was effective for fiscal years beginning after December 15, 2017. We adopted this ASU as of January 1, 2018. There was no material effect to our statements of cash flow.

INCOME TAXES
The enactment of the Tax Cuts and Jobs Act ("the Act") and subsequent issue of SAB 118 provides for a measurement period not to exceed one year in order to complete implementation of the Act. We have recognized and disclosed provisional amounts for material items in the prior period. We expect to complete our implementation within one year consistent with SAB 118. We have not recognized a provisional amount for GILTI tax as we do not expect this to materially impact the financial statements. We have not adjusted or recognized any other provisional amounts related to the Act during the quarter and year ended June 30, 2018.

Our effective income tax rate was 4.7% in the second quarter of 2018 (expense) compared to 43.6% during the second quarter of 2017 (benefit). Excess tax benefit on stock options reduced our income tax expenses by $11.7 million and $2.6 million, respectively for the quarters ended June 30, 2018 and 2017. The benefit in 2017 relates to a $90.0 million charge taken for a legal settlement.

Our effective income tax rate was 12.2% for the first six months ended June 30, 2018 (expense) compared to 81.7% during the first six months ended of 2017 (benefit). Excess tax benefit on stock options reduced our income tax expenses by $15.5 million and $6.3 million, respectively for the years ended June 30, 2018 and 2017. The benefit in 2017 relates to a $90.0 million charge taken for a legal settlement.

NON-CASH TRANSACTIONS
Included in the accompanying Consolidated Balance Sheets are $1.3 million and $2.7 million of capitalized property and equipment which were not paid as of June 30, 2018 and December 31, 2017, respectively. These amounts have been excluded from capital expenditures in the accompanying Consolidated Statements of Cash Flow. There are no material non-cash amounts included in interest expense for any period presented.

2. Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update "ASU No. 2014-09 – Revenue from Contracts with Customers." The standard and subsequent amendments are theoretically intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide for more useful information to users through improved disclosure requirements and simplify the preparation of financial statements. The standard is also referred to as Accounting Standards Codification No. 606 ("ASC606"). We adopted ASC 606 effective January 1, 2018. The required disclosures of ASC 606 and impact of adoption are discussed below for each of our operating subsidiaries.

Vitas

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

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

Routine Home Care occurs when a patient receives hospice care in their home, including a nursing home setting. The routine home care rate is paid for each day that a patient is in a hospice program and is not receiving one of the other categories of hospice care. For Medicare patients, the routine home care rate reflects a two-tiered rate, with a higher rate for the first 60 days of a hospice patient's care and a lower rate for days 61 and after. In addition, there is a Service Intensity Add-on payment which covers direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient's life, reimbursed up to four hours per day in fifteen minute increments at the continuous home care rate.

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

Continuous Home Care is provided to patients while at home, including a nursing home setting, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24-hour day, which begins at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed practical nurse. While the published Medicare continuous home care rates are daily rates, Medicare pays for continuous home care in fifteen minute increments. This fifteen minute rate is calculated by dividing the daily rate by 96.

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

Each level of care represents a separate promise under the contract of care and is provided independently for each patient contingent upon the patient's specific medical needs as determined by a physician. However, the clinical criteria used to determine a patient's level of care is consistent across all patients, given that, each patient is subject to the same payor rules and regulations. As a result, we have concluded that each level of care is capable of being distinct and is distinct in the context of the contract. Furthermore, we have determined that each level of care represents a stand ready service provided as a series of either days or hours of patient care. We believe that the performance obligations for each level of care meet criteria to be satisfied over time. VITAS recognizes revenue based on the service output. VITAS believes this to be the most faithful depiction of the transfer of control of services

as the patient simultaneously receives and consumes the benefits provided by our performance. Revenue is recognized on a daily or hourly basis for each patient in accordance with the reimbursement model for each type of service. VITAS' performance obligations relate to contracts with an expected duration of less than one year. Therefore, VITAS has elected to apply the optional exception provided in ASC 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above relate to bereavement services provided to patients' families for at least 12 months after discharge.

Care is provided to patients regardless of their ability to pay. Patients who meet our criteria for charity care are provided care without charge. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of providing charity care during the quarters ended June 30, 2018 and 2017 was $2.1 million and $1.8 million, respectively. The cost of providing charity care during the first six months ended June 30, 2018 and 2017 was $4.2 million and $3.7 million, respectively. The cost of charity care is included in cost of services provided and goods sold and is calculated by taking the ratio of charity care days to total days of care and multiplying by the total cost of care.

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

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

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

Inpatient Cap. If the number of inpatient care days any hospice program provides to Medicare beneficiaries exceeds 20% of the total days of hospice care such program provided to all Medicare patients for an annual period beginning September 28, the days in excess of the 20% figure may be reimbursed only at the routine homecare rate. None of VITAS' hospice programs exceeded the payment limits on inpatient services during the three and six months ended June 30, 2018 and 2017.

Medicare Cap. We are also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured in one of two ways based on a provider election. The "streamlined" method compares total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by that Medicare provider number between November 1 of each year and October 31 of the following year with the product of the per-beneficiary cap amount and the number of Medicare beneficiaries electing hospice care for the first time from that hospice program or programs from September 28 through September 27 of the following year. At June 30, 2018 all our programs except one are using the "streamlined" method.

The "proportional" method compares the total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by the Medicare provider number between September 28 and September 27 of the following year with the product of the per beneficiary cap amount and a pro-rated number of Medicare beneficiaries receiving hospice services from that program during the same period. The pro-rated number of Medicare beneficiaries is calculated based on the ratio of days the beneficiary received hospice services during the measurement period to the total number of days the beneficiary received hospice services.

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether revenues are likely to exceed the annual per-beneficiary Medicare cap. Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective actions, which include changes to the patient mix and

increased patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate revenue recognized during the government fiscal year that will require repayment to the Federal government under the Medicare cap and record an adjustment to revenue of an amount equal to a ratable portion of our best estimate for the year.

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, CMS determined that the Medicare cap should be calculated "as if" sequestration did not occur. As a result of this decision, VITAS has received notification from our third party intermediary that an additional $2.7 million is owed for Medicare cap in three programs arising during the 2013 through 2017 measurement periods. The amounts are automatically deducted from our semi-monthly PIP payments. We do not believe that CMS is authorized under the sequestration authority or the statutory methodology for establishing the Medicare cap to the amounts they have withheld and intend to withhold under their current "as if" methodology. We have appealed CMS's methodology change.

During the quarter ended June 30, 2018, we recorded $355,000 in net Medicare cap revenue reduction related to one program for the 2018 government fiscal year. Additionally, we recorded $181,000 related to adjustments of prior year cap liabilities.

During the six months ended June 30, 2018, we reversed $1.5 million of the $2.4 million Medicare cap revenue reduction recognized in the fourth quarter of 2017 due to improved metrics in two VITAS programs offset by $181,000 related to adjustments of prior year cap liabilities.

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

The composition of patient care service revenue by payor and level of care for the quarter ended June 30, 2018 is as follows (in thousands):

	Medicare	Medicaid	Commercial	Total
Routine home care	$232,637	$ 12,019	$ 5,725	$250,381
Continuous care	27,581	1,428	1,504	30,513
Inpatient care	17,029	1,853	1,195	20,077
	$277,247	$ 15,300	$ 8,424	$300,971
All other revenue - self-pay, respite care, etc.				1,998
Subtotal				$302,969
Medicare cap adjustment				(536)
Implicit price concessions				(2,959)
Room and board, net				(2,675)
Net revenue				$296,799

The composition of patient care service revenue by payor and level of care for the six months ended June 30, 2018 is as follows (in thousands):

	Medicare	Medicaid	Commercial	Total
Routine home care	$456,658	$ 23,299	$ 11,455	$491,412
Continuous care	55,213	3,031	3,035	61,279
Inpatient care	35,887	3,901	2,398	42,186
	$547,758	$ 30,231	$ 16,888	$594,877
All other revenue - self-pay, respite care, etc.				3,740

Subtotal	$598,617
Medicare cap adjustment	1,282
Implicit price concessions	(5,792)
Room and board, net	(5,294)
Net revenue	$588,813

Roto-Rooter

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

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

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

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

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

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

Roto-Rooter owns the rights to certain territories and contracts with an independent third-party to operate the territory under Roto-Rooter's registered trademarks. The contract is for a specified term but cancellable by either party without penalty with 90 days advance notice. Under the terms of these arrangements, Roto-Rooter provides certain back office support and advertising along with a limited license to use Roto-Rooter's registered trademarks. The

independent contractor is responsible for all day-to-day management of the business including staffing decisions and pricing of services provided. All performance obligations of Roto-Rooter cease at the termination of the arrangement.

Independent contractors pay Roto-Rooter a standard fee calculated as a percentage of their weekly labor sales. The primary value for the independent contractors under these arrangements is the right to use Roto-Rooter's registered trademarks. Roto-Rooter recognizes revenue from independent contractors over-time (weekly) as the independent contractor's labor sales are completed. Payment from independent contractors is also received on a weekly basis. The use of Roto-Rooter's registered trademarks and advertising provides immediate value to the independent contractor as a result of Roto-Rooter's nationally recognized brand. Therefore, over-time recognition provides the most faithful depiction of the transfer of services as the customer simultaneously receives and consumes the benefits provided. There is no significant variable consideration related to these arrangements.

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

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

The composition of disaggregated revenue for the quarter ended June 30, 2018 are as follows (in thousands):

Short-term core service jobs	$105,086
Water restoration	24,765
Contractor revenue	12,366
Franchise fees	1,574
All other	2,835
Subtotal	$146,626
Implicit price concessions and credit memos	(1,612)
Net revenue	$145,014

The composition of disaggregated revenue for the six months ended June 30, 2018 are as follow (in thousands):

Short-term core service jobs	$209,172
Water restoration	52,502
Contractor revenue	24,731
Franchise fees	3,165
All other	6,155
Subtotal	$295,725
Implicit price concessions and credit memos	(3,549)
Net revenue	$292,176

Initial Adoption of ASC 606

The Company utilized the modified retrospective method of adoption for all contracts. Except for the changes discussed below, the Company has consistently applied the accounting policies to all periods presented in the consolidated financial statements. Sales tax collected from customers at Roto-Rooter is excluded from revenue under ASC 606 and prior revenue standards.

For VITAS, expenses related to payor audits and reviews, as well as variable consideration estimated for patient deductibles and coinsurance, have been historically estimated as revenue was recognized and classified as bad debt expense, included in the consolidated statements of income as selling, general and administrative expense. Upon

adoption of ASC 606, these expenses are classified as contra-revenue. There is no change in the timing of recognition related to the variable consideration. The amount of these expenses during the three and six months ended June 30, 2018 was $3.0 million and $5.8 million, respectively.

Also for VITAS, the 5% net expense related to Medicaid room and board has been historically recorded on a net basis in cost of services provided in the consolidated income statements. Upon adoption of ASC 606, due to the change in the residual value method required by ASC 606, the expense will be classified as a contra-revenue. The amount of the change in the classification for these expenses during the three and six months ended June 30, 2018 was $2.7 million and $5.3 million, respectively. There has been no change in the evaluation of Medicaid room and board related to net versus gross presentation.

Related to Roto-Rooter, expenses related to post-invoice variable consideration in our short-term core portfolio, and adjustments made subsequent to initial estimates related to allowances taken by insurance companies for water restoration, have been classified as a contra-revenue account in the statements of income. These amounts were previously classified as bad debt expense in SG&A. The amount of the change in classification for these expenses during the three and six months ended June 30, 2018 was $1.6 million and $3.5 million, respectively. The initial estimate related to allowances taken by insurance companies for water restoration services have historically been classified as contra-revenue and did not change as a result of the transition.

There was no material impact on the consolidated balance sheets related to the initial adoption. There is no impact to consolidated net income as a result of the initial adoption. As a result of the change in classification in the statements of income, amounts previously included in the provision for uncollectible accounts in the statements of cash flow have been included in the decrease/(increase) in accounts receivable line item in 2018. The total impact of the change from prior revenue guidance (ASC 605) to guidance adopted on January 1, 2018 related to classification in the statements of income is as follows (in thousands):

	Impact for the three months ended June 30, 2018		
	ASC 605	Adjustment	ASC 606
Service revenue and sales	$449,059	$ (7,246)	$441,813
Cost of services provided and goods sold	308,416	(2,675)	305,741
Selling, general and administrative expenses	72,868	(4,571)	68,297

	Impact for the six months ended June 30, 2018		
	ASC 605	Adjustment	ASC 606
Service revenue and sales	$895,624	$ (14,635)	$880,989
Cost of services provided and goods sold	615,571	(5,294)	610,277
Selling, general and administrative expenses	146,638	(9,341)	137,297

3. Segments

Service revenues and sales by business segment are shown in Footnote 2. After-tax earnings by business segment are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
After-tax Income/(Loss)				
VITAS	$ 31,785	$(32,254)	$63,800	$(11,657)
Roto-Rooter	25,298	17,058	48,236	31,682
Total	57,083	(15,196)	112,036	20,025

Corporate	(2,112)	(6,460)	(12,069)	(11,837)
Net income	$ 54,971	$(21,656)	$99,967	$8,188

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

4. Earnings/(Loss) 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):

	Net Income		
For the Three Months Ended June 30,	Income	Shares	Earnings per Share
2018			
Earnings	$54,971	16,035	$ 3.43
Dilutive stock options	-	674	
Nonvested stock awards	-	102	
Diluted earnings	$54,971	16,811	$ 3.27
2017			
Loss	$(21,656)	16,010	$ (1.35)
Dilutive stock options	-	-	
Nonvested stock awards	-	-	
Diluted loss	$(21,656)	16,010	$ (1.35)

	Net Income		
For the Six Months Ended June 30,	Income	Shares	Earnings per Share
2018			
Earnings	$99,967	16,067	$ 6.22
Dilutive stock options	-	683	
Nonvested stock awards	-	104	
Diluted earnings	$99,967	16,854	$ 5.93
2017			
Earnings	$8,188	16,114	$ 0.51
Dilutive stock options	-	557	
Nonvested stock awards	-	87	
Diluted earnings	$8,188	16,758	$ 0.49

For the three and six month periods ended June 30, 2018, there were no stock options excluded in the computation of dilutive earnings per share because they would have been anti-dilutive.

For the three months ended June 30, 2017, all stock options and nonvested stock awards were excluded in the calculation of dilutive earnings per share as they would be anti-dilutive due to the net loss for the period.

For the six month period ended June 30, 2017, there were no stock options excluded in the computation of dilutive earnings per share because they would have been anti-dilutive.

5. Long-Term Debt and Lines of Credit

On June 20, 2018, we replaced our existing credit agreement with the Fourth Amended and Restated Credit Agreement (“2018 Credit Agreement”). Terms of the 2018 Credit Agreement consist of a five-year, $450 million revolving credit facility and a $150 million expansion feature, which may consist of term loans or additional revolving commitments. The interest rate at the inception of the agreement is LIBOR plus 100 basis points. The 2018 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio. The amount outstanding as of June 30, 2018 is $103.4 million.

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

The 2018 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

We are in compliance with all debt covenants as of June 30, 2018. We have issued $36.4 million in standby letters of credit as of June 30, 2018 mainly for insurance purposes. Issued letters of credit reduce our available credit under the 2018 Credit Agreement. As of June 30, 2018, we have approximately $310.2 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 ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Accrued litigation settlement	$(204)	$90,000	$(204)	$90,000
Program closure expenses	-	636	-	1,509
Loss on disposal of fixed assets	86	-	35	-
Total other operating (income)/expenses	$(118)	$90,636	$(169)	$91,509

In June 2017, we recorded a $90.0 million charge for the settlement of a lawsuit at VITAS. See Footnote 10 for a detailed description.

7. Other Income – Net

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Market value adjustment on assets held in deferred compensation trust	$779	$1,587	$1,638	$4,202
Interest income	259	161	417	245
Other - net	-	(95)	1	(331)
Total other income - net	$1,038	$1,653	$2,056	$4,116

8. Stock-Based Compensation Plans

On February 16, 2018, the Compensation/Incentive Committee of the Board of Directors (“CIC”) granted 7,523 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, 2020, 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 $2.6 million.

On February 16, 2018, the CIC also granted 7,523 PSUs contingent upon the achievement of certain earnings per share (“EPS”) targets for the three-year period ending December 31, 2020. At the end of each reporting period, the Company estimates the number of shares that it believes will ultimately be earned and records the corresponding 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 $1.9 million.

9. Retirement Plans

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 ended June 30,		Six months ended June 30,	
2018	2017	2018	2017
$4,807	$4,551	$9,974	$10,709

10. 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. 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

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. The matter has been fully briefed and argued. 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.

On October 30, 2017, the Company entered into a Settlement Agreement (the "Settlement Agreement"), to resolve the civil litigation brought by the United States Department of Justice ("DOJ") on behalf of the OIG and the relators under a lawsuit concerning hospice operations of VITAS, filed 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"). The court dismissed the 2013 Action on February 2, 2018. The litigation involved patient eligibility for the Routine Home Care and Continuous Home Care levels of hospice services, provided by VITAS from July 24, 2002 through May 2, 2013.

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

Under the Settlement Agreement, the Company paid $75 million plus interest, plus certain attorney fees and expenses of qui tam relators. The Company made these payments during the fourth quarter of 2017.

The Spottiswood Settlement has also been resolved upon VITAS's agreement to pay $500,000 to the State of Illinois. This case was dismissed on May 14, 2018.

The Company previously recorded a $90 million loss reserve ($55.8 million after-tax) related to the Settlement Agreement, Spottiswood Settlement, and associated costs in the second quarter of 2017. As of June 30, 2018, an accrual of $300,000 remains on the consolidated balance sheet relating to unpaid legal and administrative fees.

Under the Settlement Agreement, the United States agrees to release the Company, VITAS, and its hospice operation subsidiaries from any civil or administrative monetary liability relating to any patients' disputed terminal medical prognosis of six months or less; a lack of medical necessity for billed Continuous Home Care, General Inpatient Care, or Respite Care levels of hospice care; or that the claims for those levels of hospice care were not eligible for payment for any other reason. The OIG agrees, conditioned on the Company's full payment and in consideration of VITAS's obligations under the CIA, to release its permissive exclusion rights and refrain from instituting any administrative action seeking to exclude the Company, VITAS, and its affiliates from participating in Medicare, Medicaid, or other federal healthcare programs in this regard.

The Settlement Agreement and Spottiswood Settlement also resolve allegations made against the Company by various qui tam relators, who will be required to dismiss their claims with prejudice.

The Settlement Agreement and Spottiswood Settlement both reflect the Company's disagreement with the United States' and State of Illinois' claims and contain no admissions of facts or liability on the part of the Company or any of its subsidiaries.

The costs incurred related to U.S. v. Vitas and related regulatory matters were $2.1 million and $4.2 million for the quarter and year to date June 30, 2017, respectively. No significant costs were incurred during the quarter and six months ended June 30, 2018, respectively.

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 ("Jordan Seper case").

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.

Jiwann 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 period, 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 ("Jiwann Chhina case"). 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 CA 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 Attorneys 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 mediation in the Jordan Seper and Jiwann 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: the Jordan Seper and Jiwann Chhina cases, 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 Attorneys 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 CA timely answered the Complaint generally denying Plaintiff's allegations. Williams is pursing discovery of her individual claim and has agreed to a stay of class discovery pending mediation in the Jordan Seper and Jiwann 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 Jordan Seper and Jiwann 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.

11. 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 $8.5 and $8.2 million for the three months ended June 30, 2018 and 2017, respectively. VITAS made purchases from this provider of $16.8 and $17.0 million for the first six months ended June 30, 2018 and 2017, respectively. Purchases from this provider represent more than 90% of all pharmacy services used by VITAS during each period presented.

12. Cash Overdrafts and Cash Equivalents

There are $14.6 million in cash overdrafts payable included in accounts payable at June 30, 2018 (December 31, 2017 - $15.3 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 not material for each balance sheet date presented.

13. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of June 30, 2018 (in thousands):

		Fair Value Measure		
	Carrying Value	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	$67,573	$67,573	$ -	$ -
Total debt	103,400	-	103,400	-

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2017 (in thousands):

		Fair Value Measure		
	Carrying Value	Quoted Prices in	Significant Other Observable	Significant Unobservable

		Active Markets for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	$62,067	$62,067	$ -	$ -
Total debt	101,200	-	101,200	-

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.

14. Capital Stock Repurchase Plan Transactions

We repurchased the following capital stock for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Total cost of repurchased shares (in thousands)	$3,179	$30,801	$84,304	$102,313
Shares repurchased	10,000	150,000	310,000	780,134
Weighted average price per share	$317.86	$205.34	$271.95	$131.15

In March 2018, the Board of Directors authorized an additional $150.0 million for stock repurchase under Chemed's existing share repurchase program. We currently have $121.2 million of authorization remaining under this share repurchase plan.

15. Recent Accounting Standards

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. We have identified and contracted with a software vendor for the technology to support compliance with the ASU. The implementation effort to populate the software with our outstanding leases is underway. 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 sheets. We do not yet have a dollar estimate of the impact. We do not anticipate a material impact to overall net income or cash flows.

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.

In June 2018, the FASB issued Accounting Standards Update "ASU No. 2018-07 – Compensation – Stock Compensation". The ASU expands the scope of current guidance to include all share-based payment arrangements related to the acquisition of goods and services from both non-employees and employees. The guidance in the ASU is effective for the Company in all fiscal years beginning after December 15, 2018. We are currently evaluating the impact of this standard on our consolidated financial statements, if any.

16. Goodwill

During the first six months of 2018, we completed two business combination within our Roto-Rooter segment for $1.9 million in cash. A substantial portion of the aggregate purchase price was allocated to goodwill as shown below. The operating results of this business combination have been included in our results of operations since the acquisition date and are not material for the quarter and year to date ended June 30, 2018 or for the comparable prior year period.

Shown below is movement in Goodwill (in thousands):

	Vitas	Roto-Rooter	Total
Balance at December 31, 2017	$328,301	$ 148,586	$476,887

Business combinations	-	1,404	1,404
Foreign currency adjustments	-	(89)	(89)
Balance at June 30, 2018	$328,301	$ 149,901	$478,202

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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Service revenues and sales	$441,813	$415,059	$880,989	$820,923
Net income/(loss)	$54,971	$(21,656)	$99,967	$8,188
Diluted EPS/(LPS)	$3.27	$(1.35)	$5.93	$0.49
Adjusted net income	$47,158	$35,907	$93,009	$66,402
Adjusted diluted EPS	$2.81	$2.15	$5.52	$3.96
Adjusted EBITDA	$73,682	$68,497	$146,449	$128,316
Adjusted EBITDA as a % of revenue	16.7 %	16.5 %	16.6 %	15.6 %

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 30-36.

Effective January 1, 2018 the Company adopted ASU No. 2014-09 – Revenue from Contracts with Customers. This resulted in the change in classification of net room and board expenses associated with certain patients residing in nursing homes classified from cost of services to revenue. The amount of the change in classification was $2.6 million and $5.3 million for the three and six months ended June 30, 2018. Additionally, approximately $4.6 million and $9.3 million that was historically considered bad debt expenses previously classified in selling, general and administrative expenses were recorded in revenue for the three and six months ended June 30, 2018. The Company adopted the standard on a modified retrospective basis for all contracts. Thus, 2017 has not been restated to conform with the 2018 presentation. Footnote 2 to the Consolidated Financial Statements gives a complete description of the Company's adoption.

For the three months ended June 30, 2018, the increase in consolidated service revenues and sales was driven by an 11.3% increase at Roto-Rooter and a 4.2% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines offset by a $1.6 million decrease related to the adoption of the new revenue recognition standard. The increase in service revenues at Vitas is comprised primarily of a 0.6% geographically weighted average Medicare reimbursement rate increase, a 7.6% increase in average daily census, offset by $536,000 in Medicare cap revenue reduction, acuity mix shift and a $5.6 million decrease related to the adoption of the new revenue recognition standard. See page 37 for additional VITAS operating metrics.

For the six months ended June 30, 2018, the increase in consolidated service revenues and sales was driven by a 15.1% increase at Roto-Rooter and a 3.8% increase at VITAS. The increase in service revenues at Roto-Rooter was

driven by an increase in all major service lines offset by a $3.5 million decrease related to the adoption of the new revenue recognition standard. The increase in service revenues at Vitas is comprised primarily of a 0.6% geographically weighted average Medicare reimbursement rate increase, a 6.9% increase in average daily census, a $1.3 million reversal of the Medicare cap liability (versus expense of $247,000) in the same period of 2017 offset by acuity mix shift and a $11.1 million decrease related to the adoption of the new revenue recognition standard. See page 37 for additional VITAS operating metrics.

Our effective income tax rate was 4.7% in the second quarter of 2018 (tax expense) compared to 43.6% during the second quarter of 2017 (tax benefit). Our effective income tax rate was 12.2% for the year ended June 30, 2018 (tax expense) compared to 81.7% during the year ended June 30, 2017 (tax benefit). The tax benefit in 2017 was the result of a $90.0 million pre-tax charge taken in the second quarter related to a lawsuit settlement. Additionally, law H.R.1, “An Act to Provide for Reconciliation Pursant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (the “Act”) reduced our overall effective tax rate. The Act amends the Internal Revenue Code to reduce tax rates and modifies policies, credits, and deductions for individuals and businesses. Excess tax benefit on stock options reduced our income tax expense by $11.7 million and $2.6 million, respectively for the quarter ended June 30, 2018 and 2017. Excess tax benefit on stock options reduced our income tax expense by $15.5 million and $6.3 million, respectively for the six months ended June 30, 2018 and 2017.

VITAS expects its full-year 2018 revenue growth, prior to Medicare cap, to be in the range of 4.0% to 5.0%. Admissions are estimated to expand approximately 4.5% to 5.0% and Average Daily Census in 2018 is estimated to expand approximately 5.5%. Adjusted EBITDA margin, prior to Medicare cap, is estimated to be 15.9%. This guidance includes $2.5 million for Medicare cap billing limitations. Roto-Rooter expects full-year 2018 revenue growth of 12.0% to 13.0%. The revenue estimate is a based upon increased job pricing of approximately 2.0% and continued growth in water restoration services. Adjusted EBITDA margin for 2018 is estimated in the range of 24.0%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

Financial Condition

Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2017 to June 30, 2018 include the following:

- A $5.6 million increase in accounts receivable due to timing of payments.
- A $10.2 million decrease in prepaid taxes due to timing of payments.
- A $14.6 million decrease in accrued compensation due to the payments of cash bonuses in 2018 accrued in 2017.

Net cash provided by operating activities increased $20.7 million from June 30, 2017 to June 30, 2018 mainly as a result of a $91.8 million increase in net income offset by the after-tax impact of the litigation settlement recorded in 2017. 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.

On June 20, 2018, we replaced our existing credit agreement with the Fourth Amended and Restated Credit Agreement (“2018 Credit Agreement”). Terms of the 2018 Credit Agreement consist of a five-year, $450 million revolving credit facility and a $150 million expansion feature, which may consist of term loans or additional revolving commitments. The revolving credit facility has a five-year maturity with principal payments due at maturity. The interest rate at the inception of the agreement is LIBOR plus 100 basis points. The 2018 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio.

We have issued $36.4 million in standby letters of credit as of June 30, 2018, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2018, we have approximately $310.2 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 June 30, 2018 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.

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. The matter has been fully briefed and argued. 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.

On October 30, 2017, the Company entered into a Settlement Agreement (the "Settlement Agreement"), to resolve the civil litigation brought by the United States Department of Justice ("DOJ") on behalf of the OIG and the relators under a lawsuit concerning hospice operations of VITAS, filed 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"). The court dismissed the 2013 Action on February 2, 2018. The litigation involved patient eligibility for the Routine Home Care and Continuous Home Care levels of hospice services, provided by VITAS from July 24, 2002 through May 2, 2013.

VITAS and certain of its subsidiaries entered into a Corporate Integrity Agreement ("CIA") with the OIG on October 30, 2017 in connection with the settlement of a False Claims Act Case. The CIA formalizes various aspects of VITAS' already existing Compliance Program and contains requirements designed to document compliance with federal healthcare program requirements. It has a term of five years during which it imposes monitoring, reporting, certification, oversight, screening and training obligations, certain of which have previously been implemented by

VITAS. It also requires VITAS to engage an Independent Review Organization to perform auditing and review functions and to prepare reports regarding compliance with federal healthcare programs. In the event of breach of the CIA, VITAS could become liable for payment of stipulated penalties or could be excluded from participation in federal healthcare programs.

Under the Settlement Agreement, the Company paid $75 million plus interest, plus certain attorney fees and expenses of qui tam relators. The Company made these payments during the fourth quarter of 2017.

The Spottiswood Settlement has also been resolved upon VITAS's agreement to pay $500,000 to the State of Illinois. This case was dismissed on May 14, 2018.

The Company previously recorded a $90 million loss reserve ($55.8 million after-tax) related to the Settlement Agreement, Spottiswood Settlement, and associated costs in the second quarter of 2017. As of June 30, 2018, an accrual of $300,000 remains on the consolidated balance sheet related to unpaid legal and administrative fees.

Under the Settlement Agreement, the United States agrees to release the Company, VITAS, and its hospice operation subsidiaries from any civil or administrative monetary liability relating to any patients' disputed terminal medical prognosis of six months or less; a lack of medical necessity for billed Continuous Home Care, General Inpatient Care, or Respite Care levels of hospice care; or that the claims for those levels of hospice care were not eligible for payment for any other reason. The OIG agrees, conditioned on the Company's full payment and in consideration of VITAS's obligations under the CIA, to release its permissive exclusion rights and refrain from instituting any administrative action seeking to exclude the Company, VITAS, and its affiliates from participating in Medicare, Medicaid, or other federal healthcare programs in this regard.

The Settlement Agreement and Spottiswood Settlement also resolve allegations made against the Company by various qui tam relators, who will be required to dismiss their claims with prejudice.

The Settlement Agreement and Spottiswood Settlement both reflect the Company's disagreement with the United States' and State of Illinois' claims and contain no admissions of facts or liability on the part of the Company or any of its subsidiaries.

The costs incurred related to U.S. v. Vitas and related regulatory matters were $2.1 million and $4.2 million for the quarter and year to date June 30, 2017, respectively. No significant costs were incurred during the quarter and six months ended June 30, 2018, respectively.

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 ("Jordan Seper case").

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.

Jiwann 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 period, 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 ("Jiwann Chhina case"). 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 CA 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 Attorneys 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 mediation in the Jordan Seper and Jiwann 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: the Jordan Seper and Jiwann Chhina cases, 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 Attorneys 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 CA timely answered the Complaint generally denying Plaintiff's allegations. Williams is pursing discovery of her individual claim and has agreed to a stay of class discovery pending mediation in the Jordan Seper and Jiwann 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 Jordan Seper and Jiwann 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.

Results of Operations

Three months ended June 30, 2018 versus 2017 - Consolidated Results

Our service revenues and sales for the second quarter of 2018 increased 6.4% versus services and sales revenues for the first quarter of 2017. Of this increase, a $12.1 million increase was attributable to VITAS and $14.7 million increase was attributable to Roto-Rooter. The following chart shows the components of revenue by operating segment (in thousands):

	Three months ended June 30,	
	2018	2017
VITAS		
Routine homecare	$250,381	$229,948
Continuous care	30,513	31,699
General inpatient	20,077	21,316
Other	1,998	1,994
Medicare cap adjustment	(536)	(247)
Room and board - net	(2,675)	-
Implicit price concessions	(2,959)	-
Roto-Rooter		
Plumbing - short term core	62,552	55,221
Drain cleaning - short term core	41,959	37,678
Other - short term core	575	643

Water restoration	24,765	20,909
Contractor operations	12,366	11,151
Outside franchisee fees	1,574	1,572
Other - non-core	2,835	3,175
Implicit price concessions	(1,612)	-
Total	$441,813	$415,059

Days of care at VITAS during the quarter ended June 30 were as follows:

	Days of Care		Increase/(Decrease)
	2018	2017	Percent
Routine homecare	1,534,162	1,417,840	8.2
Continuous care	42,488	43,108	(1.4)
General inpatient	28,971	31,251	(7.3)
Total days of care	1,605,621	1,492,199	7.6

The remaining increase in VITAS' revenues for the second quarter of 2018 versus the second quarter of 2017 was primarily comprised of a geographically weighted average Medicare reimbursement rate increase of approximately 0.6%, offset by $536,000 in Medicare cap liability and by the $5.6 million change in classification related to the adoption of the new revenue recognition standard.

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

The increase in plumbing revenues for the second quarter of 2018 versus 2017 is attributable to an 11.2% increase in price and service mix shift and a 2.1% increase in job count. Drain cleaning revenues for the second quarter of 2018 versus 2017 reflect a 6.3% increase in price and service mix shift and a 5.1% increase in job count. Water restoration for the second quarter of 2018 versus 2017 increased as a result of a 13.4% increase in job count and a 4.6% increase in price and service mix shift. Contractor operations increased 10.9% mainly due to their expansion into water restoration. Revenue was negatively impacted by the change in the classification of $1.6 million due to the adoption of the new revenue recognition standard.

The consolidated gross margin was 30.8% in the second quarter of 2018 as compared with 31.1% in the second quarter of 2017. On a segment basis, VITAS' gross margin was 21.5% in the second quarter of 2018 as compared with 22.8%, in the second quarter of 2017. The decrease in VITAS gross margin is the result of increased admission and program administrative expenses and by a $3.0 million change in classification of implicit price concessions from selling, general and administrative expenses to revenue for the second quarter of 2018 as a result of the new revenue recognition standard. The Roto-Rooter segment's gross margin was 49.9% for the second quarter of 2018 compared with 49.3% in the second quarter of 2017. The increase in Roto-Rooter gross margin is primarily related improved workers compensation and health insurance experience during the quarter offset by the change in the classification of $1.6 million of implicit price concessions as a result of the new revenue recognition standard.

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

	Three months ended June 30,	
	2018	2017
SG&A expenses before market value adjustments of deferred compensation plans, long-term incentive compensation, and OIG investigation expenses	$66,296	$64,018
Long-term incentive compensation	1,222	956
Impact of market value adjustments related to assets held in deferred compensation trusts	779	1,587
Expenses related to OIG investigation	-	2,093
Total SG&A expenses	$68,297	$68,654

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 second quarter of 2018 were up

3.6% when compared to the second quarter of 2017. This increase was mainly a result of the increase in variable selling expenses caused by increased revenue and increased advertising expense at Roto-Rooter offset by $4.6 million of implicit price concessions being classified in revenue versus selling, general and administrative expenses due to the new revenue recognition standard.

Other operating expense in 2017 was $90.6 million. This was related to the $90.0 million lawsuit settlement and $636,000 related to the closure of the programs in one state at Vitas.

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

	Three months ended June 30,	
	2018	2017
Market value adjustment on assets held in deferred compensation trusts	$779	$1,587
Interest income	259	161
Other	-	(95)
Total other income - net	$1,038	$1,653

Our effective income tax rate was 4.7% in the second quarter of 2018 (tax expense) compared to 43.6% during the second quarter of 2017 (tax benefit). The tax benefit in 2017 was the result of a $90.0 million pre-tax charge taken in the second quarter related to a lawsuit settlement. Additionally law H.R.1, “An Act to Provide for Reconciliation Pursant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (the “Act”) reduced our overall effective tax rate. The Act amends the Internal Revenue Code to reduce tax rates and modifies policies, credits, and deductions for individuals and businesses. Excess tax benefit on stock options reduced our income tax expenses by $11.7 million and $2.6 million, respectively for the quarters ended June 30, 2018 and 2017

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

	Three months ended June 30,	
	2018	2017
VITAS		
Accrued litigation settlement	$152	$(55,800)
Medicare cap sequestration adjustment	(138)	(65)
Expenses related to OIG investigation	-	(1,292)
Program closure expenses	-	(385)
Roto-Rooter		
Expenses related to litigation settlements	-	(129)
Corporate		
Excess tax benefits on stock compensation	11,702	2,643
Stock option expense	(2,900)	(1,931)
Long-term incentive compensation	(1,003)	(604)
Total	$7,813	$(57,563)

Three months ended June 30, 2018 versus 2017 - Segment Results

Net income/(loss) for the second quarter of 2018 versus the second quarter of 2017 by segment (in thousands):

	Three months ended June 30,	
	2018	2017
VITAS	$31,785	$(32,254)
Roto-Rooter	25,298	17,058
Corporate	(2,112)	(6,460)
	$54,971	$(21,656)

VITAS' after-tax earnings were positively impacted in 2018 compared to 2017 due to higher revenue as well as a reduced effective tax rate. Vitas' net loss in 2017 was the result of a $55.8 million (after-tax) litigation settlement.

Roto-Rooter's net income was positively impacted in 2018 compared to 2017 primarily by a $7.3 million increase in plumbing revenue, a $4.3 million increase in sewer and drain revenue and a $3.8 million revenue increase in Roto-Rooter's water restoration line of business as well as a reduced effective tax rate. After-tax earnings as a percent of revenue at Roto-Rooter in the second quarter of 2018 was 17.4% as compared to 13.1% in the second quarter of 2017.

After-tax Corporate expenses for 2018 decreased 67.3% when compared to 2017 due to a $9.1 million increase in tax benefit related to the adoption of ASU 2016-09 offset by increased long term incentive compensation expense.

Results of Operations

Six months ended June 30, 2018 versus 2017 - Consolidated Results

Our service revenues and sales for the first six months of 2018 increased 7.3% versus services and sales revenues for the first six months of 2017. Of this increase, a $21.8 million increase was attributable to VITAS and $38.3 million increase was attributable to Roto-Rooter. The following chart shows the components of revenue by operating segment (in thousands):

	Six months ended June 30,	
	2018	2017
VITAS		
Routine homecare	$491,412	$454,147
Continuous care	61,279	64,556
General inpatient	42,186	44,562
Other	3,740	4,008
Medicare cap adjustment	1,282	(247)
Room and board - net	(5,294)	-
Implicit price concessions	(5,792)	-
Roto-Rooter		
Plumbing - short term core	124,684	106,882
Drain cleaning - short term core	83,289	74,854
Other - short term core	1,199	1,248
Water restoration	52,502	39,002
Contractor operations	24,731	22,176
Outside franchisee fees	3,165	3,117
Other - non-core	6,155	6,618
Implicit price concessions	(3,549)	-
Total	$880,989	$820,923

Days of care at VITAS during the six months ended were as follows:

	Days of Care		Increase/(Decrease)
	2018	2017	Percent
Routine homecare	3,008,130	2,798,388	7.5
Continuous care	85,685	88,525	(3.2)
General inpatient	60,641	65,236	(7.0)
Total days of care	3,154,456	2,952,149	6.9

The remaining increase in VITAS' revenues for the first six months of 2018 versus the first six months of 2017 was primarily comprised of a geographically weighted average Medicare reimbursement rate increase of approximately 0.6%, and a $1.3 million reversal of Medicare cap liability recorded in the fourth quarter of 2017 (compared to $247,000 contra-revenue in the same period of 2017). These increases were offset by the $11.1 million change in classification related to the adoption of the new revenue recognition standard.

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

The increase in plumbing revenues for the first six months of 2018 versus 2017 is attributable to an 11.7% increase in price and service mix shift and a 5.0% increase in job count. Drain cleaning revenues for the first six months of 2018 versus 2017 reflect a 6.8% increase in price and service mix shift and a 4.5% increase in job count. Water restoration

for the first six months of 2018 versus 2017 increased 33.9% as a result of continued expansion of this service offering. Contractor operations increased 11.5% mainly due to their expansion into water restoration. Revenue was negatively impacted by the change in the classification of $3.5 million due to the adoption of the new revenue recognition standard.

The consolidated gross margin was 30.7% in the first six months of 2018 as compared with 30.4% in the first six months of 2017. On a segment basis, VITAS' gross margin was 21.8% in the first six months of 2018 as compared with 22.1%, in the first six months of 2017. The decrease in VITAS gross margin is the result of increased admission and program administrative expenses as well as a $5.8 million change in classification of implicit price concessions from selling, general and administrative expenses to revenue for the first six months of 2018. The Roto-Rooter segment's gross margin was 48.7% for the first six months of 2018 compared with 49.0% in the first six months of 2017. The decrease in Roto-Rooter gross margin is primarily related to the change in the classification of $3.5 million of implicit price concessions.

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

	Six months ended June 30,	
	2018	2017
SG&A expenses before market value adjustments of deferred compensation plans, long-term incentive compensation, and OIG investigation expenses	$132,517	$127,750
Long-term incentive compensation	3,142	1,917
Impact of market value adjustments related to assets held in deferred compensation trusts	1,638	4,202
Expenses related to OIG investigation	-	4,243
Total SG&A expenses	$137,297	$138,112

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 six months of 2018 were up 3.7% when compared to the first six months of 2017. This increase was mainly a result of the increase in variable selling expenses caused by increased revenue and increased advertising expense at Roto-Rooter offset by $9.3 million of implicit price concessions being classified in revenue versus selling, general and administrative expenses due to the new revenue recognition standard.

Other operating expense in 2017 was $91.5 million. This was related to a $90.0 million litigation settlement as well as $1.5 million related to the closure of the programs in one state at Vitas.

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

	Six months ended June 30,	
	2018	2017
Market value adjustment on assets held in deferred compensation trusts	$1,638	$4,202
Interest income	417	245
Other	1	(331)
Total other income - net	$2,056	$4,116

Our effective income tax rate was 12.2% for the year ended June 30, 2018 (tax expense) compared to 81.7% during the year ended June 30, 2017 (tax benefit). The tax benefit in 2017 was the result of a $90.0 million charge taken in the second quarter related to a lawsuit settlement. Additionally law H.R.1, "An Act to Provide for Reconciliation Pursant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (the "Act") reduced our overall effective tax rate. The Act amends the Internal Revenue Code to reduce tax rates and modifies policies, credits, and deductions for individuals and businesses. Excess tax benefit on stock options reduced our income tax expenses by $15.5 million and $6.3 million, respectively for the years ended June 30, 2018 and 2017.

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

	Six Months Ended June 30,	
	2018	2017
VITAS		
Accrued litigation settlement	$152	$(55,800)
Medicare cap sequestration adjustment	(401)	(65)
Expenses related to OIG investigation	-	(2,620)
Program closure expenses	-	(898)
Roto-Rooter		
Expenses related to litigation settlements	-	(129)
Corporate		
Excess tax benefits on stock compensation	15,500	6,338
Stock option expense	(5,791)	(3,828)
Long-term incentive compensation	(2,502)	(1,212)
Total	$6,958	$(58,214)

Six months ended June 30, 2018 versus 2017 - Segment Results

Net income/(loss) for the first six months of 2018 versus the first six months of 2017 by (in thousands):

	Six months ended June 30,	
	2018	2017
VITAS	$63,800	$(11,657)
Roto-Rooter	48,236	31,682
Corporate	(12,069)	(11,837)
	$99,967	$8,188

VITAS' after-tax earnings were positively impacted in 2018 compared to 2017 due to higher revenue as well as a reduced effective tax rate. Vitas' net loss in 2017 was the result of a $55.8 million (after-tax) litigation settlement.

Roto-Rooter's net income was positively impacted in 2018 compared to 2017 primarily by a $17.8 million increase in plumbing revenue, $8.4 million increase in sewer and drain clean and a $13.3 million revenue increase in Roto-Rooter's water restoration line of business as well as a reduced effective tax rate.

After-tax Corporate expenses for 2018 increased 2.0% when compared to 2017 due to increased long term incentive compensation expense, a decrease in other income related to deferred compensation market valuation adjustments, as well as the adoption of ASU No. 2016 and the impact of tax reform.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2018
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2018 (a)				
Service revenues and sales	$296,799	$ 145,014	$ -	$ 441,813
Cost of services provided and goods sold	233,073	72,668	-	305,741
Selling, general and administrative expenses	20,702	35,909	11,686	68,297
Depreciation	5,050	4,628	40	9,718
Amortization	-	34	-	34
Other operating expenses/(income)	(67)	(51)	-	(118)
Total costs and expenses	258,758	113,188	11,726	383,672
Income/(loss) from operations	38,041	31,826	(11,726)	58,141
Interest expense	(53)	(92)	(1,379)	(1,524)
Intercompany interest income/(expense)	3,124	1,739	(4,863)	-
Other income/(expense)—net	238	21	779	1,038
Income/(expense) before income taxes	41,350	33,494	(17,189)	57,655
Income taxes	(9,565)	(8,196)	15,077	(2,684)
Net income/(loss)	$31,785	$ 25,298	$ (2,112)	$ 54,971

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$-	$ -	$ (3,652)	$ (3,652)
Accrued litigation settlement	204	-	-	204
Long-term incentive compensation	-	-	(1,222)	(1,222)
Medicare cap sequestration adjustment	(185)	-	-	(185)
Total	$19	$ -	$ (4,874)	$ (4,855)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	$-	$ -	$ (2,900)	$ (2,900)
Accrued litigation settlement	152	-	-	152
Long-term incentive compensation	-	-	(1,003)	(1,003)
Medicare cap sequestration adjustment	(138)	-	-	(138)
Excess tax benefits on stock compensation	-	-	11,702	11,702
Total	$14	$ -	$ 7,799	$ 7,813

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2017 (a)				
Service revenues and sales	$284,710	$ 130,349	$ -	$ 415,059
Cost of services provided and goods sold	219,769	66,083	-	285,852
Selling, general and administrative expenses	24,531	33,763	10,360	68,654
Depreciation	4,741	4,070	22	8,833
Amortization	-	32	-	32
Other operating expenses	90,636	-	-	90,636
Total costs and expenses	339,677	103,948	10,382	454,007
Income/(loss) from operations	(54,967)	26,401	(10,382)	(38,948)
Interest expense	(53)	(87)	(981)	(1,121)
Intercompany interest income/(expense)	2,826	1,346	(4,172)	-
Other income/(expense)—net	71	(4)	1,586	1,653
Income/(expense) before income taxes	(52,123)	27,656	(13,949)	(38,416)
Income taxes	19,869	(10,598)	7,489	16,760
Net income/(loss)	$(32,254)	$ 17,058	$ (6,460)	$ (21,656)

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Accrued litigation settlement	$(90,000)	$ -	$ -	$ (90,000)
Stock option expense	-	-	(3,054)	(3,054)
Medicare cap sequestration adjustment	(105)	-	-	(105)
Long-term incentive compensation	-	-	(956)	(956)
Expenses related to litigation settlements	-	(213)	-	(213)
Program closure expenses	(636)	-	-	(636)
Expenses related to OIG investigation	(2,093)	-	-	(2,093)
Total	$(92,834)	$ (213)	$ (4,010)	$ (97,057)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Accrued litigation settlement	$(55,800)	$ -	$ -	$ (55,800)
Stock option expense	-	-	(1,931)	(1,931)
Medicare cap sequestration adjustment	(65)	-	-	(65)
Long-term incentive compensation	-	-	(604)	(604)
Expenses related to litigation settlements	-	(129)	-	(129)
Program closure expenses	(385)	-	-	(385)
Expenses related to OIG investigation	(1,292)	-	-	(1,292)
Excess tax benefits on stock compensation	-	-	2,643	2,643
Total	$(57,542)	$ (129)	$ 108	$ (57,563)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2018 (a)				
Service revenues and sales	$588,813	$ 292,176	$ -	$ 880,989
Cost of services provided and goods sold	460,329	149,948	-	610,277
Selling, general and administrative expenses	41,213	72,006	24,078	137,297
Depreciation	9,846	9,072	67	18,985
Amortization	-	61	-	61
Other operating expenses	(84)	(85)	-	(169)
Total costs and expenses	511,304	231,002	24,145	766,451
Income/(loss) from operations	77,509	61,174	(24,145)	114,538
Interest expense	(104)	(184)	(2,443)	(2,731)
Intercompany interest income/(expense)	6,218	3,417	(9,635)	-
Other income/(expense)—net	380	37	1,639	2,056
Income/(expense) before income taxes	84,003	64,444	(34,584)	113,863
Income taxes	(20,203)	(16,208)	22,515	(13,896)
Net income/(loss)	$63,800	$ 48,236	$ (12,069)	$ 99,967

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$-	$ -	$ (7,305)	$ (7,305)
Medicare cap sequestration adjustment	(537)	-	-	(537)
Long-term incentive compensation	-	-	(3,142)	(3,142)
Accrued litigation settlement	204	-	-	204
Total	$ (333)	$ -	$ (10,447)	$ (10,780)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	$-	$ -	$ (5,791)	$ (5,791)
Medicare cap sequestration adjustment	(401)	-	-	(401)
Long-term incentive compensation	-	-	(2,502)	(2,502)
Accrued litigation settlement	152	-	-	152
Excess tax benefits on stock compensation	-	-	15,500	15,500
Total	$ (249)	$ -	$ 7,207	$ 6,958

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2017
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2017 (a)				
Service revenues and sales	$567,026	$ 253,897	$ -	$ 820,923
Cost of services provided and goods sold	441,446	129,546	-	570,992
Selling, general and administrative expenses	48,825	67,223	22,064	138,112
Depreciation	9,519	8,054	153	17,726
Amortization	14	64	-	78
Other operating expenses	91,509	-	-	91,509
Total costs and expenses	591,313	204,887	22,217	818,417
Income/(loss) from operations	(24,287)	49,010	(22,217)	2,506
Interest expense	(108)	(185)	(1,823)	(2,116)
Intercompany interest income/(expense)	5,528	2,656	(8,184)	-
Other income/(expense)—net	(9)	(77)	4,202	4,116
Income/(expense) before income taxes	(18,876)	51,404	(28,022)	4,506
Income taxes	7,219	(19,722)	16,185	3,682
Net income/(loss)	$(11,657)	$ 31,682	$(11,837)	$ 8,188

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Accrued litigation settlement	$(90,000)	$ -	$ -	$ (90,000)
Stock option expense	-	-	(6,055)	(6,055)
Medicare cap sequestration adjustment	(105)	-	-	(105)
Long-term incentive compensation	-	-	(1,917)	(1,917)
Expenses related to litigation settlements	-	(213)	-	(213)
Program closure expenses	(1,509)	-	-	(1,509)
Expenses related to OIG investigation	(4,243)	-	-	(4,243)
Total	$(95,857)	$ (213)	$(7,972)	$ (104,042)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Accrued litigation settlement	$(55,800)	$ -	$ -	$ (55,800)
Stock option expense	-	-	(3,828)	(3,828)
Medicare cap sequestration adjustment	(65)	-	-	(65)
Long-term incentive compensation	-	-	(1,212)	(1,212)
Expenses related to litigation settlements	-	(129)	-	(129)
Program closure expenses	(898)	-	-	(898)
Expenses related to OIG investigation	(2,620)	-	-	(2,620)
Excess tax benefits on stock compensation	-	-	6,338	6,338
Total	$(59,383)	$ (129)	$ 1,298	$ (58,214)

33

Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies
(in thousands)

For the three months ended June 30, 2018	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$31,785	$ 25,298	$(2,112)	$ 54,971
Add/(deduct):				
Interest expense	53	92	1,379	1,524
Income taxes	9,565	8,196	(15,077)	2,684
Depreciation	5,050	4,628	40	9,718
Amortization	-	34	-	34
EBITDA	46,453	38,248	(15,770)	68,931
Add/(deduct):				
Intercompany interest expense/(income)	(3,124)	(1,739)	4,863	-
Interest income	(237)	(22)	-	(259)
Medicare cap sequestration adjustment	185	-	-	185
Amortization of stock awards	37	35	83	155
Accrued litigation settlement	(204)	-	-	(204)
Stock option expense	-	-	3,652	3,652
Long-term incentive compensation	-	-	1,222	1,222
Adjusted EBITDA	$43,110	$ 36,522	$(5,950)	$ 73,682

For the three months ended June 30, 2017	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$(32,254)	$ 17,058	$(6,460)	$ (21,656)
Add/(deduct):				
Interest expense	53	87	981	1,121
Income taxes	(19,869)	10,598	(7,489)	(16,760)
Depreciation	4,741	4,070	22	8,833
Amortization	-	32	-	32
EBITDA	(47,329)	31,845	(12,946)	(28,430)
Add/(deduct):				
Intercompany interest expense/(income)	(2,826)	(1,346)	4,172	-
Interest income	(149)	(12)	-	(161)
Accrued litigation settlement	90,000	-	-	90,000
Expenses related to OIG investigation	2,093	-	-	2,093
Program closure expenses	636	-	-	636
Medicare cap sequestration adjustment	105	-	-	105
Amortization of stock awards	71	66	166	303
Advertising cost adjustment	-	(272)	-	(272)
Expenses related to litigation settlements	-	213	-	213
Stock option expense	-	-	3,054	3,054
Long-term incentive compensation	-	-	956	956
Adjusted EBITDA	$42,601	$ 30,494	$(4,598)	$ 68,497

Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies
(in thousands)

For the six months ended June 30, 2018	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$63,800	$ 48,236	$(12,069)	$ 99,967
Add/(deduct):				
Interest expense	104	184	2,443	2,731
Income taxes	20,203	16,208	(22,515)	13,896
Depreciation	9,846	9,072	67	18,985
Amortization	-	61	-	61
EBITDA	93,953	73,761	(32,074)	135,640
Add/(deduct):				
Intercompany interest expense/(income)	(6,218)	(3,417)	9,635	-
Interest income	(380)	(37)	-	(417)
Accrued litigation settlement	(204)	-	-	(204)
Medicare cap sequestration adjustment	537	-	-	537
Stock award amortization	107	100	239	446
Stock option expense	-	-	7,305	7,305
Long-term incentive compensation	-	-	3,142	3,142
Adjusted EBITDA	$87,795	$ 70,407	$(11,753)	$ 146,449

For the six months ended June 30, 2017	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$(11,657)	$ 31,682	$(11,837)	$ 8,188
Add/(deduct):				
Interest expense	108	185	1,823	2,116
Income taxes	(7,219)	19,722	(16,185)	(3,682)
Depreciation	9,519	8,054	153	17,726
Amortization	14	64	-	78
EBITDA	(9,235)	59,707	(26,046)	24,426
Add/(deduct):				
Intercompany interest expense/(income)	(5,528)	(2,656)	8,184	-
Interest income	(219)	(26)	-	(245)
Accrued litigation settlement	90,000	-	-	90,000
Expenses related to OIG investigation	4,243	-	-	4,243
Program closure expenses	1,509	-	-	1,509
Medicare cap sequestration adjustment	105	-	-	105
Amortization of stock awards	148	136	354	638
Advertising cost adjustment	-	(545)	-	(545)
Expenses relatedto litigation settlements	-	213	-	213
Stock option expense	-	-	6,055	6,055
Long-term incentive compensation	-	-	1,917	1,917
Adjusted EBITDA	$81,023	$ 56,829	$(9,536)	$ 128,316

RECONCILIATION OF ADJUSTED NET INCOME
(in thousands, except per share data)(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income/(loss) as reported	$54,971	$(21,656)	$99,967	$8,188
Add/(deduct) after-tax cost of:				
Excess tax benefits on stock compensation	(11,702)	(2,643)	(15,500)	(6,338)
Stock option expense	2,900	1,931	5,791	3,828
Long-term incentive compensation	1,003	604	2,502	1,212
Accrued litigation settlement	(152)	55,800	(152)	55,800
Medicare cap sequestration adjustment	138	65	401	65
Expenses of OIG investigation	-	1,292	-	2,620
Program closure expenses	-	385	-	898
Expenses related to litigation settlements	-	129	-	129
Adjusted net income	$47,158	$35,907	$93,009	$66,402
Diluted Earnings Per Share As Reported				
Net income/(loss)	$3.27	$(1.35)	$5.93	$0.49
Average number of shares outstanding	16,811	16,010	16,854	16,758
Adjusted Diluted Earnings Per Share				
Adjusted net income	$2.81	$2.15	$5.52	$3.96
Adjusted average number of shares outstanding	16,811	16,702	16,854	16,758

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
OPERATING STATISTICS FOR VITAS SEGMENT
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
OPERATING STATISTICS	2018	2017	2018	2017
Net revenue ($000)				
Homecare	$250,381	$229,948	$491,412	$454,147
Inpatient	20,077	21,316	42,186	44,562
Continuous care	30,513	31,699	61,279	64,556
Other	1,998	1,994	3,740	4,008
Subtotal	$302,969	$284,957	$598,617	$567,273
Room and board, net	(2,675)	-	(5,294)	-
Contractual allowances	(2,959)	-	(5,792)	-
Medicare cap allowance	(536)	(247)	1,282	(247)
Total	$296,799	$284,710	$588,813	$567,026
Net revenue as a percent of total before Medicare cap allowances				
Homecare	82.6 %	80.7 %	82.1 %	80.1 %
Inpatient	6.6	7.5	7.0	7.9
Continuous care	10.1	11.1	10.2	11.4
Other	0.7	0.7	0.7	0.6
Subtotal	100.0	100.0	100.0	100.0
Room and board, net	(0.9)	-	(0.9)	-
Contractual allowances	(1.0)	-	(1.0)	-
Medicare cap allowance	(0.1)	(0.1)	0.3	-
Total	98.0 %	99.9 %	98.4 %	100.0 %
Average daily census (days)				
Homecare	13,583	12,446	13,375	12,368
Nursing home	3,275	3,135	3,245	3,093
Routine homecare	16,858	15,581	16,620	15,461
Inpatient	318	343	335	360
Continuous care	467	474	473	489
Total	17,643	16,398	17,428	16,310
Total Admissions	16,858	16,311	35,137	33,874
Total Discharges	16,474	16,124	34,054	33,344
Average length of stay (days)	89.0	85.2	88.4	87.1
Median length of stay (days)	17.0	16.0	16.0	16.0
ADC by major diagnosis				
Cerebro	36.2 %	34.8 %	36.4 %	34.7 %
Neurological	18.6	19.5	18.6	19.6
Cardio	16.6	16.5	16.4	16.5
Cancer	13.9	14.9	13.9	15.0
Respiratory	8.3	7.9	8.2	7.9
Other	6.4	6.4	6.5	6.3
Total	100.0 %	100.0 %	100.0 %	100.0 %
Admissions by major diagnosis				
Cerebro	21.7	21.4 %	22.2 %	21.7 %
Neurological	11.1	10.7	11.2	10.8
Cardio	15.6	15.1	15.6	15.1
Cancer	30.5	31.5	29.2	30.4

Respiratory	10.8		10.2		11.3		11.0	
Other	10.3		11.1		10.5		11.0	
Total	100.0	%	100.0	%	100.0	%	100.0	%
Direct patient care margins								
Routine homecare	52.6	%	52.8	%	52.4	%	52.1	%
Inpatient	4.2		3.7		5.9		4.8	
Continuous care	17.3		18.0		17.5		16.8	
Homecare margin drivers (dollars per patient day)								
Labor costs	$57.67		$56.55		$58.14		$57.58	
Combined drug, HME and medical supplies	14.39		14.51		14.43		14.82	
Inpatient margin drivers (dollars per patient day)								
Labor costs	$380.94		$377.13		$371.44		$373.41	
Continuous care margin drivers (dollars per patient day)								
Labor costs	$575.36		$583.87		$571.41		$587.39	
Estimated uncollectible accounts as a percent of revenues	1.0	%	1.1	%	1.0	%	1.1	%
Accounts receivable -- Days of revenue outstanding- excluding unapplied Medicare payments	31.9		34.5		n.a.		n.a.	
Accounts receivable -- Days of revenue outstanding- including unapplied Medicare payments	25.6		28.0		n.a.		n.a.	

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 June 30, 2018, the Company had $103.4 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 six months of 2018:

	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share	Cumulative Shares Repurchased Under the Program	Dollar Amount Remaining Under The Program
February 2011 Program				
January 1 through January 31, 2018	-	$ -	7,815,718	$55,533,344
February 1 through February 28, 2018	96,890	258.26	7,912,608	30,510,279
March 1 through March 31, 2018	203,110	276.22	8,115,718	$124,407,878
First Quarter Total	300,000	$ 270.42		
April 1 through April 30, 2018	-	$ -	8,115,718	$124,407,878
May 1 through May 31, 2018	-	-	8,115,718	124,407,878
June 1 through June 30, 2018	10,000	317.86	8,125,718	$121,229,007
Second Quarter Total	10,000	$ 317.86		

On March 6, 2018 our Board of Directors authorized an additional $150 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: July 30, 2018 By: /s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

Dated: July 30, 2018 By: /s/ David P. Williams
David P. Williams
(Executive Vice President and Chief Financial Officer)

Dated: July 30, 2018 By: /s/ Michael D. Witzeman

Michael D. Witzeman
(Vice President and Controller)

40