

CHEMED CORP
Form 10-Q
May 02, 2016

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, 2016

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

Commission File Number: 1-8351

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

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

Edgar Filing: CHEMED CORP - Form 10-Q

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

Class	Amount	Date
Capital Stock \$1 Par Value	16,557,177 Shares	March 31, 2016

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

Index

	<u>Page No.</u>
<u>PART I. FINANCIAL INFORMATION:</u>	
<u>Item 1. Financial Statements</u>	
<u>Unaudited Consolidated Balance Sheet - March 31, 2016 and December 31, 2015</u>	3
<u>Unaudited Consolidated Statement of Income - Three months ended March 31, 2016 and 2015</u>	4
<u>Unaudited Consolidated Statement of Cash Flows - Three months ended March 31, 2016 and 2015</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	25
<u>Item 4. Controls and Procedures</u>	25
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	25
<u>Item 1A. Risk Factors</u>	25
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<u>Item 3. Defaults Upon Senior Securities</u>	26
<u>Item 4. Mine Safety Disclosures</u>	26
<u>Item 5. Other Information</u>	26
<u>Item 6. Exhibits</u>	27
EX – 31.1	
EX – 31.2	
EX – 31.3	
EX – 32.1	
EX – 32.2	
EX – 32.3	
EX – 101.INS	

EX - 101.SCH
EX - 101.CAL
EX - 101.DEF
EX - 101.LAB
EX - 101.PRE

-2-

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

UNAUDITED CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 15,235	\$ 14,727
Accounts receivable less allowances of \$13,631 (2015 - \$13,244)	143,040	106,262
Inventories	6,102	6,314
Prepaid income taxes	3,258	10,653
Prepaid expenses	12,306	12,852
Total current assets	179,941	150,808
Investments of deferred compensation plans	49,195	49,481
Properties and equipment, at cost, less accumulated depreciation of \$206,922 (2015 - \$201,094)	119,331	117,370
Identifiable intangible assets less accumulated amortization of \$32,960 (2015 - \$32,866)	55,018	55,111
Goodwill	472,438	472,322
Other assets	6,996	7,233
Total Assets	\$882,919	\$852,325
LIABILITIES		
Current liabilities		
Accounts payable	\$50,721	\$43,695
Current portion of long-term debt	18,000	7,500
Income taxes	11,129	-
Accrued insurance	45,628	43,972
Accrued compensation	43,844	52,817
Accrued legal	2,819	1,233
Other current liabilities	19,416	22,119
Total current liabilities	191,557	171,336
Deferred income taxes	16,861	21,041
Long-term debt	126,875	83,750
Deferred compensation liabilities	49,188	49,467
Other liabilities	13,617	13,478
Total Liabilities	398,098	339,072
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Capital stock - authorized 80,000,000 shares \$1 par; issued 34,076,407 shares (2015 - 33,985,316 shares)	34,076	33,985
Paid-in capital	610,219	603,006
Retained earnings	886,604	865,845
Treasury stock - 17,618,767 shares (2015 - 17,187,540)	(1,048,509)	(991,978)
Deferred compensation payable in Company stock	2,431	2,395
Total Stockholders' Equity	484,821	513,253

Total Liabilities and Stockholders' Equity	\$882,919	\$852,325
--	-----------	-----------

See accompanying notes to unaudited consolidated financial statements.

-3-

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 UNAUDITED CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share data)

	Three Months Ended March 31,	
	2016	2015
Service revenues and sales	\$390,389	\$376,652
Cost of services provided and goods sold (excluding depreciation)	278,435	268,885
Selling, general and administrative expenses	59,045	59,037
Depreciation	8,424	8,032
Amortization	92	127
Total costs and expenses	345,996	336,081
Income from operations	44,393	40,571
Interest expense	(842)	(969)
Other income/(expense) - net	(2,924)	563
Income before income taxes	40,627	40,165
Income taxes	(15,787)	(15,628)
Net income	\$24,840	\$24,537
Earnings Per Share		
Net income	\$1.49	\$1.45
Average number of shares outstanding	16,720	16,914
Diluted Earnings Per Share		
Net income	\$1.45	\$1.40
Average number of shares outstanding	17,170	17,466
Cash Dividends Per Share	\$0.24	\$0.22

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$24,840	\$24,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,516	8,159
Benefit for deferred income taxes	(4,202)	(2,734)
Provision for uncollectible accounts receivable	4,242	3,804
Stock option expense	2,563	1,444
Amortization of restricted stock awards	539	449
Amortization of debt issuance costs	130	131
Noncash long-term incentive compensation	(305)	934
Changes in operating assets and liabilities:		
Increase in accounts receivable	(41,050)	(24,926)
Decrease in inventories	212	2
Decrease in prepaid expenses	546	1,433
Decrease in accounts payable and other current liabilities	(7,567)	(9,538)
Increase in income taxes	19,448	11,696
Decrease/(increase) in other assets	410	(2,815)
Increase/(decrease) in other liabilities	(140)	2,569
Excess tax benefit on share-based compensation	(900)	(2,900)
Other sources/(uses)	(59)	129
Net cash provided by operating activities	7,223	12,374
Cash Flows from Investing Activities		
Capital expenditures	(11,473)	(8,553)
Other sources	153	351
Net cash used by investing activities	(11,320)	(8,202)
Cash Flows from Financing Activities		
Proceeds from long-term debt	59,000	37,200
Payments on revolving line of credit	(3,500)	(22,200)
Payments on other long-term debt	(1,875)	(1,250)
Purchases of treasury stock	(52,460)	-
Proceeds from exercise of stock options	2,887	4,899
Dividends paid	(4,081)	(3,743)
Capital stock surrendered to pay taxes on stock-based compensation	(4,020)	(5,464)
Excess tax benefit on share-based compensation	900	2,900
Increase/(decrease) in cash overdrafts payable	7,061	(1,528)
Other uses	693	(783)
Net cash provided by financing activities	4,605	10,031
Increase in Cash and Cash Equivalents	508	14,203
Cash and cash equivalents at beginning of year	14,727	14,132
Cash and cash equivalents at end of period	\$15,235	\$28,335

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2015 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, 2015.

TAXES ON INCOME

In November 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-17 which simplifies the balance sheet classification required for deferred tax balances. It allows for a company's deferred tax assets and liabilities to be netted into a noncurrent account, either asset or liability, by jurisdiction. The ASU is required to be adopted for annual periods beginning after December 15, 2016 and the interim periods within that annual period. Early adoption is permitted. Companies have the choice to adopt prospectively or retrospectively. In order to simplify our balance sheet classification required for deferred tax balances, we adopted the ASU for our annual balance sheet as of December 31, 2015 on a prospective basis. Prior periods have not been retrospectively adjusted. We do not believe that this change results in a material comparability issue between years on our balance sheet

CLASSIFICATION ADJUSTMENTS

During the first quarter of 2016, we classified \$539,000 of non-cash restricted stock award amortization in selling, general and administrative expenses. We also recorded a classification adjustment of \$449,000 to decrease amortization and increase selling, general and administrative expenses in our Consolidated Statement of Income for the first quarter of 2015 related to non-cash restricted stock award amortization. This classification adjustment does not impact income from operations, income before income taxes, net income, earnings per share, net cash provided by operating activities or our Consolidated Balance Sheet. We believe the impact of the classification adjustments are immaterial to our consolidated financial statements for the current and prior periods.

2. Revenue Recognition

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

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether they are likely to exceed the annual per-beneficiary Medicare cap ("Medicare cap"). Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective action to influence the patient mix or to increase patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the

Federal government under the Medicare cap and record the amount as a reduction to patient revenue.

During the first quarter of 2016, no Medicare cap was recorded.

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 \$1.9 million is owed for Medicare cap in two programs arising during the 2013 and 2014 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 \$1.9 million under their current “as if” methodology. We have not recorded a reserve as of December 31, 2015 for the \$1.9 million potential exposure. We have appealed CMS’s methodology change with the appropriate regulatory appeal board.

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

	March 31,	
	2016	2015
Beginning balance January 1,	\$1,165	\$6,112
2015 measurement period	-	(165)
Payments	(618)	(4,566)
Ending balance March 31,	\$547	\$1,381

Vitas provides charity care, in certain circumstances, to patients without charge when management of the hospice program determines, at the time services are performed, that the patient does not have the financial wherewithal to make payment. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care. The cost of charity care is as follows (in thousands):

Three months ended March 31,	
2016	2015
\$1,806	\$1,974

3. Segments

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

	Three months ended March 31,	
	2016	2015
<u>Service Revenues and Sales</u>		
VITAS	\$277,528	\$269,613
Roto-Rooter	112,861	107,039
Total	\$390,389	\$376,652
<u>After-tax Earnings</u>		
VITAS	\$19,087	\$19,315
Roto-Rooter	13,020	12,008
Total	32,107	31,323
Corporate	(7,267)	(6,786)
Net income	\$24,840	\$24,537

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

4. Earnings per Share

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

For the Three Months Ended March 31,	Net Income		Earnings per Share
	Income	Shares	
2016			
Earnings	\$24,840	16,720	\$ 1.49
Dilutive stock options	-	305	
Nonvested stock awards	-	145	
Diluted earnings	\$24,840	17,170	\$ 1.45
2015			
Earnings	\$24,537	16,914	\$ 1.45
Dilutive stock options	-	397	
Nonvested stock awards	-	155	
Diluted earnings	\$24,537	17,466	\$ 1.40

For the three month period ended March 31, 2016 and 2015, 421,000 and 411,000, respectively, stock options were excluded from the computation of diluted earnings per share because they would have been anti-dilutive.

5. Long-Term Debt

On June 30, 2014, we replaced our existing credit agreement with the Third Amended and Restated Credit Agreement (“2014 Credit Agreement”). Terms of the 2014 Credit Agreement consist of a five-year, \$350 million revolving credit facility and a \$100 million term loan. The 2014 Credit Agreement has a floating interest rate that is currently LIBOR plus 113 basis points.

The debt outstanding as of March 31, 2016 consists of the following:

Revolver	\$55,500
Term loan	89,375
Total	144,875
Current portion of term loan	(18,000)
Long-term debt	\$126,875

Scheduled principal payments of the term loan are as follows:

2016	\$5,625
2017	8,750
2018	10,000
2019	65,000
	\$89,375

The 2014 Credit Agreement contains the following quarterly financial covenants:

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

We are in compliance with all debt covenants as of March 31, 2016. We have issued \$37.8 million in standby letters of credit as of March 31, 2016 for insurance purposes. Issued letters of credit reduce our available credit under the 2014 Credit Agreement. As of March 31, 2016, we have approximately \$256.7 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility.

6. Other Income/(Expense) – Net

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

	Three months ended March 31,	
	2016	2015
Market value adjustment on assets held in deferred compensation trust	\$(2,987)	\$950
Gain/(loss) on disposal of property and equipment	(33)	48
Interest income - net	97	44
Other - net	(1)	(479)
Total other income/(expense) - net	\$(2,924)	\$563

7. Stock-Based Compensation Plans

On February 19, 2016, the Compensation/Incentive Committee of the Board of Directors (“CIC”) granted 9,541 Performance Stock Units (“PSUs”) contingent upon the achievement of certain total shareholders return (“TSR”) targets as compared to the TSR of a group of peer companies for the three-year period ending December 31, 2018, the date at which such awards vest. The cumulative compensation cost of the TSR-based PSU award to be recorded over the three year service period is \$1.4 million.

On February 19, 2016, the CIC also granted 9,541 PSUs contingent upon the achievement of certain earnings per share (“EPS”) targets for the three-year period ending December 31, 2018. At the end of each reporting period, the Company estimates the number of shares that it believes will ultimately be earned and records that expense over the service period of the award. We currently estimate the cumulative compensation cost of the EPS-based PSUs to be recorded over the three year service period is \$730,000.

8. Independent Contractor Operations

The Roto-Rooter segment sublicenses with 69 independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of March 31, 2016 totaling \$1.7 million (December 31, 2015 - \$1.8 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from 0% to 7% per annum and the remaining terms of the loans range from 2.5 months to 5.4 years at March 31,

2016. We recorded the following from our independent contractors (in thousands):

-9-

	Three months ended March 31,	
	2016	2015
Revenues	\$9,858	\$9,464
Pretax profits	6,155	5,557

9. Retirement Plans

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

	Three months ended March 31,	
	2016	2015
	\$526	\$4,186

10. Legal and Regulatory Matters

The VITAS segment of the Company's business operates in a heavily-regulated industry. As a result, the Company is subjected to inquiries and investigations by various government agencies, as well as to lawsuits, including qui tam actions. The following sections describe the various ongoing material lawsuits and investigations of which the Company is currently aware. It is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or estimable.

Regulatory Matters and Litigation

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, *United States v. VITAS Hospice Services, LLC, et al.*, No. 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various qui tam lawsuits and subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. The defendants filed a motion to dismiss on September 24, 2013. On September 30, 2014, the Court denied the motion, except to the extent that claims were filed before July 24, 2002. On November 13, 2014, the government filed a Second Amended Complaint. The Second Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. VITAS filed its Answer to the Second Amended Complaint on August 11, 2015. The Company is not able to reasonably estimate the probability of loss or range of loss at this time.

For additional procedural history of this litigation, please refer to our prior quarterly and annual filings. The net costs incurred related to *U.S. v. Vitas* and related regulatory matters were \$2.3 million and \$1.3 million for March 31, 2016 and 2015, respectively.

In November 2013, two shareholder derivative lawsuits were filed against the Company's current and former directors, as well as certain of its officers, both of which are covered by the Company's commercial insurance. On November 6,

2013, KBC Asset Management NV filed suit in the United States District Court for the District of Delaware, KBC Asset Management NV, derivatively on behalf of Chemed Corp. v. McNamara, et al., No. 13 Civ. 1854 (LPS) (D. Del.). It sued Kevin McNamara, Joel Gemunder, Patrick Grace, Thomas Hutton, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, Arthur Tucker, Jr., George Walsh III, Frank Wood, Timothy O'Toole, David Williams and Ernest Mrozek, together with the Company as nominal defendant. Plaintiff alleges that since at least 2004, Chemed, through VITAS, has submitted or caused the submission of false claims to Medicare. The suit alleges a claim for breach of fiduciary duty against the individual defendants, and seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

-10-

On November 14, 2013, Mildred A. North filed suit in the United States District Court for the Southern District of Ohio, North, derivatively on behalf of Chemed Corp. v. Kevin McNamara, et al., No. 13 Civ. 833 (MDB) (S.D. Ohio). She sued Kevin McNamara, David Williams, Timothy O'Toole, Joel Gemunder, Patrick Grace, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, George Walsh III, Frank Wood and Thomas Hutton, together with the Company as nominal defendant. Plaintiff alleges that, between February 2010 and the present, the individual defendants breached their fiduciary duties as officers and directors of Chemed by, among other things, (a) allegedly causing VITAS to submit improper and ineligible claims to Medicare and Medicaid; and (b) allegedly misrepresenting the state of Chemed's internal controls. The suit alleges claims for breach of fiduciary duty, abuse of control and gross mismanagement against the individual defendants. The complaint also alleges unjust enrichment and insider trading against Messrs. McNamara, Williams and O'Toole. Plaintiff seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On January 29, 2014 defendants in North filed a motion to transfer that case to Delaware under 28 U.S.C § 1404(a). On February 12, 2014, defendants in KBC filed a motion to dismiss that case pursuant to Federal Rules of Civil Procedure 23.1 and 12(b)(6). On September 19, 2014, the Ohio court granted defendants' motion to transfer North to Delaware. Following that decision and in light of that transfer, on September 29, 2014, the Delaware court denied without prejudice defendants' motion to dismiss KBC, and referred both cases to Magistrate Judge Burke.

On October 15, 2014, Plaintiff KBC filed a motion to consolidate KBC with North. On February 2, 2015 the court granted the motion for consolidation in full, appointing Plaintiff KBC the sole lead plaintiff and its counsel, the sole lead and liaison counsel. The court ordered that both cases will proceed under the caption In re Chemed Corp. Shareholder and Derivative Litigation, No. 13 Civ. 1854 (LPS) (CJB) (D. Del.). Plaintiff KBC has designated its pending complaint as the operative complaint in the consolidated proceedings. Defendants subsequently renewed their motion to dismiss those claims and allegations. On December 23, 2015, Magistrate Judge Burke issued a Report & Recommendation recommending that (1) defendants' motion to dismiss be granted; (2) plaintiff be given 14 days from the date of affirmance by the district court to file an amended complaint addressing deficiencies with regard to their duty of loyalty claim; and (3) failure to do so should give rise to dismissal with prejudice. The Report and Recommendation remains subject to review and affirmance by the district court judge overseeing the matter. On January 11, 2016, Lead Plaintiff KBC filed Objections to the Report and Recommendations. Defendants' responses to those Objections were filed on January 28, 2016.

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

11. Concentration of Risk

During the quarter VITAS had pharmacy services agreements with two service providers to provide specified pharmacy services for VITAS and its hospice patients. VITAS made purchases from these two providers of \$8.9 million and \$9.2 million for the three months ended March 31, 2016 and 2015, respectively. For the three-month period ending March 31, 2016 and 2015, respectively, purchases from these providers exceed 90% of all pharmacy services used by VITAS.

12. Cash Overdrafts and Cash Equivalents

Edgar Filing: CHEMED CORP - Form 10-Q

Included in accounts payable at March 31, 2016 is cash overdrafts payable of \$16.4 million (December 31, 2015 - \$9.3 million).

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. We had \$595,000 in cash equivalents as of March 31, 2016. There was \$76,000 in cash equivalents as of December 31, 2015. The weighted average rate of return for our cash equivalents was 0.40% at March 31, 2016 and 0.20% at December 31, 2015.

-11-

13. Financial Instruments

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

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

	Carrying Value	Fair Value Measure		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	\$49,195	\$49,195	\$ -	\$ -
Long-term debt	144,875	-	144,875	-

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2015 (in thousands):

	Carrying Value	Fair Value Measure		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	\$49,481	\$49,481	\$ -	\$ -
Long-term debt	91,250	-	91,250	-

For the mutual fund investments carrying value is fair value. All outstanding long-term debt is at a floating interest rate tied to LIBOR. Therefore, the carrying amount is a reasonable estimation of fair value.

14. Capital Stock Repurchase Plan Transactions

Edgar Filing: CHEMED CORP - Form 10-Q

We repurchased the following capital stock for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,	
	2016	2015
Total cost of repurchased shares (in thousands):	\$52,460	\$ -
Shares repurchased	400,000	-
Weighted average price per share	\$131.15	\$ -

In March 2016, the Board of Directors authorized an additional \$100 million for stock repurchase under Chemed's existing share repurchase program. We currently have \$100.0 million of authorization remaining under this share repurchase plan.

15. Recent Accounting Statements

In May 2014, the FASB issued Accounting Standards Update “ASU No. 2014-09 – Revenue from Contracts with Customers” which provides additional guidance to clarify the principles for recognizing revenue. The standard will also be used to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide more useful information to users through improved disclosure requirements, and simplify the preparation of financial statements. The guidance is effective for fiscal years beginning after December 15, 2017. We are currently evaluating the impact of this ASU on our existing revenue recognition policies and disclosures.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, “ASU No. 2014-15 - Presentation of Financial Statements-Going Concern”. ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This guidance is effective for us for the annual period ending December 31, 2016 and interim periods thereafter. We do not expect the adoption of this standard to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued Accounting Standards Update “ASU No. 2016-02 – Leases” which introduces a lessee model that brings most leases on to the balance sheets and updates lessor accounting to align with changes in the lessee model and the revenue recognition standard. The guidance is effective for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of this ASU on our financial statements, existing lease recognition policies and disclosures.

In March 2016, the FASB issued ASU No. 2016-09- “Compensation – Stock Compensation” which is part of the FASB’s Simplification Initiative. The object of this initiative is to identify, evaluate, and improve areas of GAAP. The areas of simplification in this initiative involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017. We are currently evaluating the impact of this ASU on our financial statements.

16. Goodwill

Shown below is movement in Goodwill (in thousands):

	Vitas	Roto-Rooter	Total
Balance at December 31, 2014	\$ 328,301	\$ 138,421	\$ 466,722
Business combinations	-	5,944	5,944
Foreign currency adjustments	-	(344)	(344)
Balance at December 31, 2015	\$ 328,301	\$ 144,021	\$ 472,322
Foreign currency adjustments	-	116	116
Balance at March 31, 2016	\$ 328,301	\$ 144,137	\$ 472,438

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,	
	2016	2015
Service revenues and sales	\$390,389	\$376,652
Net income	\$24,840	\$24,537
Diluted EPS	\$1.45	\$1.40
Adjusted net income	\$27,754	\$26,831
Adjusted diluted EPS	\$1.62	\$1.54
Adjusted EBITDA	\$54,480	\$52,849
Adjusted EBITDA as a % of revenue	14.0 %	14.0 %

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization ("EBITDA") and Adjusted EBITDA are not measures derived in accordance with GAAP. We provide non-GAAP measures to help readers evaluate our operating results, compare our operating performance with that of similar companies that have different capital structures and help evaluate our ability to meet future debt service, capital expenditure and working capital requirements. 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 22-23.

For the three months ended March 31, 2016, the increase in consolidated service revenues and sales was driven by a 5.4% increase at Roto-Rooter and a 2.9% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines. The increase in service revenues at VITAS was primarily a result of Medicare reimbursement rates increasing 0.6%, a 6.8% increase in days of care, offset by acuity mix shift which negatively impacted revenue 1.8% and changes in Medicare hospice reimbursement which negatively impacted revenue 2.1%. Consolidated net income increased 1.2% due to higher revenues at both VITAS and Roto-Rooter. Diluted EPS increased 3.6% as a result of the increase in net income as well as a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue was essentially flat when compared to the prior year quarter. See page 24 for additional VITAS operating metrics.

On January 1, 2016, CMS implemented a refinement to the Medicare hospice reimbursement per diem. This rebasing eliminated the single tier per diem for routine home care (RHC) and replaced it with 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, CMS added for a Service Intensity Add-on (SIA) payment which provides for reimbursement of care provided by a registered nurse or social worker for RHC patients within seven days prior to death. The reimbursement for continuous care, inpatient care and respite care are not impacted by this rebasing.

The two tiered national per diem rate for RHC is \$186.84 for the first 60 days and \$146.83 for RHC beyond 60 days. An individual hospice's actual per diem rate is adjusted for differences in geographic cost of living. We estimate rebasing in 2016 would be revenue neutral to a hospice if it has 37.6% of total RHC days-of-care provided to patients in their first 60 days of admission and 62.4% of total RHC days-of-care provided to patients after the 60 days.

Historically, VITAS had a 32/68 aggregate Days-of-Care ratio. High acuity care historically has represented 6% to 7% of VITAS' total days-of-care. VITAS high acuity days-of-care provided to patients within the first 60 days of admission represented approximately 15% of days-of-care provided to patients in the first 60 days of admission. This results in a VITAS RHC Days-of-Care ratio of approximately 29/71.

In the first quarter of 2016, VITAS had a 25/75 RHC Days-of-Care ratio and generated approximately \$1.0 million in SIA payments. This resulted in 2.1% less revenue than under the previous Medicare reimbursement methodology.

VITAS expects its full-year 2016 revenue growth, prior to Medicare cap, to be in the range of 2.5% to 3.5%. Admissions in 2016 are estimated to increase 3.0%. Adjusted EBITDA margin, prior to Medicare cap, is estimated to be 14.0% to 15.0%. Medicare cap billing limitations are estimated to be \$3.8 million in 2016. Roto-Rooter expects full-year 2016 revenue growth of 3.5% to 4.5%. The revenue estimate is based upon increased job pricing of approximately 1.0% and continued growth in water restoration services. Adjusted EBITDA margin for 2016 is estimated in the range of 20.0% to 21.0%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

Financial Condition

Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2015 to March 31, 2016 include the following:

- ▲ \$36.8 million increase in accounts receivable due to timing of Medicare and Medicaid payments.
- ▲ \$7.4 million decrease in prepaid income taxes due to timing of payments.
- ▲ \$7.0 million increase in accounts payable due to timing of payments.
- ▲ \$11.1 million decrease in income taxes due to timing of payments.
- ▲ An \$9.0 million decrease in accrued compensation due primarily to the payment of 2015 incentive compensation during the quarter.
- ▲ A \$53.6 million increase in long-term debt due primarily to borrowings on our revolving line of credit used mainly to purchase treasury shares during the quarter.

Net cash provided by operating activities decreased \$5.2 million primarily as a result of an increase in accounts receivable offset by an increase in income taxes due to the timing of payments. Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued \$37.8 million in standby letters of credit as of March 31, 2016, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of March 31, 2016, we have approximately \$256.7 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.

Significant changes in our accounts receivable balances are typically driven mainly by the timing of payments received from the Federal government at our VITAS subsidiary. We typically receive a payment in excess of \$35.0 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.

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, 2016 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. 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 estimable.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, United States v. VITAS Hospice Services, LLC, et al., No. 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various qui tam lawsuits and subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. The defendants filed a motion to dismiss on September 24, 2013. On September 30, 2014, the Court denied the motion, except to the extent that claims were filed before July 24, 2002. On November 13, 2014, the government filed a Second Amended Complaint. The Second Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. VITAS filed its Answer to the Second Amended Complaint on August 11, 2015. The Company is not able to reasonably estimate the probability of loss or range of loss at this time.

For additional procedural history of this litigation, please refer to our prior quarterly and annual filings. The net costs incurred related to U.S. v. Vitas and related regulatory matters were \$2.3 million and \$1.3 million for March 31, 2016 and 2015, respectively.

In November 2013, two shareholder derivative lawsuits were filed against the Company's current and former directors, as well as certain of its officers, both of which are covered by the Company's commercial insurance. On November 6, 2013, KBC Asset Management NV filed suit in the United States District Court for the District of Delaware, KBC Asset Management NV, derivatively on behalf of Chemed Corp. v. McNamara, et al., No. 13 Civ. 1854 (LPS) (D. Del.). It sued Kevin McNamara, Joel Gemunder, Patrick Grace, Thomas Hutton, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, Arthur Tucker, Jr., George Walsh III, Frank Wood, Timothy O'Toole, David Williams and Ernest Mrozek, together with the Company as nominal defendant. Plaintiff alleges that since at least 2004, Chemed, through VITAS, has submitted or caused the submission of false claims to Medicare. The suit alleges a claim for breach of fiduciary duty against the individual defendants, and seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On November 14, 2013, Mildred A. North filed suit in the United States District Court for the Southern District of Ohio, North, derivatively on behalf of Chemed Corp. v. Kevin McNamara, et al., No. 13 Civ. 833 (MDB) (S.D. Ohio). She sued Kevin McNamara, David Williams, Timothy O'Toole, Joel Gemunder, Patrick Grace, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, George Walsh III, Frank Wood and Thomas Hutton, together with the Company as nominal defendant. Plaintiff alleges that, between February 2010 and the present, the individual defendants breached their fiduciary duties as officers and directors of Chemed by, among other things, (a) allegedly causing VITAS to submit improper and ineligible claims to Medicare and Medicaid; and (b) allegedly misrepresenting the state of Chemed's internal controls. The suit alleges claims for breach of fiduciary duty, abuse of control and gross mismanagement against the individual defendants. The complaint also alleges unjust enrichment and insider trading against Messrs. McNamara, Williams and O'Toole. Plaintiff seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On January 29, 2014 defendants in North filed a motion to transfer that case to Delaware under 28 U.S.C § 1404(a). On February 12, 2014, defendants in KBC filed a motion to dismiss that case pursuant to Federal Rules of Civil Procedure 23.1 and 12(b)(6). On September 19, 2014, the Ohio court granted defendants' motion to transfer North to Delaware. Following that decision and in light of that transfer, on September 29, 2014, the Delaware court denied without prejudice defendants' motion to dismiss KBC, and referred both cases to Magistrate Judge Burke.

On October 15, 2014, Plaintiff KBC filed a motion to consolidate KBC with North. On February 2, 2015 the court granted the motion for consolidation in full, appointing Plaintiff KBC the sole lead plaintiff and its counsel, the sole lead and liaison counsel. The court ordered that both cases will proceed under the caption In re Chemed Corp. Shareholder and Derivative Litigation, No. 13 Civ. 1854 (LPS) (CJB) (D. Del.). Plaintiff KBC has designated its pending complaint as the operative complaint in the consolidated proceedings. Defendants subsequently renewed their motion to dismiss those claims and allegations. On December 23, 2015, Magistrate Judge Burke issued a Report & Recommendation recommending that (1) defendants' motion to dismiss be granted; (2) plaintiff be given 14 days from the date of affirmance by the district court to file an amended complaint addressing deficiencies with regard to their duty of loyalty claim; and (3) failure to do so should give rise to dismissal with prejudice. The Report and Recommendation remains subject to review and affirmance by the district court judge overseeing the matter. On January 11, 2016, Lead Plaintiff KBC filed Objections to the Report and Recommendations. Defendants' responses to

those Objections were filed on January 28, 2016.

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, responding to the subpoenas and 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.

-16-

Results of Operations

Three months ended March 31, 2016 versus 2015 - Consolidated Results

Our service revenues and sales for the first quarter of 2016 increased 3.6% versus services and sales revenues for the first quarter of 2015. Of this increase, \$7.9 million was attributable to VITAS and \$5.8 million was attributable to Roto-Rooter. The following chart shows the components of those changes (in thousands):

	Increase/(Decrease)	
	Amount	Percent
VITAS		
Routine homecare	\$ 10,309	5.0
Continuous care	(1,030)	(2.7)
General inpatient	(1,199)	(4.5)
Medicare cap	(165)	(100.0)
Roto-Rooter		
Plumbing	1,988	4.3
Drain cleaning	1,357	3.8
Water restoration	2,007	19.2
Contractor operations	394	4.2
Other	76	1.5
Total	\$ 13,737	3.6

The increase in VITAS' revenues for the first quarter of 2016 versus the first quarter of 2015 was a primarily a result of Medicare reimbursement rates increasing approximately 0.6%, a 6.8% increase in days of care offset by acuity mix shift which negatively impacted revenue 1.8% and changes in Medicare hospice reimbursement which negatively impacted revenue 2.1%.

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

	Days of Care		Increase/(Decrease) Percent
	2016	2015	
Routine homecare	1,335,167	1,241,733	7.5
Continuous care	50,970	52,840	(3.5)
General inpatient	38,249	39,573	(3.3)
Total days of care	1,424,386	1,334,146	6.8

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

The increase in plumbing revenues for the first quarter of 2016 versus 2015 is attributable to a 0.4% increase in job count and a 3.9% increase in a combination of price and service mix shift. Drain cleaning revenues for the first quarter of 2016 versus 2015 reflect a 0.3% increase in the number of jobs performed combined with a price and service mix shift of 3.5%. Water restoration for the first quarter of 2016 versus 2015 increased 19.2% as a result of continued expansion of this service offering into other Roto-Rooter locations. Contractor operations increased 4.2% and Other Roto-Rooter revenue increased 1.5%.

The consolidated gross margin was 28.7% in the first quarter of 2016 as compared with 28.6% in the first quarter of 2015. On a segment basis, VITAS' gross margin was 21.0% in the first quarter of 2016 as compared with 21.2%, in the first quarter of 2015. The Roto-Rooter segment's gross margin was 47.6% for the first quarter of 2016 compared with 47.3% in the first quarter of 2015.

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

	Three months ended March 31,	
	2016	2015
SG&A expenses before market value adjustments of deferred compensation plans, long-term incentive compensation, and OIG investigation expenses	\$59,937	\$55,879
Long-term incentive compensation	(241)	934
Expenses related to OIG investigation	2,336	1,274
Impact of market value adjustments related to assets held in deferred compensation trusts	(2,987)	950
Total SG&A expenses	\$59,045	\$59,037

SG&A expenses before long-term incentive compensation, expenses related to OIG investigation and the impact of market gains/(losses) of deferred compensation plans for the first quarter of 2016 were up 7.3% when compared to the first quarter of 2015. The increase was mainly a result of the increase in variable expenses caused by increased revenue as well as normal salary increases, higher incentive compensation costs and higher bad debt expense in 2016.

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

	Three months ended March 31,	
	2016	2015
Market value adjustment on assets held in deferred compensation trusts	\$(2,987)	\$950
Gain/(loss) on disposal of property and equipment	(33)	48
Interest income - net	97	44
Other	(1)	(479)
Total other income/(expense) - net	\$(2,924)	\$563

Our effective income tax rate was 38.9% in the first quarter of 2016 essentially equal to the first quarter of 2015.

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,	
	2016	2015
VITAS		
Expenses related to OIG investigation	\$(1,443)	\$(790)
Roto-Rooter		
Expenses related to litigation settlements	-	(3)
Corporate		
Stock option expense	(1,621)	(910)
Long-term incentive compensation	152	(591)
Expenses related to securities litigation	(2)	-
Total	\$(2,914)	\$(2,294)

Three months ended March 31, 2016 versus 2015 - Segment Results

The change in after-tax earnings for the first quarter of 2016 versus the first quarter of 2015 is due to (in thousands):

	Increase/(Decrease)	
	Amount	Percent
VITAS	\$ (228)	(1.2)
Roto-Rooter	1,012	8.4
Corporate	(481)	(7.1)
	\$ 303	1.2

VITAS' after-tax earnings were negatively impacted in 2016 compared to 2015 by a \$2.7 million increase in SG&A expenses driven mainly by \$653,000 in additional OIG expenses and approximately \$585,000 after-tax increase in bad debt expense. After-tax earnings as a percent of revenue in the first quarter of 2016 were 6.9%, a decrease of 0.3% over the first quarter of 2015.

Roto-Rooter's after-tax earnings were positively impacted in 2016 compared to 2015 primarily by a \$2.0 million revenue increase in Roto-Rooter's water restoration line of business, a \$2.0 million increase in plumbing revenue and a \$1.4 million increase in sewer and drain cleaning revenue. After-tax earnings as a percent of revenue at Roto-Rooter in 2016 were 11.5% as compared to 11.2% in 2015.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2016 (a)				
Service revenues and sales	\$277,528	\$ 112,861	\$-	\$ 390,389
Cost of services provided and goods sold	219,266	59,169	-	278,435
Selling, general and administrative expenses	24,783	29,807	4,455	59,045
Depreciation	4,781	3,501	142	8,424
Amortization	14	78	-	92
Total costs and expenses	248,844	92,555	4,597	345,996
Income/(loss) from operations	28,684	20,306	(4,597)	44,393
Interest expense	(59)	(93)	(690)	(842)
Intercompany interest income/(expense)	2,103	948	(3,051)	-
Other income/(expense)—net	41	23	(2,988)	(2,924)
Income/(expense) before income taxes	30,769	21,184	(11,326)	40,627
Income taxes	(11,682)	(8,164)	4,059	(15,787)
Net income/(loss)	\$19,087	\$ 13,020	\$(7,267)	\$ 24,840

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$-	\$ -	\$(2,563)	\$(2,563)
Long-term incentive compensation	-	-	241	241
Expenses related to securities litigation	-	-	(3)	(3)
Expenses related to OIG investigation	(2,336)	-	-	(2,336)
Total	\$(2,336)	\$ -	\$(2,325)	\$(4,661)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	\$-	\$ -	\$(1,621)	\$(1,621)
Long-term incentive compensation	-	-	152	152
Expenses related to securities litigation	-	-	(2)	(2)
Expenses related to OIG investigation	(1,443)	-	-	(1,443)
Total	\$(1,443)	\$ -	\$(1,471)	\$(2,914)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2015
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2015 (a)				
Service revenues and sales	\$269,613	\$ 107,039	\$-	\$ 376,652
Cost of services provided and goods sold	212,495	56,390	-	268,885
Selling, general and administrative expenses	22,078	28,802	8,157	59,037
Depreciation	4,785	3,094	153	8,032
Amortization	60	67	-	127
Total costs and expenses	239,418	88,353	8,310	336,081
Income/(loss) from operations	30,195	18,686	(8,310)	40,571
Interest expense	(57)	(96)	(816)	(969)
Intercompany interest income/(expense)	1,726	838	(2,564)	-
Other income/(expense)—net	(433)	46	950	563
Income/(expense) before income taxes	31,431	19,474	(10,740)	40,165
Income taxes	(12,116)	(7,466)	3,954	(15,628)
Net income/(loss)	\$19,315	\$ 12,008	\$(6,786)	\$ 24,537

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$-	\$-	\$(1,444)	\$(1,444)
Long-term incentive compensation	-	-	(934)	(934)
Expenses related to litigation settlements	-	(5)	-	(5)
Expenses related to OIG investigation	(1,274)	-	-	(1,274)
Total	\$(1,274)	\$(5)	\$(2,378)	\$(3,657)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	\$-	\$-	\$(910)	\$(910)
Long-term incentive compensation	-	-	(591)	(591)
Expenses related to litigation settlements	-	(3)	-	(3)
Expenses related to OIG investigation	(790)	-	-	(790)
Total	\$(790)	\$(3)	\$(1,501)	\$(2,294)

Edgar Filing: CHEMED CORP - Form 10-Q

Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands)

For the three months ended March 31, 2016

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 19,087	\$ 13,020	\$ (7,267)	\$ 24,840
Add/(deduct):				
Interest expense	59	93	690	842
Income taxes	11,682	8,164	(4,059)	15,787
Depreciation	4,781	3,501	142	8,424
Amortization	14	78	-	92
EBITDA	35,623	24,856	(10,494)	49,985
Add/(deduct):				
Intercompany interest expense/(income)	(2,103)	(948)	3,051	-
Interest income	(79)	(17)	(1)	(97)
Expenses related to OIG investigation	2,336	-	-	2,336
Amortization of stock awards	131	81	327	539
Expenses related to securities litigation	-	-	3	3
Advertising cost adjustment	-	(608)	-	(608)
Stock option expense	-	-	2,563	2,563
Long-term incentive compensation	-	-	(241)	(241)
Adjusted EBITDA	\$ 35,908	\$ 23,364	\$ (4,792)	\$ 54,480

For the three months ended March 31, 2015

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 19,315	\$ 12,008	\$ (6,786)	\$ 24,537
Add/(deduct):				
Interest expense	57	96	816	969
Income taxes	12,116	7,466	(3,954)	15,628
Depreciation	4,785	3,094	153	8,032
Amortization	60	67	-	127
EBITDA	36,333	22,731	(9,771)	49,293
Add/(deduct):				
Intercompany interest expense/(income)	(1,726)	(838)	2,564	-
Interest income	(34)	(10)	-	(44)
Expenses related to OIG investigation	1,274	-	-	1,274
Amortization of stock awards	107	41	301	449
Advertising cost adjustment	-	(506)	-	(506)
Expenses related to litigation settlements	-	5	-	5
Long-term incentive compensation	-	-	934	934
Stock option expense	-	-	1,444	1,444
Adjusted EBITDA	\$ 35,954	\$ 21,423	\$ (4,528)	\$ 52,849

RECONCILIATION OF ADJUSTED NET INCOME

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

	Three Months Ended March 31,	
	2016	2015
Net income as reported	\$24,840	\$24,537
Add/(deduct) after-tax cost of:		
Stock option expense	1,621	910
Expenses of OIG investigation	1,443	790
Long-term incentive compensation	(152)	591
Expenses related to securities settlements	2	-
Expenses related to litigation settlements	-	3
Adjusted net income	\$27,754	\$26,831
Diluted Earnings Per Share As Reported		
Net income	\$1.45	\$1.40
Average number of shares outstanding	17,170	17,466
Adjusted Diluted Earnings Per Share		
Adjusted net income	\$1.62	\$1.54
Adjusted average number of shares outstanding	17,170	17,466

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

OPERATING STATISTICS	Three Months Ended March 31,			
	2016		2015	
Net revenue (\$000)				
Homecare	\$214,850		\$204,541	
Inpatient	25,517		26,716	
Continuous care	37,161		38,191	
Total before Medicare cap allowance	\$277,528		\$269,448	
Medicare cap allowance	-		165	
Total	\$277,528		\$269,613	
Net revenue as a percent of total before Medicare cap allowances				
Homecare	77.4	%	75.9	%
Inpatient	9.2		9.9	
Continuous care	13.4		14.2	
Total before Medicare cap allowance	100.0		100.0	
Medicare cap allowance	-		0.1	
Total	100.0	%	100.1	%
Average daily census (days)				
Homecare	11,681		10,877	
Nursing home	2,991		2,920	
Routine homecare	14,672		13,797	
Inpatient	421		440	
Continuous care	560		587	
Total	15,653		14,824	
Total Admissions	16,868		17,268	
Total Discharges	16,743		16,990	
Average length of stay (days)	83.7		79.0	
Median length of stay (days)	15.0		13.0	
ADC by major diagnosis				
Cerebro	22.1	%	23.7	%
Neurological	31.2		28.0	
Cancer	15.3		16.9	
Cardio	17.3		17.8	
Respiratory	7.9		7.8	
Other	6.2		5.8	
Total	100.0	%	100.0	%
Admissions by major diagnosis				
Cerebro	11.3		12.9	%
Neurological	20.9		18.6	
Cancer	30.5		30.6	
Cardio	15.5		15.8	
Respiratory	10.9		10.8	
Other	10.9		11.3	
Total	100.0	%	100.0	%
Direct patient care margins				

Edgar Filing: CHEMED CORP - Form 10-Q

Routine homecare	52.1	%	52.7	%
Inpatient	5.7		8.4	
Continuous care	15.1		15.9	
Homecare margin drivers (dollars per patient day)				
Labor costs	\$56.72		\$57.21	
Drug costs	5.93		6.50	
Home medical equipment	6.68		6.41	
Medical supplies	2.85		2.92	
Inpatient margin drivers (dollars per patient day)				
Labor costs	\$338.73		\$339.37	
Continuous care margin drivers (dollars per patient day)				
Labor costs	\$599.38		\$587.63	
Bad debt expense as a percent of revenues	1.3	%	1.0	%
Accounts receivable -- Days of revenue outstanding- excluding unapplied Medicare payments	38.3		41.3	
Accounts receivable -- Days of revenue outstanding- including unapplied Medicare payments	36.8		39.1	

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, 2016, the Company had \$144.9 million of variable rate debt outstanding. For each \$10 million dollars borrowed under the credit facility, an increase or decrease of 100 basis points (1% point), increases or decreases the Company’s annual interest expense by \$100,000.

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

Item 4. Controls and Procedures

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

The following table shows the activity related to our share repurchase program for the first three months of 2016:

	Total Number of Shares Repurchased	Weighted Price Paid Per Share	Cumulative Shares Repurchased Under the Program	Dollar Amount Remaining Under The Program
<u>February 2011 Program</u>				
January 1 through January 31, 2016	-	\$ -	6,535,584	\$52,485,644
February 1 through February 29, 2016	153,997	129.22	6,689,581	32,585,505
March 1 through March 31, 2016	246,003	132.35	6,935,584	\$100,025,990
First Quarter Total	400,000	\$ 131.15		

On March 14, 2016 our Board of Directors authorized an additional \$100 million under the February 2011 Repurchase Program.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

Stockholder Proposals for the 2017 Annual Meeting of the Stockholders

Any stockholder proposals for the 2017 Annual Meeting of Stockholders must be in writing and received by the Secretary of the Company by December 9, 2016 to be eligible for inclusion in the Company's proxy statement and accompanying proxy for such meeting, unless the date of the 2017 Annual Meeting of Stockholders is changed by more than 30 days from May 16, 2017, in which case such proposal must be received a reasonable time before the Company begins to print and send its proxy materials for such meeting. If a stockholder intends to bring a matter before the 2017 Annual Meeting of Stockholders other than by submitting a proposal for inclusion in the Company's proxy materials for such meeting he or she must provide notice of the proposal to the Company's secretary at our principal executive offices no earlier than January 16, 2017, and not later than February 15, 2017, for such notice to be considered timely. If the date of the 2017 meeting is advanced by more than 30 days, or delayed by more than 90 days from May 16, 2017, such proposal must be received not earlier than the close of business on the 120th day prior to such Annual Meeting and not later than the close of business on the later of the 90th day prior to such meeting, or, if the first public announcement of such meeting is less than 100 days prior to it, the 10th day following the day the Company made such public announcement.

If a stockholder intends to propose a "proxy access" nominee pursuant to Section 1.11 of the Company's By-Laws, he or she must provide notice of the proposal to the Company's secretary at the Company's principal executive offices no

earlier than December 17, 2016, and not later than January 16, 2017, for such notice to be considered timely. The proxy access provisions of the Company's By-Laws permit an eligible stockholder (or a group of no more than 20 eligible stockholders) owning 3% or more of the Company's capital stock continuously for at least three years to nominate director candidates representing up to two or 20% of the Board (whichever is greater), and, upon the eligible stockholder's satisfaction of certain conditions as outlined in the Company's By-Laws, require the Company to include such nominees in the Company's proxy statement and proxy card for the annual meeting of stockholders. These proxy access provisions were adopted by the Board of Directors in February 2016.

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 Arthur V. Tucker, Jr. 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 Arthur V. Tucker, Jr. 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, 2016 By: /s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

Dated: May 2, 2016 By: /s/ David P. Williams
David P. Williams
(Executive Vice President and Chief Financial Officer)

Dated: May 2, 2016 By: /s/ Arthur V. Tucker, Jr.
Arthur V. Tucker, Jr.

Edgar Filing: CHEMED CORP - Form 10-Q
(Vice President and Controller)

-27-