CHEMED CORP
Form 10-Q
May 02, 2019

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 March 31, 2019

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 every Interactive Data File required to be submitted 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 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.

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

Title of each class	Trading Symbol	Name of each exchange on which registered	Amount	Date
Capital Stock $1 Par Value	CHE	New York Stock Exchange	15,940,201 Shares	March 31, 2019

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

Index

	Page No.
PART I. FINANCIAL INFORMATION:	
Item 1. Financial Statements	
Unaudited Consolidated Balance Sheets - March 31, 2019 and December 31, 2018	3
Unaudited Consolidated Statements of Income - Three months ended March 31, 2019 and 2018	4
Unaudited Consolidated Statements of Cash Flows - Three months ended March 31, 2019 and 2018	5
Unaudited Consolidated Statements of Changes in Stockholders' Equity - Three months ended March 31, 2019 and 2018	6
Notes to Unaudited Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures about Market Risk	34
Item 4. Controls and Procedures	34
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	34
Item 1A. Risk Factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3. Defaults Upon Senior Securities	35
Item 4. Mine Safety Disclosures	35
Item 5. Other Information	35
Item 6. Exhibits	36
EX – 31.1	
EX – 31.2	

EX – 31.3
EX – 32.1
EX – 32.2
EX – 32.3
EX – 101.INS
EX – 101.SCH
EX – 101.CAL
EX – 101.DEF
EX – 101.LAB
EX – 101.PRE

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)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$8,768	$4,831
Accounts receivable	119,575	119,504
Inventories	6,315	5,705
Prepaid income taxes	5,349	10,646
Prepaid expenses	19,148	19,154
Total current assets	159,155	159,840
Investments of deferred compensation plans	70,632	65,624
Properties and equipment, at cost, less accumulated depreciation of $254,499 (2018 - $248,370)	164,629	162,033
Lease right of use assets less accumulated amoritzation of $5,450	87,811	-
Identifiable intangible assets less accumulated amortization of $33,803 (2018 - $33,284)	67,868	68,253
Goodwill	510,598	510,570
Other assets	9,138	9,209
Total Assets	$1,069,831	$975,529
LIABILITIES		
Current liabilities		
Accounts payable	$39,737	$50,150
Income taxes	3,922	-
Accrued insurance	48,477	46,095
Accrued compensation	52,526	63,329
Accrued legal	8,163	1,857
Short-term lease liability	30,699	-
Other current liabilities	33,576	30,239
Total current liabilities	217,100	191,670
Deferred income taxes	18,108	21,598
Long-term debt	100,000	89,200
Deferred compensation liabilities	70,934	64,616
Long-term lease liability	67,960	-
Other liabilities	7,719	17,111
Total Liabilities	481,821	384,195
Commitments and contingencies (Note 10)		
STOCKHOLDERS' EQUITY		
Capital stock - authorized 80,000,000 shares $1 par; issued 35,520,908 shares (2018 - 35,311,418 shares)	35,521	35,311
Paid-in capital	803,701	774,358
Retained earnings	1,265,485	1,225,617
Treasury stock - 19,661,407 shares (2018 - 19,438,358)	(1,519,077)	(1,446,296)

Deferred compensation payable in Company stock	2,380	2,344
Total Stockholders' Equity	588,010	591,334
Total Liabilities and Stockholders' Equity	$1,069,831	$975,529

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 March 31,	
	2019	2018
Service revenues and sales	$462,034	$439,176
Cost of services provided and goods sold (excluding depreciation)	321,951	304,536
Selling, general and administrative expenses	74,029	69,000
Depreciation	9,710	9,267
Amortization	519	27
Other operating expenses/(income)	6,353	(51)
Total costs and expenses	412,562	382,779
Income from operations	49,472	56,397
Interest expense	(1,124)	(1,207)
Other income - net	2,439	1,018
Income before income taxes	50,787	56,208
Income taxes	(6,120)	(11,212)
Net income	$44,667	$44,996
Earnings Per Share:		
Net income	$2.80	$2.79
Average number of shares outstanding	15,954	16,100
Diluted Earnings Per Share:		
Net income	$2.70	$2.66
Average number of shares outstanding	16,525	16,887
Cash Dividends Per Share	$0.30	$0.28

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2019	2018
Cash Flows from Operating Activities		
Net income	$44,667	$44,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,229	9,294
Litigation settlement	6,000	-
Stock option expense	4,089	3,653
Benefit for deferred income taxes	(3,489)	(2,807)
Noncash long-term incentive compensation	1,119	1,721
Amortization of debt issuance costs	76	128
Amortization of restricted stock awards	-	291
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	(81)	1,591
(Increase)/decrease in inventories	(610)	60
Decrease in prepaid expenses	6	1,045
Increase/(decrease) in accounts payable and other current liabilities	348	(7,911)
Change in current income taxes	9,219	13,642
Increase in other assets	(5,006)	(4,263)
Increase in other liabilities	6,459	3,758
Other sources/(uses)	559	(5)
Net cash provided by operating activities	73,585	65,193
Cash Flows from Investing Activities		
Capital expenditures	(13,866)	(12,648)
Business combinations	-	(1,450)
Other (uses)/sources	(68)	181
Net cash used by investing activities	(13,934)	(13,917)
Cash Flows from Financing Activities		
Proceeds from revolving line of credit	125,100	134,300
Payments on revolving line of credit	(114,300)	(90,500)
Purchases of treasury stock	(49,250)	(81,125)
Change in cash overdrafts payable	(13,303)	(6,671)
Proceeds from exercise of stock options	11,827	8,923
Capital stock surrendered to pay taxes on stock-based compensation	(11,170)	(6,377)
Dividends paid	(4,799)	(4,533)
Payments on other long-term debt	-	(2,500)
Other sources/(uses)	181	(228)
Net cash used by financing activities	(55,714)	(48,711)
Increase in Cash and Cash Equivalents	3,937	2,565
Cash and cash equivalents at beginning of year	4,831	11,121
Cash and cash equivalents at end of period	$8,768	$13,686

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(in thousands, except per share data)

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at December 31, 2018	35,311	774,358	1,225,617	(1,446,296)	2,344	591,334
Net income	-	-	44,667	-	-	44,667
Dividends paid ($0.30 per share)	-	-	(4,799)	-	-	(4,799)
Stock awards and exercise of stock options	210	29,152	-	(23,495)	-	5,867
Purchases of treasury stock	-	-	-	(49,250)	-	(49,250)
Other	-	191	-	(36)	36	191
Balance at March 31, 2019	$35,521	$803,701	$1,265,485	$(1,519,077)	$ 2,380	$588,010

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at December 31, 2017	34,732	695,797	1,038,955	(1,231,332)	2,202	540,354
Net income	-	-	44,996	-	-	44,996
Dividends paid ($0.28 per share)	-	-	(4,533)	-	-	(4,533)
Stock awards and exercise of stock options	153	17,410	-	(9,352)	-	8,211
Purchases of treasury stock	-	-	-	(81,125)	-	(81,125)
Other	-	(216)	(728)	(34)	34	(944)
Balance at March 31, 2018	$34,885	$712,991	$1,078,690	$(1,321,843)	$ 2,236	$506,959

The Notes to Consolidated Financial Statements are integral parts of these 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, 2018 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, 2018.

LEASE ACCOUNTING
In February 2016, the FASB issued Accounting Standards Update "ASU No. 2016-02 Leases" which introduced a lessee model that brings most leases on to the balance sheets and updates lessor accounting to align with changes in the lessee model and the revenue recognition standard. This standard is also referred to as Accountings Standards Codification No.842 ("ASC 842"). We adopted ASC 842 effective January 1, 2019, using the optional transition method requiring leases existing at, or entered into after, January 1, 2019 to be recognized and measured. The transition method selected does not require adjustments to prior period amounts, which continue to be reflected in accordance with historical accounting. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard which among other things, allowed us to carry forward the historical lease classification.

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

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

Adoption of the new standard resulted in right of use assets and lease liabilities of $87.8 million and $98.7 million, respectively, as of March 31, 2019. In determining the liability, we used our incremental borrowing rate based on the information available at the time of adoption, since the rate implicit in the leases cannot be readily determined. At January 1, 2019, the weighted average rate was 3.47%. The standard did not materially impact our consolidated net income or cash flows. We did not book a cumulative effect adjustment upon adoption of the standard.

CLOUD COMPUTING
On January 1, 2019, we early adopted ASU No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract". This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software. We adopted the ASU on a prospective basis.

As of March 31, 2019, we have two cloud computing arrangements that are service contracts. Roto-Rooter is implementing a system to assist in technician dispatch and VITAS is implementing a new human resources system. We have capitalized approximately $2.6 million related to implementation of this project which is included in prepaid assets in the accompanying balance sheets. There has been no amortization expense associated with the asset as the software has not yet been placed in service. We anticipate amortizing the assets over the original term of the arrangements plus renewal options that are reasonably certain of being exercised.

NON-EMPLOYEE STOCK COMPENSATION

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. Adoption of this standard had no material impact on our consolidated financial statements.

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
Our effective income tax rate was 12.1% in the first quarter of 2019 compared to 19.9% during the first quarter of 2018. Excess tax benefit on stock options reduced our income tax expenses by $6.7 million and $3.8 million, respectively for the quarters ended March 31, 2019 and 2018.

NON-CASH TRANSACTIONS
Included in the accompanying Consolidated Balance Sheets are $2.1 million and $3.2 million of capitalized property and equipment which were not paid for as of March 31, 2019 and December 31, 2018, 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 (“ASC 606”). 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 nurse practitioner. 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 March 31, 2019 and 2018 was $2.1 million, in each quarter. 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 months ended March 31, 2019 and 2018.

Medicare Cap. We are also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured in one of two ways based on a provider election. The "streamlined" method compares total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by that Medicare provider number with the product of the per-beneficiary cap amount and the number of Medicare beneficiaries electing hospice care for the first time from that hospice program or programs from September 28 through September 27 of the following year. At March 31, 2019, 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 $4.1 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 March 31, 2019, we recorded $3.4 million in net Medicare cap revenue reduction related to three programs for the 2019 government fiscal year. During the quarter ended March 31, 2018, we reversed $1.8 million of the $2.4 million Medicare cap revenue reduction recognized in the fourth quarter of 2017 due to improved metrics in VITAS programs.

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 March 31, 2019 is as follows (in thousands):

	Medicare	Medicaid	Commercial	Total
Routine home care	$241,700	$11,673	$ 5,474	$258,847
Continuous care	28,973	1,787	1,484	32,244
Inpatient care	18,989	2,148	1,433	22,570
	$289,662	$15,608	$ 8,391	$313,661
All other revenue - self-pay, respite care, etc.				2,010
Subtotal				$315,671
Medicare cap adjustment				(3,400)
Implicit price concessions				(2,948)
Room and board, net				(2,542)
Net revenue				$306,781

The composition of patient care service revenue by payor and level of care for the quarter ended March 31, 2018 is as follows (in thousands):

	Medicare	Medicaid	Commercial	Total
Routine home care	$224,021	$11,280	$ 5,730	$241,031
Continuous care	27,632	1,603	1,531	30,766
Inpatient care	18,857	2,048	1,203	22,108
	$270,510	$14,931	$ 8,464	$293,905
All other revenue - self-pay, respite care, etc.				1,741
Subtotal				$295,646
Medicare cap adjustment				1,818
Implicit price concessions				(2,833)
Room and board, net				(2,618)
Net revenue				$292,013

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

Independent contractors pay Roto-Rooter a standard fee calculated as a percentage of their 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 is as follows (in thousands):

	March 31,	
	2019	2018
Short-term core service jobs	$111,059	$104,086
Water restoration	27,652	27,737
Contractor revenue	14,009	12,365
Franchise fees	1,621	1,592
All other	3,008	3,320
Subtotal	$157,349	$149,100
Implicit price concessions and credit memos	(2,096)	(1,937)
Net revenue	$155,253	$147,163

Initial Adoption of ASC 606

The Company utilized the modified retrospective method of adoption for all contracts. 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.

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 March 31,	
	2019	2018
After-tax Income/(Loss)		
VITAS	$29,288	$32,015
Roto-Rooter	22,986	22,938
Total	52,274	54,953
Corporate	(7,607)	(9,957)
Net income	$44,667	$44,996

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

4. Earnings per Share

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

	Net Income		
For the Three Months Ended March 31, 2019	Income	Shares	Earnings per Share
Earnings	$44,667	15,954	$ 2.80
Dilutive stock options	-	494	
Nonvested stock awards	-	77	

Diluted earnings	$44,667	16,525	$ 2.70
2018			
Earnings	$44,996	16,100	$ 2.79
Dilutive stock options	-	680	
Nonvested stock awards	-	107	
Diluted earnings	$44,996	16,887	$ 2.66

For the three-month periods ended March 31, 2019 and 2018, there were 246,000 and 328,000, respectively, stock options were 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 March 31, 2019 is $100.0 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 March 31, 2019. We have issued $36.3 million in standby letters of credit as of March 31, 2019. mainly for insurance purposes. Issued letters of credit reduce our available credit under the 2018 Credit Agreement. As of March 31, 2019, we have approximately $313.7 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility.

6. Other Operating Expenses/(Income)

	Three months ended March 31,	
	2019	2018
Litigation settlement	$6,000	$-
Loss/(income) on disposal of fixed assets	353	(51)
Total other operating expenses/(income)	$6,353	$(51)

During the three months ended March 31, 2019, the Company recorded $6.0 million for a potential legal settlement, which includes the settlement amount, estimated employment taxes and other litigation costs. See footnote 11 for further discussion.

7. Other Income – Net

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

Three months ended March

	31, 2019	2018
Market value adjustment on assets held in deferred compensation trust	$2,338	$860
Interest income	101	158
Total other income - net	$2,439	$1,018

8. Leases

Chemed and each of its operating subsidiaries are service companies. As such, real estate leases comprise the largest lease obligation (and conversely, right of use asset) in our lease portfolio. VITAS has leased office space, as well as space for IPUs and/or contract beds within hospitals. Roto-Rooter has leased office space. Our leases have remaining terms of under 1 year to 10 years, some of which include options to extend the lease for up to 5 years, and some of which include options to terminate the lease within 1 year.

We made a policy election to exclude leases with a lease term less than 12 months from being recorded on the balance sheet. We adopted the practical expedient related to the combining of lease and non-lease components, which allows us to account for the lease and non-lease components as a single lease component.

Adoption of the new standard resulted in right of use assets and lease liabilities of approximately $87.8 million and $98.7 million, respectively, as of March 31, 2019. In determining the liability, we used our incremental borrowing rate based on the information available at the time of adoption, since the rate implicit in the leases cannot be readily determined. At January 1, 2019, the weighted average rate was 3.47%. The standard did not materially impact our consolidated net income or cash flows. We did not book a cumulative effect adjustment upon adoption of the standard.

We do not currently have any finance leases, all lease information disclosed is related to operating leases.

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

	Three months ended March 31, 2019
Assets	
Operating lease assets	$87,811
Liabilities	
Current operating leases	30,699
Noncurrent operating leases	67,960
Total operating lease liabilities	$98,659

The components of lease expense were as follows:

	Three months ended March 31, 2019
Lease Expense (a)	
Operating lease expense	$11,537
Sublease income	(6)
Net lease expense	$11,531

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

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

	Three months ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from leases	$ 9,987
Leased assets obtained in exchange for new operating lease liabilities	$ 3,213

-15-

Weighted Average Remaining Lease Term	
Operating leases	4.21 years

Weighted Average Discount Rate	
Operating leases	3.47 %

Maturity of Operating Lease Liabilities (in thousands)

2019	$ 33,836
2020	26,044
2021	18,914
2022	12,479
2023	7,262
Thereafter	11,039
Total lease payments	$ 109,574
Less: interest	(7,915)
Less: future lease obligations not yet commenced	(3,000)
Total liability recognized on the balance sheet	$ 98,659

The following is a summary of future minimum rental payments to be received under operating leases that have initial noncancelable terms in excess of one year at December 31, 2018:

Maturity of Operating Lease Liabilities (in thousands)

2019	$ 26,791
2020	24,152
2021	19,669
2022	13,851
2023	8,179
Thereafter	10,974
Total lease payments	$ 103,616

For leases commencing prior to 2019, minimum rental payments exclude payments to landlords for real estate taxes and common area maintenance. Operating lease payments include $2.3 million related to extended lease terms that are reasonably certain of being exercised and exclude $3.0 million lease payments for leases signed but not yet commenced.

9. Stock-Based Compensation Plans

On February 22, 2019, the Compensation/Incentive Committee of the Board of Directors (“CIC”) granted 6,864 Performance Stock Units (“PSUs”) contingent upon the achievement of certain total shareholder return (“TSR”) targets as compared to the TSR of a group of peer companies for the three-year period ending December 31, 2021, 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 $3.0 million.

On February 22, 2019, the CIC also granted 6,864 PSUs contingent upon the achievement of certain earnings per share (“EPS”) targets for the three-year period ending December 31, 2021. 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 $2.2 million.

10. 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 March 31,	
2019	2018
$6,914	$5,166

11. Legal and Regulatory Matters

The VITAS segment of the Company's business operates in a heavily-regulated industry. As a result, the Company is subjected to inquiries and investigations by various government agencies, as well as to lawsuits, including qui tam actions. The following sections describe the various ongoing material lawsuits and investigations of which the Company is currently aware. 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 were named as 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.

As stated in prior disclosures, Lead Plaintiff Michael Kvint filed a Corrected Amended Complaint in this matter on May 30, 2017. The Kvint Complaint asserted a single claim for breach of the fiduciary duties of good faith, loyalty, due care and candor and sought, on behalf of the Company: (a) compensatory, restitutionary and exemplary damages in an unspecified amount, together with interest thereon; (b) attorneys' fees and expenses; and (c) implementation of unspecified policies and procedures meant to prevent future instances of alleged wrongdoing. 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 setting a schedule for the remaining Defendants to file a motion to dismiss the Corrected Amended Complaint. The remaining Defendants subsequently did so. On February 26, 2019, Magistrate Judge Burke issued a Report and Recommendation recommending that Defendants' motion to dismiss be granted with prejudice, and that the matter be dismissed as to all Defendants. On March 14, 2019, the Court adopted the Report, granted Defendants' motion to dismiss with prejudice, and dismissed this matter as to all Defendants. The deadline for Plaintiff to file a timely notice of appeal was April 15, 2019. No such notice was filed. Consequently, this matter is now concluded. 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 civil litigation under the False Claims Act brought by the United States Department of Justice ("DOJ") on behalf of the OIG and various relators concerning VITAS, filed in the U.S. District Court of the Western District of Missouri (the "2013 Action"). The Company denied any violation of law and agreed to settlement without admission of wrongdoing.

In connection with the settlement VITAS and certain of its subsidiaries entered into a corporate integrity agreement ("CIA") on October 30, 2017. The CIA formalizes various aspects of VITAS' already existing Compliance Program and contains requirements designed to document compliance with federal healthcare program requirements. It has a term

of five years during which it imposes monitoring, reporting, certification, oversight, screening and training obligations, certain of which had previously been implemented by VITAS. It also requires VITAS to engage an Independent Review Organization to perform audit and review functions and to prepare reports regarding compliance with federal healthcare programs. In the event of breach of the CIA, VITAS could become liable for payment of stipulated penalties or could be excluded from participation in federal healthcare programs.

Under the Settlement Agreement, the United States agreed 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 agreed, conditioned on the Company's full payment and in consideration of VITAS' 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.

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 Company previously recorded a $90 million loss reserve ($55.8 million after-tax) related to the Settlement Agreement, and associated costs in the second quarter of 2017. During the fourth quarter of 2017, approximately $5.5 million ($3.4 million after-tax) recorded as part of the $90 million was reversed as relator attorney' fees were less than originally estimated

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 ("PAGA"). Williams seeks to pursue these claims both individually and as a representative action under the PAGA on behalf of current and former California 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 possible resolution through ongoing 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.

The Seper and Chhina cases were consolidated in Los Angeles County Superior Court; Chhina was dismissed as a separate action and joined with Seper in the filing of amended complaint on August 28, 2018, in which both Chhina and Seper were identified as named plaintiffs. The parties engaged in a mediation process beginning in October 2018 and concluded with an agreement in March 2019. The agreement is in the process of incorporation into a long-form agreement to be presented to the court for preliminary approval, notice to class members, and eventual final approval and payment. The settlement amount, subject to court approval is $5.75 million plus employment taxes. The definition of the class to participate in the settlement is intended to cover claims raised in the consolidated Seper/Chhina matter, claims raised in Phillips and Moore, as well as any class claims in Williams.

Alfred Lax ("Lax"), a current employee of Roto-Rooter Services Company ("RRSC"), was hired in the RRSC's Menlo Park branch in 2007. On November 30, 2018, Lax filed a class action lawsuit in Santa Clara County Superior Court alleging (1) failure to provide or compensate for required rest breaks; (2) failure to properly pay for all hours worked; (3) failure to provide accurate wage statements; (4) failure to reimburse for work-related expenses; and (5) unfair business practices. Lax has stated these claims as a representative of a class defined as all service technicians employed by RRSC in California during the four years preceding the filing of the complaint. He seeks a determination that the action may proceed and be maintained as a class action and for compensatory and statutory damages (premium payments for missed rest periods, uncompensated rest periods, wages for time allegedly not paid such as travel time, repair time, and vehicle maintenance time, and unreimbursed expenses), penalties and restitutions, pre- and post-judgement interest and attorneys' fees and costs. The lawsuit, Alfred Lax, on behalf of himself and all others similarly situated v. Roto-Rooter Services Company, and Does 1 through 50 inclusive; Santa Clara County Superior Court Case Number 18CV338652, was received by RRSC on December 11, 2018 and RRSC timely filed its answer denying the claims.

The Company is not able to reasonably estimate the probability of loss or range of loss for any of these lawsuits at this time, with the exception of Seper/Chhina, Phillips and Moore and the class claims in Williams

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

12. Concentration of Risk

During the quarter VITAS had pharmacy services agreements with one service provider to provide specified pharmacy services for VITAS and its hospice patients. VITAS made purchases from this provider of $7.3 and $8.2 million for the three months ended March 31, 2019 and 2018, respectively.   Purchases from this provider represent more than 85% of all pharmacy services used by VITAS during each period presented.

13. Cash Overdrafts and Cash Equivalents

There are $473,000 in cash overdrafts payable included in accounts payable at March 31, 2019 (December 31, 2018 - $13.8 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.

14. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of March 31, 2019 (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	$70,632	$70,632	$ -	$ -
Total debt	100,000	-	100,000	-

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 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	$65,624	$65,624	$ -	$ -
Total debt	89,200	-	89,200	-

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.

15. Capital Stock Repurchase Plan Transactions

We repurchased the following capital stock for the three ended March 31, 2019 and 2018:

	Three months ended March 31,	
	2019	2018
Total cost of repurchased shares (in thousands)	$49,250	$81,125
Shares repurchased	150,000	300,000
Weighted average price per share	$328.33	$270.42

In February 2019, the Board of Directors authorized an additional $150.0 million for stock repurchase under Chemed's existing share repurchase program. We currently have $147.4 million of authorization remaining under this share repurchase plan.

16. Recent Accounting Standards

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

17. Acquisitions

During the first three months of 2019, we did not complete any business combinations within our Roto-Rooter or VITAS segment.

During 2018, we completed four business combinations of former franchisees within the Roto-Rooter segment for $42.2 million in cash to increase our market penetration. The VITAS segment completed one business combination in Florida for $11.0 million to increase our market penetration.

Shown below is movement in Goodwill (in thousands):

	VITAS	Roto-Rooter	Total
Balance at December 31, 2018	$333,331	$ 177,239	$510,570
Foreign currency adjustments	-	28	28
Balance at March 31, 2019	$333,331	$ 177,267	$510,598

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 March 31,	
	2019	2018
Service revenues and sales	$462,034	$439,176
Net income	$44,667	$44,996
Diluted EPS	$2.70	$2.66
Adjusted net income	$48,175	$45,851
Adjusted diluted EPS	$2.92	$2.72
Adjusted EBITDA	$74,798	$72,767
Adjusted EBITDA as a % of revenue	16.2 %	16.6 %

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 31-32.

For the three months ended March 31, 2019, the increase in consolidated service revenues and sales was driven by a 5.5% increase at Roto-Rooter and a 5.1% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in plumbing, drain cleaning, excavation and contractors. Water restoration was flat between quarters. The increase in service revenues at VITAS is comprised primarily of a 0.6% geographically weighted average Medicare reimbursement rate increase, a 6.6% increase in days of care, offset by $3.4 million in Medicare cap revenue reduction. This growth is partially offset by a combination of acuity mix shift, fluctuations in net room and board and contractual adjustments that negatively impacted revenue growth 0.4% when compared to the prior-year period. The first quarter of 2018 included a reversal of prior Medicare cap expense of $1.8 million. See page 33 for additional VITAS operating metrics.

In February 2016, the FASB issued Accounting Standards Update "ASU No. 2016-02 Leases" which introduced 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. This standard is also referred to as Accountings Standards Codification No.842 ("ASC 842"). We adopted ASC 842 effective January 1, 2019, using the optional transition method requiring leases existing at, or entered into after, January 1, 2019 to be recognized and measured. The transition method selected does not require adjustments to prior period amounts, which continue to be reflected in accordance with historical accounting. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard which among other things, allowed us to carry forward the historical lease classification.

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

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

Adoption of the new standard resulted in right of use assets and lease liabilities of $87.8 million and $98.7 million, respectively, as of March 31, 2019. In determining the liability, we used our incremental borrowing rate based on the information available at the time of adoption, since the rate implicit in the leases cannot be readily determined. At January 1, 2019, the weighted average rate was 3.47%. The standard did not materially impact our consolidated net income or cash flows. We did not book a cumulative effect adjustment upon adoption of the standard.

VITAS expects its full-year 2019 revenue growth, prior to Medicare cap, to be in the range of 5.5% to 6.0%. Admissions are estimated to expand approximately 3.0% to 4.0% and Average Daily Census in 2019 is estimated to expand 4.0% to 5.0%. Adjusted EBITDA margin, prior to Medicare cap, is estimated to be 15.9%. We are currently estimating $10.0 million for Medicare Cap billing limitations for the full-year 2019. Roto-Rooter expects to achieve full-year 2019 revenue growth of 9.0% to 10.0%. The revenue estimate is based upon increased job pricing of approximately 2.0%, continued growth in core plumbing and drain cleaning services as well as continued but slowing revenue growth in water restoration services. Adjusted EBITDA margin for 2019 is estimated at 23.7%. 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, 2018 to March 31, 2019 include the following:

- An $87.8 million increase in lease right of use assets due to the adoption of ASC 842.
- A $10.4 million decrease in accounts payable due to timing of payments.
- A $10.8 decrease in accrued compensation due to the payments of cash bonuses in the first quarter of 2019 accrued in 2018.
- A $6.3 million increase in accrued legal primarily due to a $6.0 million litigation settlement at VITAS.
- A $30.7 million and $68.0 million increase in short-term and long-term lease liability, respectively, due to the adoption of ASC 842.
- A $10.8 million increase in long-term debt due mainly as a result of stock repurchases.
- A $72.8 million increase in treasury stock due mainly to stock repurchases.

Net cash provided by operating activities increased $8.4 million from March 31, 2018 to March 31, 2019. Significant changes in our accounts receivable balances are typically driven 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 $36.3 million in standby letters of credit as of March 31, 2019, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of March 31, 2019, we have approximately $313.7 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 March 31, 2019 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, 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 were named as 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.

As stated in prior disclosures, Lead Plaintiff Michael Kvint filed a Corrected Amended Complaint in this matter on May 30, 2017. The Kvint Complaint asserted a single claim for breach of the fiduciary duties of good faith, loyalty, due care and candor and sought, on behalf of the Company: (a) compensatory, restitutionary and exemplary damages in an unspecified amount, together with interest thereon; (b) attorneys' fees and expenses; and (c) implementation of unspecified policies and procedures meant to prevent future instances of alleged wrongdoing. 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 setting a schedule for the remaining Defendants to file a motion to dismiss the Corrected Amended Complaint. The remaining Defendants subsequently did so. On February 26, 2019, Magistrate Judge Burke issued a Report and Recommendation recommending that Defendants' motion to dismiss be granted with prejudice, and that the matter be dismissed as to all Defendants. On March 14, 2019, the Court adopted the Report, granted Defendants' motion to dismiss with prejudice, and dismissed this matter as to all Defendants. The deadline for Plaintiff to file a timely notice of appeal was April 15, 2019. No such notice was filed. Consequently, this matter is now concluded. 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 civil litigation under the False Claims Act brought by the United States Department of Justice ("DOJ") on behalf of the OIG and various relators concerning VITAS, filed in the U.S. District Court of the Western District of Missouri (the "2013 Action"). The Company denied any violation of law and agreed to settlement without admission of wrongdoing.

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

Under the Settlement Agreement, the United States agreed 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 agreed, conditioned on the Company's full payment and in consideration of VITAS' 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.

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 Company previously recorded a $90 million loss reserve ($55.8 million after-tax) related to the Settlement Agreement, and associated costs in the second quarter of 2017. During the fourth quarter of 2017, approximately $5.5 million ($3.4 million after-tax) recorded as part of the $90 million was reversed as relator attorney' fees were less than originally estimated

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 ("PAGA"). Williams seeks to pursue these claims both individually and as a representative action under the PAGA on behalf of current and former California 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 possible resolution through ongoing 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.

The Seper and Chhina cases were consolidated in Los Angeles County Superior Court; Chhina was dismissed as a separate action and joined with Seper in the filing of amended complaint on August 28, 2018, in which both Chhina and Seper were identified as named plaintiffs. The parties engaged in a mediation process beginning in October 2018 and concluded with an agreement in March 2019. The agreement is in the process of incorporation into a long-form agreement to be presented to the court for preliminary approval, notice to class members, and eventual final approval and payment. The settlement amount, subject to court approval is $5.75 million plus employment taxes. The definition of the class to participate in the settlement is intended to cover claims raised in the consolidated Seper/Chhina matter, claims raised in Phillips and Moore, as well as any class claims in Williams.

Alfred Lax ("Lax"), a current employee of Roto-Rooter Services Company ("RRSC"), was hired in the RRSC's Menlo Park branch in 2007. On November 30, 2018, Lax filed a class action lawsuit in Santa Clara County Superior Court alleging (1) failure to provide or compensate for required rest breaks; (2) failure to properly pay for all hours worked; (3) failure to provide accurate wage statements; (4) failure to reimburse for work-related expenses; and (5) unfair business practices. Lax has stated these claims as a representative of a class defined as all service technicians employed by RRSC in California during the four years preceding the filing of the complaint. He seeks a determination that the action may proceed and be maintained as a class action and for compensatory and statutory damages (premium payments for missed rest periods, uncompensated rest periods, wages for time allegedly not paid such as travel time, repair time, and vehicle maintenance time, and unreimbursed expenses), penalties and restitutions, pre- and post-judgement interest and attorneys' fees and costs. The lawsuit, Alfred Lax, on behalf of himself and all others similarly situated v. Roto-Rooter Services Company, and Does 1 through 50 inclusive; Santa Clara County Superior Court Case Number 18CV338652, was received by RRSC on December 11, 2018 and RRSC timely filed its answer denying the claims.

The Company is not able to reasonably estimate the probability of loss or range of loss for any of these lawsuits at this time, with the exception of Seper/Chhina, Phillips and Moore, and the class claims in Williams.

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 March 31, 2019 versus 2018 - Consolidated Results

Our service revenues and sales for the first quarter of 2019 increased 5.2% versus services and sales revenues for the first quarter of 2018. Of this increase, a $14.8 million increase was attributable to VITAS and $8.1 million increase was attributable to Roto-Rooter. The following chart shows the components of revenue by operating segment (in thousands):

	Three months ended March 31,	
	2019	2018
VITAS		
Routine homecare	$258,847	$241,031
Continuous care	32,244	30,766
General inpatient	22,570	22,108
Other	2,010	1,741
Medicare cap adjustment	(3,400)	1,818
Room and board - net	(2,542)	(2,618)
Implicit price concessions	(2,948)	(2,833)
Roto-Rooter		
Drain cleaning - short term core	44,142	41,330
Plumbing - short term core	32,055	30,810
Subtotal	76,197	72,140
Excavation - short term core	34,285	31,321
Water restoration	27,652	27,737
Contractor operations	14,009	12,365
Outside franchisee fees	1,621	1,592
Other - short term core	577	625

Other	3,008	3,320
Implicit price concessions	(2,096)	(1,937)
Total	$462,034	$439,176

Days of care at VITAS during the quarter ended March 31 were as follows:

	Days of Care		Increase/(Decrease)
	2019	2018	Percent
Routine homecare	1,577,969	1,476,918	6.8
Continuous care	43,923	43,197	1.7
General inpatient	29,150	28,720	1.5
Total days of care	1,651,042	1,548,835	6.6

The remaining increase in VITAS' revenues for the first quarter of 2019 versus the first quarter of 2018 was primarily comprised of a geographically weighted average Medicare reimbursement rate increase of approximately 0.6% offset by $3.4 million in Medicare cap revenue reductions compared to Medicare cap reversal of $1.8 million in 2018. This growth is partially offset by the combination of acuity mix shift, fluctuations in net room and board and contractual adjustments that negatively impacted revenue growth 0.4% when compared to the prior-year period. Over 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the first quarter of 2019 versus 2018 is attributable to a 5.5% increase in price and service mix shift offset by a 1.5% decrease in job count. The increase in excavation revenues for the first quarter of 2019 versus 2018 is attributable to a 16.3% increase in price and service mix shift offset by a 6.8% decrease in job count. Drain cleaning revenues for the first quarter of 2019 versus 2018 reflect a 5.0% increase in price and service mix shift and a 1.8% increase in job count. Water restoration revenue for the first quarter of 2019 versus 2018 was essentially flat. Contractor operations increased 13.3% mainly due to their expansion into water restoration.

The consolidated gross margin was 30.3% in the first quarter of 2019 as compared with 30.7% in the first quarter of 2018. On a segment basis, VITAS' gross margin was 21.9% in the first quarter of 2019 as compared with 22.1%, in the first quarter of 2018. The Roto-Rooter segment's gross margin was 47.0% for the first quarter of 2019 compared with 47.5% in the first quarter of 2018.

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

	Three months ended March 31,	
	2019	2018
SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts	$70,203	$66,220
Impact of market value adjustments related to assets held in deferred compensation trusts	2,338	860
Long-term incentive compensation	1,488	1,920
Total SG&A expenses	$74,029	$69,000

Other operating expenses increased $6.4 million from the first quarter of 2018 primarily as a result of a $6.0 million litigation settlement at VITAS recorded in the first quarter of 2019.

Other income - net comprise (in thousands):

	Three months ended March 31,	
	2019	2018
Market value adjustment on assets held in deferred compensation trusts	$2,338	$860
Interest income	101	158
Total other income - net	$2,439	$1,018

Our effective tax rate reconciliation is as follows:

	Three months ended March 31,	
	2019	2018

Income tax provision calculated at the statutory federal rate	$10,665	$11,804
Stock compensation tax benefits	(6,732)	(3,798)
State and local income taxes	1,128	2,325
Other--net	1,059	881
Income tax provision	$6,120	$11,212
Effective tax rate	12.1 %	19.9 %

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

	Three months ended March 31,	
	2019	2018
VITAS		
Litigation settlement	$(4,476)	$-
Non cash ASC 842 expenses	(489)	-
Medicare cap sequestration adjustment	(387)	(263)
Roto-Rooter		
Amortization of acquired and cancelled franchise agreements	(324)	-
Non cash ASC 842 expenses	(40)	-
Corporate		
Excess tax benefits on stock compensation	6,732	3,798
Stock option expense	(3,327)	(2,891)
Long-term incentive compensation	(1,230)	(1,499)
Non cash ASC 842 benefit	124	-
Acquisition expenses	(91)	-
Total	$(3,508)	$(855)

<u>Three months ended March 31, 2019 versus 2018 - Segment Results</u>

Net income/(loss) for the first quarter of 2019 versus the first quarter of 2018 by segment (in thousands):

	Three months ended March 31,	
	2019	2018
VITAS	$29,288	$32,015
Roto-Rooter	22,986	22,938
Corporate	(7,607)	(9,957)
	$44,667	$44,996

VITAS' after-tax earnings were positively impacted in 2019 compared to 2018 due to higher revenue offset by the impact of a litigation settlement of approximately $6.0 million ($4.5 million after-tax). After-tax earnings as a percent of revenue at VITAS in the first quarter of 2019 was 9.5% as compared to 11.0% in the first quarter of 2018.

Roto-Rooter's net income was positively impacted in 2019 compared to 2018 primarily by higher revenue. After-tax earnings as a percent of revenue at Roto-Rooter in the first quarter of 2019 was 14.8% as compared to 15.6% in the first quarter of 2018.

After-tax Corporate expenses for 2019 decreased 23.6% when compared to 2018 due mainly to a $2.9 million increase in tax benefit related to the adoption of ASU 2016-09.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2019 (a)				
Service revenues and sales	$306,781	$ 155,253	$ -	$ 462,034
Cost of services provided and goods sold	239,743	82,208	-	321,951
Selling, general and administrative expenses	21,536	39,601	12,892	74,029
Depreciation	4,708	4,963	39	9,710
Amortization	18	501	-	519
Other operating income	6,354	(1)	-	6,353
Total costs and expenses	272,359	127,272	12,931	412,562
Income/(loss) from operations	34,422	27,981	(12,931)	49,472
Interest expense	(47)	(95)	(982)	(1,124)
Intercompany interest income/(expense)	4,394	2,195	(6,589)	-
Other income—net	88	14	2,337	2,439
Income/(expense) before income taxes	38,857	30,095	(18,165)	50,787
Income taxes	(9,569)	(7,109)	10,558	(6,120)
Net income/(loss)	$29,288	$ 22,986	$ (7,607)	$ 44,667

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Litigation settlement	$(6,000)	$ -	$ -	$ (6,000)
Stock option expense	-	-	(4,089)	(4,089)
Long-term incentive compensation	-	-	(1,488)	(1,488)
Non cash ASC 842 (expenses)/benefit	(656)	(55)	163	(548)
Medicare cap sequestration	(515)	-	-	(515)
Amortization of acquired and cancelled franchise agreements	-	(441)	-	(441)
Acquisition expenses	-	-	(120)	(120)
Total	$(7,171)	$ (496)	$ (5,534)	$ (13,201)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Litigation settlement	$(4,476)	$ -	$ -	$ (4,476)
Stock option expense	-	-	(3,327)	(3,327)
Long-term incentive compensation	-	-	(1,230)	(1,230)
Non cash ASC 842 (expenses)/benefit	(489)	(40)	124	(405)
Medicare cap sequestration	(387)	-	-	(387)
Amortization of acquired and cancelled franchise agreements	-	(324)	-	(324)
Acquisition expenses	-	-	(91)	(91)
Excess tax benefits on stock compensation	-	-	6,732	6,732
Total	$(5,352)	$ (364)	$ 2,208	$ (3,508)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2018
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2018 (a)				
Service revenues and sales	$292,013	$ 147,163	$ -	$ 439,176
Cost of services provided and goods sold	227,256	77,280	-	304,536
Selling, general and administrative expenses	20,510	36,098	12,392	69,000
Depreciation	4,797	4,443	27	9,267
Amortization	-	27	-	27
Other operating expenses	(18)	(33)	-	(51)
Total costs and expenses	252,545	117,815	12,419	382,779
Income/(loss) from operations	39,468	29,348	(12,419)	56,397
Interest expense	(52)	(91)	(1,064)	(1,207)
Intercompany interest income/(expense)	3,095	1,677	(4,772)	-
Other income—net	142	16	860	1,018
Income/(expense) before income taxes	42,653	30,950	(17,395)	56,208
Income taxes	(10,638)	(8,012)	7,438	(11,212)
Net income/(loss)	$32,015	$ 22,938	$ (9,957)	$ 44,996

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$ -	$ -	$ (3,653)	$ (3,653)
Long-term incentive compensation	-	-	(1,920)	(1,920)
Medicare cap sequestration adjustment	(352)	-	-	(352)
Total	$ (352)	$ -	$ (5,573)	$ (5,925)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	$ -	$ -	$ (2,891)	$ (2,891)
Long-term incentive compensation	-	-	(1,499)	(1,499)
Medicare cap sequestration adjustment	(263)	-	-	(263)
Excess tax benefits on stock compensation	-	-	3,798	3,798
Total	$ (263)	$ -	$ (592)	$ (855)

Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies
(in thousands)

For the three months ended March 31, 2019	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$29,288	$ 22,986	$(7,607)	$ 44,667
Add/(deduct):				
Interest expense	47	95	982	1,124
Income taxes	9,569	7,109	(10,558)	6,120
Depreciation	4,708	4,963	39	9,710
Amortization	18	501	-	519
EBITDA	43,630	35,654	(17,144)	62,140
Add/(deduct):				
Intercompany interest expense/(income)	(4,394)	(2,195)	6,589	-
Interest income	(88)	(14)	-	(102)
Litigation settlement	6,000	-	-	6,000
Non cash ASC 842 expenses/(benefit)	656	55	(163)	548
Medicare cap sequestration adjustment	515	-	-	515
Acquisition Expenses	-	-	120	120
Stock option expense	-	-	4,089	4,089
Long-term incentive compensation	-	-	1,488	1,488
Adjusted EBITDA	$46,319	$ 33,500	$(5,021)	$ 74,798

For the three months ended March 31, 2018	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$32,015	$ 22,938	$(9,957)	$ 44,996
Add/(deduct):				
Interest expense	52	91	1,064	1,207
Income taxes	10,638	8,012	(7,438)	11,212
Depreciation	4,797	4,443	27	9,267
Amortization	-	27	-	27
EBITDA	47,502	35,511	(16,304)	66,709
Add/(deduct):				
Intercompany interest expense/(income)	(3,095)	(1,677)	4,772	-
Interest income	(142)	(16)	-	(158)
Medicare cap sequestration adjustment	352	-	-	352
Amortization of stock awards	70	65	156	291
Stock option expense	-	-	3,653	3,653
Long-term incentive compensation	-	-	1,920	1,920
Adjusted EBITDA	$44,687	$ 33,883	$(5,803)	$ 72,767

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

	Three Months Ended March 31,	
	2019	2018
Net income as reported	$44,667	$44,996
Add/(deduct) pre-tax cost of:		
Litigation settlement	6,000	-
Stock option expense	4,089	3,653
Long-term incentive compensation	1,488	1,920
Non cash ASC 842 expenses	548	-
Medicare cap sequestration adjustment	515	352
Amortization of acquired and cancelled franchise agreements	441	-
Acquisition expenses	120	-
Add/(deduct) tax impacts:		
Tax impact of the above pre-tax adjustments (1)	(2,961)	(1,272)
Excess tax benefits on stock compensation	(6,732)	(3,798)
Adjusted net income	$48,175	$45,851
Diluted Earnings Per Share As Reported		
Net income	$2.70	$2.66
Average number of shares outstanding	16,525	16,887
Adjusted Diluted Earnings Per Share		
Adjusted net income	$2.92	$2.72
Adjusted average number of shares outstanding	16,525	16,887

(1) The tax impact of pre-tax adjustments was calculated using the effective tax rate of the operating unit for which each adjustment is associated.

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

OPERATING STATISTICS	Three Months Ended March 31, 2019	2018
Net revenue ($000)		
Homecare	$258,847	$241,031
Inpatient	22,570	22,108
Continuous care	32,244	30,766
Other	2,010	1,741
Subtotal	$315,671	$295,646
Room and board, net	(2,542)	(2,618)
Contractual allowances	(2,948)	(2,833)
Medicare cap allowance	(3,400)	1,818
Total	$306,781	$292,013
Net revenue as a percent of total before Medicare cap allowances		
Homecare	82.0 %	81.5 %
Inpatient	7.1	7.5
Continuous care	10.2	10.4
Other	0.7	0.6
Subtotal	100.0	100.0
Room and board, net	(0.9)	(0.9)
Contractual allowances	(1.0)	(0.9)
Medicare cap allowance	(0.9)	0.6
Total	97.2 %	98.8 %
Average daily census (days)		
Homecare	14,243	13,162
Nursing home	3,254	3,215
Routine homecare	17,497	16,377
Inpatient	360	352
Continuous care	488	480
Total	18,345	17,209
Total Admissions	17,758	18,279
Total Discharges	17,339	17,558
Average length of stay (days)	91.3	87.9
Median length of stay (days)	15.0	15.0
ADC by major diagnosis		
Cerebro	35.6 %	36.2 %
Neurological	19.9	18.5
Cancer	13.1	13.9
Cardio	16.9	16.4
Respiratory	8.2	8.2
Other	6.3	6.8
Total	100.0 %	100.0 %
Admissions by major diagnosis		
Cerebro	20.7	22.6 %
Neurological	12.8	11.4
Cancer	28.0	28.0
Cardio	16.3	15.5

Respiratory	12.0		11.7	
Other	10.2		10.8	
Total	100.0	%	100.0	%
Direct patient care margins				
Routine homecare	52.7	%	52.1	%
Inpatient	6.5		7.5	
Continuous care	18.2		17.7	
Homecare margin drivers (dollars per patient day)				
Labor costs	$59.42		$58.63	
Combined drug, HME and medical supplies	13.08		14.47	
Inpatient margin drivers (dollars per patient day)				
Labor costs	$364.62		$362.75	
Continuous care margin drivers (dollars per patient day)				
Labor costs	$582.54		$567.51	
Estimated uncollectible accounts as a percent of revenues	1.0	%	1.0	%
Accounts receivable -- Days of revenue outstanding- excluding unapplied Medicare payments	34.9		32.6	
Accounts receivable -- Days of revenue outstanding- including unapplied Medicare payments	23.3		22.6	

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 March 31, 2019, the Company had $100.0 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. Except as discussed below, 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.

In the first quarter of 2019, we implemented a new lease accounting system and process in response to the adoption of ASC 842, effective January 1, 2019. These implementations resulted in changes to components of our internal control over financial reporting.

PART II. OTHER INFORMATION
Item 1. Legal Proceedings

For information regarding the Company's legal proceedings, see note 11, 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 three months of 2019:

	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, 2019	-	$ -	8,376,864	$46,649,495
February 1 through February 28, 2019	91,893	327.84	8,468,757	166,522,918
March 1 through March 31, 2019	58,107	329.10	8,526,864	$147,399,943
First Quarter Total	150,000	$ 328.33		

On February 22, 2019 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: May 2, 2019 By: /s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

Dated: May 2, 2019 By: /s/ David P. Williams
David P. Williams
(Executive Vice President and Chief Financial Officer)

Dated: May 2, 2019 By: /s/ Michael D. Witzeman

Michael D. Witzeman
(Vice President and Controller)

-1-