

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
 ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019

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

For the Transition Period from _____ to _____

Commission File Number: 1-8351

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

Delaware
(State or other jurisdiction of
incorporation or organization)

Suite 2600, 255 East Fifth Street, Cincinnati, Ohio
(Address of principal executive offices)

31-0791746
(I.R.S. Employer
Identification Number)

45202-4726
(Zip Code)

(513) 762-6690
(Registrant's Telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of each exchange on which registered
Capital Stock – Par Value \$1 Per Share	CHE	New York Stock Exchange

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 period 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, a non-accelerated filer, a smaller reporting company or emerging growth company. See definition of "accelerated filer, large accelerated filer, smaller reporting company and emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check One): 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 transition period for complying with any 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 Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price of said stock on the New York Stock Exchange – Composite Transaction Listing on June 28, 2019 (\$360.84 per share), was \$5,634,515,157.

At February 14, 2020, 16,055,361 shares of Chemed Capital Stock (par value \$1 per share) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
2019 Annual Report to Stockholders (specified portions)	Parts I, II, and IV
Proxy Statement for Annual Meeting to be held May 18, 2020	Part III

CHEMED CORPORATION
2019 FORM 10-K ANNUAL REPORT

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Item 1. Business

General

Chemed Corporation (the Company or Chemed) was incorporated in Delaware in 1970 as a subsidiary of W.R. Grace & Co. and succeeded to the business of W.R. Grace & Co.'s Special Products Group as of April 30, 1971 and remained a subsidiary of W.R. Grace & Co. until March 10, 1982.

Chemed purchases, operates and divests subsidiaries engaged in diverse business activities for the purposes of maximizing shareholder value. The Company's day to day operating businesses are managed on a decentralized basis. There are few integrated business functions between the operating units and Chemed (such as sales, marketing or purchasing). Chemed's corporate office management participates in and is ultimately responsible for long term strategic planning, significant capital allocation decisions, investment activities, financial reporting, tax, legal and the selection of the key executives of each of the operating businesses. Since its inception, the Company has engaged in twelve significant acquisitions or divestitures of diverse business units.

During 2019, Chemed conducted its business operations in two segments: the VITAS segment (VITAS) and the Roto-Rooter segment (Roto-Rooter). VITAS provides hospice and palliative care services to its patients through a network of physicians, registered nurses, home health aides, social workers, clergy and volunteers. Roto-Rooter provides plumbing, drain cleaning, excavation, water restoration and other related services to residential and commercial customers.

Forward Looking Statements

This Annual Report contains or incorporates by reference certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company intends such statements to be subject to the safe harbors created by that legislation. Such statements involve risks and uncertainties that could cause actual results of operations to differ materially from these forward-looking statements.

Financial Information about Industry Segments

The required segment and geographic data for the Company's continuing operations (as described below) for three years ended December 31, 2017, 2018 and 2019 are shown in Note 5 of the Notes to Consolidated Financial Statements on pages 63-64 of the 2019 Annual Report to Stockholders and are incorporated herein by reference.

Description of Business by Segment

The information called for by this item is included within Note 5 of the Notes to Consolidated Financial Statements appearing on pages 63-64 of the 2019 Annual Report to Stockholders is incorporated herein by reference.

Product and Market Development

Each segment of the Company's business analyzes opportunities for the development and marketing of new services and products. While new products and services and new market development are important factors for the long term growth of each active segment of the Company's business, the Company does not expect that any new products and services or marketing effort, including those in the development stage, will require the investment of a material amount of the Company's assets.

Patents, Service Marks and Licenses

The Roto-Rooter trademarks and service marks have been used and advertised since 1935 by Roto-Rooter Corporation, a wholly owned indirect subsidiary of the Company. The Roto-Rooter marks are among the most highly recognized trademarks and service marks in the United States. The Company considers the Roto-Rooter marks to be a valuable asset and a significant factor in the marketing of Roto-Rooter's franchises, products and services and the products and services provided by its franchises.

"VITAS" and "Innovative Hospice Care" are trademarks and servicemarks of VITAS Healthcare Corporation. The Company and its subsidiaries also own certain trade secrets including training manuals, cost information, patient information and software source code. Certain states require certificates of need to conduct hospice operations. In those states, we consider certificates of need valuable assets.

Seasonality

Roto-Rooter's revenue and operating results are impacted by significant weather patterns across the United States. Significant changes in precipitation or temperatures in areas we have company-owned and independent contractor operations will generally affect the revenue and operating results at Roto-Rooter.

A significant portion of our VITAS business is operated in the state of Florida. The vast majority of our patients are Medicare recipients. Medicare patients relocating to Florida during the winter months generally result in higher admissions and revenue for our Florida programs during that period.

Customer Concentration

Roto-Rooter's business has a large and diverse customer base. Over 90% of VITAS' revenue is from the United States government through the Medicare program. The loss of a portion or all of our Medicare revenue would have a material adverse effect on the Company.

Competition

Roto-Rooter

All aspects of the sewer, drain and pipe cleaning, plumbing repair, excavation and water restoration businesses are highly competitive. Competition is fragmented in most markets with local and regional firms providing the primary competition. The principal methods of competition are advertising, range of services provided, name recognition, emergency-service availability, speed and quality of customer service, service guarantees, and pricing.

VITAS

Hospice care in the United States is competitive. Plans of care for hospice services are not proprietary. As a result, VITAS competes and differentiates itself primarily on the basis of its ability to deliver quality, responsive services within the requirements of Medicare's hospice conditions of participation. VITAS is one of the nation's largest providers of hospice services in an industry dominated primarily by small, non-profit, community-based hospices. Approximately 25% of all hospice providers are not-for-profit. Because the hospice care industry is highly fragmented, VITAS competes with a large number of organizations.

VITAS also competes with a number of national and regional hospice providers, hospitals, nursing homes, home health agencies and other health care providers. Many providers offer home care to patients who are terminally ill, and some actively market palliative care and hospice-like programs. In addition, various health care companies have diversified into the hospice market. Some of these health care companies have greater financial resources than VITAS. Relatively few barriers to entry exist in the majority of markets served by VITAS. Accordingly, other companies that are not currently providing hospice care may enter these markets and expand the variety of services they offer to include hospice.

Research and Development

The Company engages in a continuous program directed toward the development of new services, products and processes, the improvement of existing services, products and processes, and the development of new and different uses of existing products. The research and development expenditures from continuing operations have not been nor are they expected to be material.

Government Regulations

Roto-Rooter

Roto-Rooter's franchising activities are subject to various federal and state franchising laws and regulations, including the rules and regulations of the Federal Trade Commission (the "FTC") regarding the offering or sale of franchises. The rules and regulations of the FTC require that Roto-Rooter provide all the prospective franchisees with specific information regarding the franchise program and Roto-Rooter in the form of a detailed franchise offering circular. In addition, a number of states require Roto-Rooter to register its franchise offering prior to offering or selling franchises in the state. Various state laws also provide for certain rights in favor of franchisees, including (i) limitations on the franchisor's ability to terminate a franchise except for good cause, (ii) restrictions on the franchisor's ability to deny renewal of a franchise, (iii) circumstances under which the franchisor may be required to purchase certain inventory of franchisees when a franchise is terminated or not renewed in violation of such laws, and (iv) provisions relating to

arbitration. Roto-Rooter's ability to engage in the plumbing repair business is also subject to certain limitations and restrictions imposed by state and local licensing laws and regulations.

VITAS

General. The health care industry and VITAS' hospice programs are subject to extensive federal and state regulation. VITAS' hospices are licensed as required under state law as either hospices or home health agencies, or both, depending on the regulatory requirements of each particular state. In addition, VITAS' hospices are required to meet certain conditions of participation to be eligible to receive payments as hospices under Medicare and Medicaid programs. All of VITAS' hospices, other than those currently in development, are certified for participation as hospices in the Medicare program, and are also eligible to receive payments as hospices from the Medicaid program in each of the states in which VITAS operates. VITAS' hospices are subject to periodic survey by governmental authorities or private accrediting entities to assure compliance with state licensing, certification and accreditation requirements.

Medicare Conditions of Participation. Federal regulations require that a hospice program satisfy certain Conditions of Participation ("COP") to be certified and receive Medicare payment for the services it provides. Failure to comply with the conditions of participation may result in sanctions, up to and including decertification from the Medicare program. See "Surveys and Audits" below.

The Medicare COP for hospice programs include the following:

Governing Body. Each hospice must have a governing body that assumes full responsibility for the policies and the overall operation of the hospice and for ensuring that all services are provided in a manner consistent with accepted standards of practice. The governing body must designate one individual who is responsible for the day-to-day management of the hospice.

Medical Director. Each hospice must have a medical director who is a physician and who assumes responsibility for overseeing the medical component of the hospice's patient care program.

Direct Provision of Core Services. Medicare limits those services for which the hospice may use individual independent contractors or contract agencies to provide care to patients. Specifically, substantially all nursing, social work, and counseling services must be provided directly by hospice employees meeting specific educational and professional standards. During periods of peak patient loads or under extraordinary circumstances, the hospice may be permitted to use contract workers, but the hospice must agree in writing to maintain professional, financial and administrative responsibility for the services provided by those individuals or entities.

Professional Management of Non-Core Services. A hospice may arrange to have non-core services such as therapy services, home health aide services, medical supplies or drugs provided by a non-employee or outside entity. If the hospice elects to use an independent contractor to provide non-core services, however, the hospice must retain professional management responsibility for the arranged services and ensure that the services are furnished in a safe and effective manner by qualified personnel, and in accordance with the patient's plan of care.

Plan of Care. The patient's attending physician, the medical director or the designated hospice physician, and interdisciplinary team must establish an individualized written plan of care prior to providing care to any hospice patient. The plan must assess the patient's needs and identify services to be provided to meet those needs and must be reviewed and updated at specified intervals.

Continuation of Care. A hospice may not discontinue or reduce care provided to a Medicare beneficiary if the individual becomes unable to pay for that care.

Informed Consent. The hospice must obtain the informed consent of the hospice patient, or the patient's legal representative, that specifies the type of care services that may be provided as hospice care, which is palliative and not curative care. The patient or the patient's legal representative must also acknowledge that by choosing hospice care, certain other Medicare benefits are waived.

Training. A hospice must provide ongoing training for its employees.

Quality Assurance. A hospice must conduct ongoing and comprehensive self-assessments of the quality and appropriateness of care it provides and that its contractors provide under arrangements to hospice patients.

Interdisciplinary Team. A hospice must designate an interdisciplinary team to provide or supervise hospice care services. The interdisciplinary team develops and updates plans of care, and establishes policies governing the day-to-day provision of hospice

services. The team must include at least a physician, registered nurse, social worker and spiritual or other counselor. A registered nurse must be designated to coordinate the plan of care.

Volunteers. Hospice programs are required to recruit and train volunteers to provide patient care services or administrative services. Volunteer services must be provided in an amount equal to at least five percent of the total patient care hours provided by all paid hospice employees and contract staff.

Licensure. Each hospice and all hospice personnel must be licensed, certified or registered in accordance with applicable federal, state and local laws and regulations.

Central Clinical Records. Hospice programs must maintain clinical records for each hospice patient that are organized in such a way that they may be easily retrieved. The clinical records must be complete and accurate and protected against loss, destruction and unauthorized use.

Surveys and Audits. Hospice programs are subject to periodic survey by federal and state regulatory authorities and private accrediting entities to ensure compliance with applicable licensing and certification requirements and accreditation standards. Regulators conduct periodic surveys of hospice programs and provide reports containing statements of deficiencies for alleged failure to comply with various regulatory requirements. Survey reports and statements of deficiencies are common in the healthcare industry. In most cases, the hospice program and regulatory authorities will agree upon any steps to be taken to bring the hospice into compliance with applicable regulatory requirements. In some cases, however, a state or federal regulatory authority may take a number of adverse actions against a hospice program, including the imposition of fines, payment suspensions, temporary suspension of admission of new patients to the hospice's service, or, in extreme circumstances, decertification from participation in the Medicare or Medicaid programs or revocation of the hospice's license.

CMS has recently started implementing a Targeted Probe and Educate ("TPE") program, designed to improve compliance in submitting Medicare claims and reduce deficiencies. In the TPE program, a healthcare provider has up to three rounds of review to sufficiently improve results, or the provider may face significant action from CMS. During the rounds of a TPE review, payment of claims subject to the review is delayed.

From time to time VITAS receives survey reports containing statements of deficiencies and sustains related adverse actions. VITAS reviews such reports and takes appropriate corrective action, including where appropriate, appealing the reports and any adverse actions discussed in the reports. VITAS believes that its hospices are in material compliance with applicable licensure and certification requirements. If a VITAS hospice were found to be out of compliance and actions were taken against a VITAS hospice, they could materially adversely affect the hospice's ability to continue to operate, to provide certain services and to participate in the Medicare and Medicaid programs, which could materially adversely affect VITAS.

Billing Audits/ Claims Reviews. The Medicare program and its Medicare Administrative Contractors and other payors periodically conduct pre-payment or post-payment reviews and other reviews and audits of health care claims, including hospice claims. There is pressure from state and federal governments and other payors to scrutinize health care claims to determine their validity and appropriateness. In order to conduct these reviews, the payor requests documentation from VITAS and then reviews that documentation to determine compliance with applicable rules and regulations, including the eligibility of patients to receive hospice benefits, the appropriateness of the care provided to those patients and the documentation of that care. VITAS' claims are periodically subject to review and audit. We make appropriate provisions in our accounting records to reduce our revenue for anticipated denial or delay of payment related to these audits and reviews. We believe our hospice programs comply with all payor requirements at the time of billing. However, we cannot predict whether future billing reviews or similar audits by payors will result in material delays, suspensions, denials or reductions in revenue.

Corporate Integrity Agreement. VITAS and certain of its subsidiaries entered into a Corporate Integrity Agreement ("CIA") with the Office of the Inspector General ("OIG") on October 30, 2017 in connection with the settlement of a False Claims Act Case. The CIA formalizes various aspects of VITAS' already existing Compliance Program and contains requirements designed to document ongoing 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. VITAS is currently in year three of its obligations under the CIA. It also requires VITAS to engage an Independent Review Organization to perform auditing and review functions and to prepare reports regarding compliance with federal healthcare programs. In the event of breach of the CIA, VITAS could become liable for payment of stipulated penalties or could be excluded from participation in federal healthcare programs.

Certificate of Need Laws and Other Restrictions. Some states, including Florida, have certificate of need or similar health planning laws that apply to hospice care providers. These states may require some form of state agency review or approval prior to

opening a new hospice program, to adding or expanding hospice services, to undertaking significant capital expenditures or under other specified circumstances. Approval under these certificate of need laws is generally conditioned on the showing of a demonstrable need for services in the community. VITAS may seek to develop, acquire or expand hospice programs in states having certificate of need laws. To the extent that state agencies require VITAS to obtain a certificate of need or other similar approvals to expand services at existing hospice programs or to make acquisitions or develop hospice programs in new or existing geographic markets, VITAS' plans could be adversely affected by a failure to obtain such certificate or approval. In addition, competitors may seek administratively or judicially to challenge such an approval or proposed approval by the state agency. Such a challenge, whether or not ultimately successful, could adversely affect VITAS.

Limitations on For-Profit Ownership. A few states have laws that restrict the development and expansion of for-profit hospice programs. For example, in New York, a hospice generally cannot be owned by a corporation that has another corporation as a stockholder. These types of restrictions could affect VITAS' ability to expand into New York, or in other jurisdictions with similar restrictions.

Limits on the Acquisition or Conversion of Non-Profit Health Care Organizations. A number of states have enacted laws that restrict the ability of for-profit entities to acquire or otherwise assume the operations of a non-profit health care provider. Some states may require government review, public hearings, and/or government approval of transactions in which a for-profit entity proposes to purchase certain non-profit healthcare organizations. Heightened scrutiny of these transactions may significantly increase the costs associated with future acquisitions of non-profit hospice programs in some states, otherwise increase the difficulty in completing those acquisitions or prevent them entirely. VITAS cannot assure that it will not encounter regulatory or governmental obstacles in connection with any proposed acquisition of non-profit hospice programs in the future.

Professional Licensure and Participation Agreements. Many hospice employees are subject to federal and state laws and regulations governing the ethics and practice of their profession, including physicians, physical, speech and occupational therapists, social workers, home health aides, pharmacists and nurses. In addition, those professionals who are eligible to participate in the Medicare, Medicaid or other federal health care programs as individuals must not have been excluded from participation in those programs at any time.

State Licensure of Hospice. Each of VITAS' hospices must be licensed in the state in which it operates. State licensure rules and regulations require that VITAS' hospices maintain certain standards and meet certain requirements, which may vary from state to state. VITAS believes that its hospices are in material compliance with applicable licensure requirements. If a VITAS hospice were found to be out of compliance and actions were taken against a VITAS hospice, they could materially adversely affect the hospice's ability to continue to operate, to provide certain services and to participate in the Medicare and Medicaid programs, which could materially adversely affect VITAS.

Overview of Government Payments—General. Over 95% of VITAS' revenue consisted of payments from the Medicare and Medicaid programs. Such payments are made primarily on a "per diem" basis. Under the per diem reimbursement methodology, VITAS is essentially at risk for the cost of eligible services provided to hospice patients. Profitability is therefore largely dependent upon VITAS' ability to manage the costs of providing hospice services to patients. Increases in operating costs, such as labor and supply costs that are subject to inflation and other increases, without a compensating increase in Medicare and Medicaid rates, could have a material adverse effect on VITAS' business in the future. The Medicare and Medicaid programs are increasing pressure to control health care costs and to decrease or limit increases in reimbursement rates for health care services. As with most government programs, the Medicare and Medicaid programs are subject to statutory and regulatory changes, possible retroactive and prospective rate and payment adjustments, administrative rulings, freezes and funding reductions, all of which may adversely affect the level of program payments and could have a material adverse effect on VITAS' business. VITAS' levels of revenues and profitability are subject to the effect of legislative and regulatory changes, including possible reductions in coverage or payment rates, increased scrutiny of claims necessitating additional resources to respond, or changes in methods of payment, by the Medicare and Medicaid programs.

Overview of Government Payments – Medicare

Medicare Eligibility Criteria. To receive Medicare payment for hospice services, the hospice medical director and, if the patient has one, the patient's attending physician, must certify and describe in a brief narrative that the patient has a life expectancy of six months or less if the illness runs its normal course. This determination is made based on the physician's clinical judgment. Due to the uncertainty of such prognoses, however, it is likely and expected that some percentage of hospice patients will not die within six months of entering a hospice program. The Medicare program (among other third-party payers) recognizes that terminal illnesses often do not follow an entirely predictable course, and therefore the hospice benefit remains available to beneficiaries so long as the hospice physician or the patient's attending physician continues to certify that the patient's life expectancy remains six months or less and the patient or patient's legal representative, continues to maintain the hospice election. Specifically, the Medicare hospice benefit provides for two initial 90 day benefit periods followed by an unlimited number of 60 day periods. In order to qualify for hospice care, a Medicare

beneficiary must elect hospice care and waive any right to other Medicare benefits related to his or her terminal illness. A Medicare beneficiary may revoke his or her election of the Medicare hospice benefit at any time and resume receiving regular Medicare benefits. The patient may elect the hospice benefit again at a later date so long as he or she remains eligible. The Medicare program, however, has reaffirmed that Medicare hospice beneficiaries are not limited to six months of coverage and that there is no limit on how long a Medicare beneficiary can continue to receive hospice benefits and services, provided that the beneficiary continues to meet the eligibility criteria under the Medicare hospice program.

Levels of Care. Medicare pays for hospice services on a prospective payment system basis under which VITAS receives an established payment rate for each day that it provides hospice services to a Medicare beneficiary. These rates are subject to annual adjustments for inflation and vary based upon the geographic location where the services are provided. The rate VITAS receives depends on which level of care is being provided to the beneficiary.

There are four levels of care and related reimbursement within the Medicare Hospice Benefit. These levels of care are Routine Home Care, Continuous Care, Inpatient Care and Respite Care. Medicare hospice providers are required under Medicare's Conditions of Participation and their regulations to provide all four levels of care, available on a 24/7 basis, when appropriate.

VITAS, as required under Medicare's Conditions of Participation and their regulations, has the ability to provide all levels of care to its patients. The actual level of care a patient receives on any given day is based upon the clinical needs of the patient.

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

General Inpatient Care. The general inpatient care rate is paid when a patient requires inpatient services for a short period 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. Continuous home care, which VITAS refers to as "Intensive Comfort Care," is provided to patients while at home, 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 and ends at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed practical nurse. While the published Medicare continuous home care rates are daily rates, Medicare actually pays for continuous home care in 15 minute increments. This 15 minute rate is calculated by dividing the daily rate by 96.

Respite Care. 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.

Medicare Payment for Physician Services. Payment for direct patient care physician services delivered by hospice physicians is billed separately by the hospice to the Medicare Administrative Contractors and paid at the lesser of the actual charge or the Medicare allowable charge for these services. This payment is in addition to the per diem rates VITAS receives for hospice care. Payment for hospice physicians' administrative and general supervisory activities is included in the daily rates discussed above. Payments for attending physician professional services (other than services furnished by hospice physicians) are not paid to the hospice, but rather are paid directly to the attending physician by the Medicare Administrative Contractors. For fiscal 2019, less than 2% of VITAS' net revenue was attributable to physician services.

Medicare Limits on Hospice Care Payments. Medicare payments for hospice services are subject to two additional limits or "caps". Each of VITAS' hospice programs is separately subject to both of these "caps". Both of these "caps" are determined on an annual basis for the period running from November 1 through October 31 of each year.

First, under a Medicare rule known as the "80-20" rule applicable to the Medicare inpatient services, if the number of inpatient care days furnished by a hospice to Medicare beneficiaries exceeds 20% of the total days of hospice care furnished by such hospice to Medicare beneficiaries, Medicare payments to the hospice for inpatient care days exceeding the cap are reduced to the routine home care rate.

Second, Medicare payments to a hospice are also subject to a separate cap based on overall average payments per admission. Any payments exceeding this overall hospice cap must be refunded by the hospice. This cap was set at \$29,205.44 per admission for the twelve month period ended on October 31, 2019, increased to \$29,964.78 for the twelve month period ending on October 31, 2020, and is adjusted annually to account for inflation. VITAS' hospices may be subject to future payment reductions or recoupments as the result of this cap.

Medicare Managed Care Programs. The Medicare program has entered into contracts with managed care companies to provide managed care benefits to Medicare beneficiaries who elect to participate in managed care programs. These managed care programs are commonly referred to as Medicare HMOs, Medicare Advantage or Medicare risk products. VITAS provides hospice care to Medicare beneficiaries who participate in these managed care programs, and VITAS is paid for services provided to these beneficiaries in the same way and at the same rates as those of other Medicare beneficiaries who are not in a Medicare managed care program. Under current Medicare policy, Medicare pays the hospice directly for services provided to these managed care program participants.

Overview of Government Payments – Medicaid

Medicaid Coverage and Reimbursements. State Medicaid programs are another source of VITAS' net patient revenue. Medicaid is a state-administered program financed by state funds and federal funds to provide medical assistance to the indigent and certain other eligible persons. For those states that elect to provide a hospice benefit, the Medicaid program is required to pay the hospice at rates at least equal to the rates provided under Medicare and calculated using the same methodology. States maintain flexibility to establish their own hospice election procedures and to limit the number and duration of benefit periods for which they will pay for hospice services. Reimbursement from state Medicaid programs in 2019 accounted for approximately 4% of VITAS' revenues.

Nursing Home Residents. For VITAS' patients who receive nursing home care under a state Medicaid program and who elect hospice care under Medicare or Medicaid, VITAS contracts with nursing homes for the nursing homes' provision of room and board services. In addition to the applicable Medicare or Medicaid hospice daily or hourly rate, the state generally must pay VITAS an amount equal to at least 95% of the Medicaid daily nursing home rate for room and board services furnished to the patient by the nursing home. Under VITAS' standard nursing home contracts, VITAS pays the nursing home for these room and board services at the Medicaid daily nursing home rate.

Adjustments to Medicare and Medicaid Payment Rates. Payment rates under the Medicare and Medicaid programs are adjusted annually for inflation based upon the Hospital Market Basket Index and the Consumer Price Index; however, the adjustments have historically been less than actual inflation. These base rates are further modified by the Hospice Wage Index to reflect local differences in wages according to the revised wage index. Effective April 1, 2013, the Federal government implemented a 2% reimbursement cut for all Medicare programs, including hospice. It is possible that there will be further modifications to the rate structure under which the Medicare or Medicaid programs pay for hospice care services; the current cut is scheduled to last through the Federal Government's fiscal year 2027. Any future reductions in the rate of increase or an actual decrease in Medicare and Medicaid payments may have an adverse impact on VITAS' net patient service revenue and profitability. On July 31, 2015, CMS published the final full year 2016 hospice wage index providing guidance to hospice providers regarding changes to hospice reimbursement for full year 2016. Effective January 1, 2016 the routine home care rate changed to reflect 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, the full year 2016 wage rule provides reimbursement of a Service Intensity Add-on payment. This Service Intensity Add-on payment also went into effect on January 1, 2016, and applies to direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient's life while on the routine home care level of care.

On August 6, 2019, the Centers for Medicare and Medicaid Services released the fiscal year 2020 hospice wage index and payment rate update (FY 2020 update). The FY 2020 update includes the normal yearly inflationary increase by level of care plus a rebasing of the continuous care, inpatient care and respite care rates. The rebasing of these levels of care was to reflect non-inflationary changes in providers' costs over time. The rebasing increased the national average reimbursement rate for continuous care by 39.9% and inpatient care by 34.7%. Respite care is not material to our operations. The rebasing of these levels of care was effective on October 1, 2019.

Managed Medicaid. In some states in which VITAS operates, the state legislatures have established managed Medicaid programs. Managed Medicaid programs outsource the process of eligibility determination and payment by Medicaid to private insurance companies. In some states, participants are required to choose a managed Medicaid provider. VITAS negotiates participant eligibility and documentation requirements, as well as hospice pay rates with each managed Medicaid provider. These requirements and pay rates may or may not align with the applicable Medicare hospice regulations and pay rates.

Other Healthcare Regulations

Federal and State Anti-Kickback Laws and Safe Harbor Provisions. The federal Anti-Kickback Law makes it a felony to knowingly and willingly offer, pay, solicit or receive any form of remuneration in exchange for referring, recommending, arranging, purchasing, leasing or ordering items or services covered by a federal health care program including Medicare or Medicaid. The Anti-Kickback Law applies regardless of whether the remuneration is provided directly or indirectly, in cash or in kind. Although the Anti-Kickback statute does not prohibit all financial transactions or relationships that providers of healthcare items or services may have with each other, interpretations of the law have been very broad. Under current law, courts and federal regulatory authorities have stated that this law is violated if even one purpose (as opposed to the sole or primary purpose) of the arrangement is to induce referrals.

Violations of the Anti-Kickback Law carry potentially severe penalties including imprisonment of up to ten years, criminal fines of up to \$100,000 per act, civil money penalties of up to \$100,000 per act, and additional damages of up to three times the amounts claimed or remuneration offered or paid. Federal law also authorizes exclusion from the Medicare and Medicaid programs for violations of the Anti-Kickback Law.

The Anti-Kickback Law contains several statutory exceptions to the broad prohibition. In addition, Congress authorized the OIG to publish numerous “safe harbors” that exempt some practices from enforcement action under the Anti-Kickback Law and related laws. These statutory exceptions and regulatory safe harbors protect various bona fide employment relationships, contracts for the rental of space or equipment, personal service arrangements, and management contracts, among other things, provided that certain conditions set forth in the statute or regulations are satisfied. The safe harbor regulations, however, do not comprehensively describe all lawful relationships between healthcare providers and referral sources, and the failure of an arrangement to satisfy all of the requirements of a particular safe harbor does not mean that the arrangement is unlawful. Failure to comply with the safe harbor provisions, however, may mean that the arrangement will be subject to scrutiny.

Many states, including states where VITAS does business, have adopted similar prohibitions against payments that are intended to induce referrals of patients, regardless of the source of payment. Some of these state laws lack explicit “safe harbors” that may be available under federal law. Sanctions under these state anti-kickback laws may include civil money penalties, license suspension or revocation, exclusion from the Medicare or Medicaid programs, and criminal fines or imprisonment. Little precedent exists regarding the interpretation or enforcement of these statutes.

VITAS is required under the Medicare conditions of participation and some state licensing laws to contract with numerous healthcare providers and practitioners, including physicians, hospitals and nursing homes, and to arrange for these individuals or entities to provide services to VITAS’ patients. In addition, VITAS has contracts with other suppliers, including pharmacies, ambulance services and medical equipment companies. Some of these individuals or entities may refer, or be in a position to refer, patients to VITAS, and VITAS may refer, or be in a position to refer, patients to these individuals or entities. These arrangements may not qualify for a safe harbor. VITAS from time to time seeks guidance from regulatory counsel as to the changing and evolving interpretations and the potential applicability of these anti-kickback laws to its programs, and in response thereto, takes such actions as it deems appropriate. The Company generally believes that VITAS’ contracts and arrangements with providers, practitioners and suppliers do not violate applicable anti-kickback laws. However, the Company cannot assure that such laws will ultimately be interpreted in a manner consistent with VITAS’ practices.

HIPAA Anti-Fraud Provisions. HIPAA includes several revisions to existing health care fraud laws by permitting the imposition of civil monetary penalties in cases involving violations of the anti-kickback statute or contracting with excluded providers. In addition, HIPAA created statutes making it a federal felony to engage in fraud, theft, embezzlement, or the making of false statements with respect to healthcare benefit programs, which include private, as well as government programs. In addition, federal enforcement officials have the ability to exclude from the Medicare and Medicaid programs any investors, officers and managing employees associated with business entities that have committed healthcare fraud, even if the investor, officer or employee had no actual knowledge of the fraud.

OIG Fraud Alerts, Advisory Opinions and Other Program Guidance. The OIG identifies and seeks to eliminate fraud, abuse and waste in HHS programs. The OIG conducts audits, investigations and inspections and issues public pronouncements identifying practices that may be subject to heightened scrutiny. There have been a number of hospice related audits and reviews conducted. These reviews and recommendations have included:

- Ensuring that Medicare hospice eligibility determinations are made in accordance with the Medicare regulations; and
- Revising the annual cap on hospice benefits to better reflect the cost of care provided.

From time to time, various federal and state agencies, such as HHS and the OIG, issue a variety of pronouncements, including fraud alerts, the OIG’s Annual Work Plan and other reports, identifying practices that may be subject to heightened governmental

scrutiny. The Company cannot predict what, if any, changes may be implemented in coverage, reimbursement, or enforcement policies as a result of these OIG reviews and recommendations.

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 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.

Federal False Claims Acts. The federal law includes several criminal and civil false claims provisions, which provide that knowingly submitting claims for items or services that were not provided as represented may result in the imposition of multiple damages, administrative civil money penalties, criminal fines, imprisonment, and/or exclusion from participation in federally funded healthcare programs, including Medicare and Medicaid. In addition, the OIG may impose extensive and costly corporate integrity requirements upon a healthcare provider that is the subject of a false claims judgment or settlement. These requirements may include the creation of a formal compliance program, the appointment of a government monitor, and the imposition of annual reporting requirements and audits conducted by an independent review organization to monitor compliance with the terms of the agreement and relevant laws and regulations. The Affordable Care Act also contains provisions aimed at strengthening fraud and abuse enforcement.

As described above, VITAS and certain of its subsidiaries entered into a CIA with the OIG on October 30, 2017 in connection with the prior settlement of a False Claims Act Case.

The Civil False Claims Act prohibits the known filing of a false claim or the known use of false statements to obtain payments. Penalties for violations include fines ranging from \$5,500 to \$11,000 (as adjusted for inflation), plus treble damages, for each claim filed. Provisions in the Civil False Claims Act also permit individuals to bring actions against individuals or businesses in the name of the government as “qui tam” relators. If a *qui tam* relator’s claim is successful, he or she is entitled to share the government’s recovery.

Both direct enforcement activity by the government and *qui tam* actions have increased significantly and have increased the risk that a healthcare company may have to defend a false claims action, pay fines or be excluded from the Medicare and/or Medicaid programs as a result of an investigation arising out of this type of an action. Because of the complexity of the government regulations applicable to the healthcare industry, the Company cannot assure that VITAS will not be the subject of other actions under the False Claims Act.

State False Claims Laws. Several states in which VITAS currently operates have adopted state false claims laws that mirror to some degree the federal false claims laws. While these statutes vary in scope and effect, the penalties for violating these false claims laws include administrative, civil and/or criminal fines and penalties, imprisonment, and the imposition of multiple damages.

The Stark Law and State Physician Self-Referral Laws. Section 1877 of the Social Security Act, commonly known as the “Stark Law”, prohibits physicians from referring Medicare or Medicaid patients for “designated health services” to entities in which they hold an ownership or investment interest or with whom they have a compensation arrangement, subject to a number of statutory and regulatory exceptions. Penalties for violating the Stark Law are severe and include:

- Denial of payment;
- Civil monetary penalties of \$15,000 per referral or \$100,000 for “circumvention schemes;”
- Assessments equal to 200% of the dollar value of each such service provided; and
- Exclusion from the Medicare and Medicaid programs.

Hospice care itself is not specifically listed as a designated health service; however, certain services that VITAS provides, or in the future may provide, are among the services identified as designated health services for purposes of the self-referral laws. The

Company cannot assure that future regulatory changes will not result in hospice services becoming subject to the Stark Law's ownership, investment or compensation prohibitions in the future.

Many states where VITAS operates have laws similar to the Stark Law, but with broader effect because they apply regardless of the source of payment for care. Penalties similar to those listed above as well as the loss of state licensure may be imposed in the event of a violation of these state self-referral laws. Little precedent exists regarding the interpretation or enforcement of these statutes.

Civil Monetary Penalties. The Civil Monetary Penalties Statute provides that civil penalties ranging between \$20,000 and \$100,000 per claim or act may be imposed on any person or entity that knowingly submits improperly filed claims for federal health benefits or that offers or makes payment to induce a beneficiary or provider to reduce or limit the use of health care services or to use a particular provider or supplier. Civil monetary penalties may be imposed for violations of the anti-kickback statute and for the failure to return known overpayments, among other things.

Prohibition on Employing or Contracting with Excluded Providers. The Social Security Act and federal regulations state that individuals or entities that have been convicted of a criminal offense related to the delivery of an item or service under Medicare or Medicaid programs or that have been convicted, under state and federal law, of a criminal offense relating to neglect or abuse of residents in connection with the delivery of a healthcare item or service cannot participate in any federal health care programs, including Medicare and Medicaid. Additionally, individuals and entities convicted of fraud, that have had their licenses revoked or suspended, or that have failed to provide services of adequate quality also may be excluded from the Medicare and Medicaid programs. Federal regulations prohibit Medicare providers, including hospice programs, from submitting claims for items or services or their related costs if an excluded provider furnished those items or services. The OIG maintains a list of excluded persons and entities. Nonetheless, it is possible that VITAS might unknowingly bill for services provided by an excluded person or entity with whom it contracts. The penalty for contracting with an excluded provider may range from civil monetary penalties of \$100,000 and damages of up to three times the amount of payment that was inappropriately received.

Corporate Practice of Medicine and Fee Splitting. Most states have laws that restrict or prohibit anyone other than a licensed physician, including business entities such as corporations, from employing physicians and/or prohibit payments or fee-splitting arrangements between physicians and corporations or unlicensed individuals. Penalties for violations of corporate practice of medicine and fee-splitting laws vary from state to state, but may include civil or criminal penalties, the restructuring or termination of the business arrangements between the physician and unlicensed individual or business entity, or even the loss of the physician's license to practice medicine. These laws vary widely from state to state both in scope and origin (e.g. statute, regulation, Attorney General opinion, court ruling, agency policy) and in most instances have been subject to only limited interpretation by the courts or regulatory bodies.

VITAS employs or contracts with physicians to provide medical direction and patient care services to its patients. VITAS has made efforts in those states where certain contracting or fee arrangements are restricted or prohibited to structure those arrangements, including its palliative care offerings, in compliance with the applicable laws and regulations. Despite these efforts, however, the Company cannot assure that agency officials charged with enforcing these laws will not interpret VITAS' contracts with employed or independent contractor physicians as violating the relevant laws or regulations. Future determinations or interpretations by individual states with corporate practice of medicine or fee splitting restrictions may force VITAS to restructure its arrangements with physicians in those locations.

Health Information Practices. There currently are numerous legislative and regulatory initiatives at both the state and federal levels that address patient privacy concerns. In particular, federal regulations issued under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the Health Information Technology for Electronic and Clinical Health Act ("HITECH") require VITAS to protect the privacy and security of patients' individual health information. HIPAA and HITECH do not automatically preempt applicable state laws and regulations concerning VITAS' use, disclosure and maintenance of patient health information, which means that VITAS is subject to a complex regulatory scheme that, in many instances, requires VITAS to comply with both federal and state laws and regulations. If we are found to have violated these laws, we could be subject to sanctions, fines, damages, and other civil and criminal penalties.

Additional Federal and State Regulation. Federal and state governments also regulate various aspects of the hospice industry. In particular, VITAS' operations are subject to federal and state health regulatory laws covering professional services, the dispensing of drugs and certain types of hospice activities. Some of VITAS' employees are subject to state laws and regulations governing the ethics and professional practice of medicine, respiratory therapy, pharmacy and nursing.

Compliance with Health Regulatory Laws. VITAS maintains an internal regulatory compliance review program and from time to time retains regulatory counsel for guidance on compliance matters. The Company cannot assure, however, that VITAS' practices, if reviewed, would be found to be in compliance with applicable health regulatory laws, as such laws ultimately may be interpreted, or that any non-compliance with such laws would not have a material adverse effect, including an effect on its brand reputation, on VITAS.

Environmental Matters

Roto-Rooter's operations are subject to various federal, state, and local laws and regulations regarding environmental matters and other aspects of the operation of a sewer and drain cleaning, plumbing, and water restoration services business. For certain other activities, such as septic tank and grease trap pumping, Roto-Rooter is subject to state and local environmental health and sanitation regulations.

At December 31, 2019, the Company's accrual for its estimated liability for potential environmental cleanup and related costs arising from the 1991 sale of DuBois Chemicals Inc. ("DuBois") amounted to \$1.7 million. Of this balance, \$901,000 is included in other liabilities and \$826,000 is included in other current liabilities. The Company is contingently liable for additional DuBois-related environmental cleanup and related costs up to a maximum of \$14.9 million. On the basis of a continuing evaluation of the Company's potential liability, and in consultation with the Company's environmental attorney, management believes that it is not probable this additional liability will be paid. Accordingly, no provision for this contingent liability has been recorded. Although it is not presently possible to reliably project the timing of payments related to the Company's potential liability for environmental costs, management believes that any adjustments to its recorded liability will not materially adversely affect its financial position or results of operations.

The Company, to the best of its knowledge, is currently in compliance in all material respects with the environmental laws and regulations affecting its operations. Such environmental laws, regulations and enforcement proceedings have not required the Company to make material increases in or modifications to its capital expenditures and they have not had a material adverse effect on sales or net income. Capital expenditures for the purpose of complying with environmental laws and regulations during 2019 and 2020 with respect to continuing operations are not expected to be material in amount; there can be no assurance, however, that presently unforeseen legislative enforcement actions will not require additional expenditures.

Employees

On December 31, 2019, the Company had a total of 16,641 employees.

Acquisitions

In 2019, Roto-Rooter made two separate acquisitions of territories from former franchisees. The territories purchased are primarily located in the southwestern United States, including Los Angeles, Oakland, Dallas, and Phoenix. These acquisitions were part of Roto-Rooter's ongoing strategy of acquiring franchises to boost productivity, market share and profitability.

Available Information

The Company's Internet address is www.chemed.com. The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are electronically available through the SEC (<http://www.sec.gov>) or the Company's website as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC.

Annual reports, press releases, Board Committee charters, Code of Ethics, Corporate governance guidelines and other printed materials may be obtained from the website or from Chemed Investor Relations without charge by writing to, 255 East Fifth Street, Suite 2600, Cincinnati, Ohio 45202 or by calling 800-2CHEMED or 800-224-3633. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K by posting such information on its website.

Item 1A. Risk Factors

You should carefully consider the risks described below, together with all of the information included in this Annual Report on Form 10-K, in evaluating us and our Capital Stock. They are not the only ones facing the Company. Other risks and uncertainties not currently known to us or that we deem to be immaterial may also materially and adversely affect our business, financial condition, or results of operations.

GENERAL

We have incurred debt to finance the operations of the Company.

The Company has debt service obligations that may restrict our operating flexibility. We cannot assure you that our cash flow from operations will be sufficient to service our debt, which may require us to borrow additional funds, or restructure or otherwise refinance our debt. In addition, the Company has the ability to expand its debt and borrowing capacity subject to various restrictions

and covenants defined by its creditors. The interest rate the Company pays will fluctuate from time to time based upon a number of factors including current LIBOR rates and Company operating performance. Significant changes in these factors could result in a material change in the Company's interest expense.

Our ability to repay or to refinance our indebtedness and to pay interest on our indebtedness will depend on our operating performance, which may be affected by factors beyond our control. These factors could include operating difficulties, increased operating costs, our competitors' actions and regulatory developments. Our ability to meet our debt service and other obligations may depend in significant part on the extent to which we successfully implement our business strategy. We cannot assure you that we will be able to implement our strategy fully or that the anticipated results of our strategy will be realized. Credit market conditions may make it difficult for us to obtain new financing or refinance our current debt on terms and conditions acceptable to us.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional equity capital or restructure our debt. We cannot assure you that our cash flows and capital resources will be sufficient to make scheduled payments of principal and interest on our indebtedness in the future or that alternative measures would successfully meet our debt service obligations.

The agreements and instruments governing our outstanding debt contain restrictions and limitations that could significantly impact our ability to operate our business and adversely affect the price of our Capital Stock.

The operating and financial restrictions and covenants in our instruments of indebtedness restrict our ability to incur additional debt; issue and sell capital stock of subsidiaries; sell assets; engage in transactions with affiliates; restrict distributions from subsidiaries; incur liens; engage in business other than permitted businesses; engage in sale/leaseback transactions; engage in mergers or consolidations; make capital expenditures; make guarantees; make investments and acquisitions; enter into operating leases; hedge interest rates; and prepay other debt.

Moreover, if we are unable to meet the terms of the financial covenants or if we breach any of these covenants, a default could result under one or more of these agreements. A default, if not waived by our lenders, could accelerate repayment of our outstanding indebtedness. If acceleration occurs, we may not be able to repay our debt and it is unlikely that we would be able to borrow sufficient additional funds to refinance such debt on acceptable terms. In the event of any default under our credit facilities, the lenders thereunder could elect to declare all outstanding borrowings, together with accrued and unpaid interest and other fees, to be due and payable, and to require us to apply all of our available cash to repay these borrowings, any of which would be an event of default.

We depend on our management team and the loss of their service could have a material adverse effect on our business, financial condition and results of operations.

Our success depends to a large extent upon the continued services of our executive management team. The loss of key personnel could have a material adverse effect on our business, financial condition, results of operations and cash flows. Additionally, we cannot assure you that we will be able to attract or retain other skilled personnel in the future.

Environmental and safety compliance costs and liabilities could increase our expenses and adversely affect our financial condition.

Our operations are subject to numerous environmental, health and safety laws and regulations that prohibit or restrict the discharge of pollutants into the environment and regulate employee exposure to hazardous substance in the workplace. Failure to comply with these laws could subject us to material costs and liabilities, including civil and criminal fines, costs to cleanup contamination we cause and, in some circumstances, costs to cleanup contamination we discover on our own property but did not cause.

Because we use and generate hazardous materials in some of our operations, we are potentially subject to material liabilities relating to the cleanup of contamination and personal injury claims. In addition, we have retained certain environmental liabilities in connection with the sale of former businesses. We are currently funding the cleanup of historical contamination at one of our former properties and contributing to the cleanup of third-party sites as a result of our sale of our former subsidiary DuBois Chemicals Inc. Although we have established a reserve for these liabilities, actual cleanup costs may exceed our current estimates due to factors beyond our control, such as the discovery of additional contamination or the enforcement of more stringent cleanup requirements. New laws and regulations or their stricter enforcement, the discovery of presently unknown conditions or the receipt of additional claims for indemnification could require us to incur costs or become the basis for new or increased liabilities including impairment of our brand that could have a material adverse effect on our business, financial condition and results of operations.

We are subject to certain anti-takeover statutes that might make it more difficult to effect a change in control of the Company.

We are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibits us from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. The application of Section 203 could have the effect of delaying or preventing a change of control that could be advantageous to stockholders.

An adverse ruling against us in certain litigation could have an adverse effect on our financial condition and results of operations.

We are involved in litigation incidental to the conduct of our business currently and from time to time. The damages claimed against us in some of these cases can be substantial. See the “Legal Proceedings” sections of this 10-K for discussion of particular matters. We cannot assure you that we will prevail in pending cases. Regardless of the outcome, such litigation is costly to manage, investigate and defend, and the related defense costs, diversion of management’s time and related publicity may adversely affect the conduct of our business and the results of our operations.

ROTO-ROOTER

We face intense competition from numerous, fragmented competitors. If we do not compete effectively, our business may suffer.

We face intense competition from numerous competitors. The sewer, drain and pipe cleaning, excavation, plumbing repair and water restoration businesses are highly fragmented, with the bulk of the industries consisting of local and regional competitors. We compete primarily on the basis of advertising, range of services provided, name recognition, availability of emergency service, speed and quality of customer service, service guarantees and pricing. Our competitors may succeed in developing new or enhanced products and services more successful than ours and in marketing and selling existing and new products and services better than we do. In addition, new competitors may emerge. We cannot make any assurances that we will continue to be able to compete successfully with any of these companies.

Our operations are subject to numerous laws and regulations, exposing us to potential claims and compliance costs that could adversely affect our business.

We are subject to federal, state and local laws and regulations relating to franchising, insurance and other aspects of our business. These are discussed in greater detail under “Government Regulations” in the Description of Business section hereof. If we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines and sanctions. Our franchising activities are subject to various federal and state franchising laws and regulations, including the rules and regulations of the FTC regarding the offering or sale of franchises. These rules and regulations require us to provide all of our prospective franchisees with specific information regarding us and our franchise program in the form of a detailed franchise offering circular. In addition, a number of states require us to register our franchise offering prior to offering or selling franchises in such states. Various state laws also provide for certain rights in favor of franchisees, including (i) limitations on the franchisor’s ability to terminate a franchise except for good cause, (ii) restrictions on the franchisor’s ability to deny renewal of a franchise, (iii) circumstances under which the franchisor may be required to purchase certain inventory of franchisees when a franchise is terminated or not renewed in violation of such laws and (iv) provisions relating to arbitration. The ability to engage in the plumbing repair business is also subject to certain limitations and restrictions imposed by the state and local licensing laws and regulations. We cannot predict what legislation or regulations affecting our business will be enacted in the future, how existing or future laws or regulations will be enforced, administered and interpreted, or the amount of future expenditures that may be required to comply with these laws or regulations. Compliance costs associated with governmental regulations could have a material adverse effect on our business, financial condition and results of operations.

Roto-Rooter’s loss of key management personnel or its inability to hire and retain skilled employees could adversely affect its business, financial condition and results of operations.

Roto-Rooter’s future success significantly depends upon the continued service of its senior management personnel. The loss of one or more of Roto-Rooter’s key senior management personnel or its inability to hire and retain new skilled employees could negatively impact its ability to maintain or increase customer calls and jobs, a key aspect of its growth strategy, and could adversely affect its future operating results.

Competition for skilled employees, particularly licensed plumbers, is intense, and the process of locating and recruiting skilled employees with the combination of qualifications and attributes required to adequately perform plumbing duties can be difficult and lengthy. We cannot assure you that Roto-Rooter will be successful in attracting, retaining or training highly skilled personnel. Roto-

Router's business could be disrupted and its growth and profitability negatively impacted if it is unable to attract and retain skilled employees.

Cybersecurity

In the normal course of business, our information technology systems hold sensitive customer information including names, addresses and partial credit card information. Additionally, we utilize those same systems to perform our day-to-day activities, such as receiving customer calls, dispatching technicians to jobs and maintaining an accurate record of all transactions. We have not experienced any known system/data breaches on our information technology systems that compromised customer data or the company's proprietary data. We maintain our information technology systems with safeguard protection against cyber-attacks including intrusion detection and protection services, firewalls and virus detection software. Additionally, on a quarterly basis, we test our information technology systems by using cyber-scanning software and other methods to learn how a successful system/data breach may occur. If a deficiency is detected, our IT staff will log and remediate the deficiency as prescribed by the vendor or manufacturer. Roto-Router has developed and tested a response plan in the event of a successful system/data breach and maintains commercial insurance related to cyber-security. However, these safeguards do not ensure that a significant system/data breach could not occur. A successful attack on our information technology systems could have significant consequences to the business including liability for compromised customer information and business interruption.

Roto-Router's success is highly dependent on its brand reputation

Roto-Router's national reputation and brand image for performing necessary, high quality services in a timely manner is critical to Roto-Router's continued success. Adverse publicity, litigation or on-line negative reviews focused on the Roto-Router brand could negatively impact Roto-Router's national reputation resulting in decreased future demand for Roto-Router branded services. Roto-Router maintains a reputation management risk program, however, a loss of brand reputation at Roto-Router could adversely affect consumer willingness to use our service and thus, adversely affect our future operating performance.

VITAS

VITAS is highly dependent on payments from Medicare and Medicaid. If there are changes in the rate or methods governing these payments, VITAS' net patient service revenue and profits could materially decline.

In excess of 95% of VITAS' net patient service revenue consists of payments from the Medicare and Medicaid programs. Such payments are made primarily on a "per diem" basis, subject to annual reimbursement caps. Because VITAS receives a per diem fee to provide eligible services to all patients, VITAS' profitability is largely dependent upon its ability to manage the costs of providing hospice services to patients. Increases in operating costs, such as labor and supply costs that are subject to inflation, without a compensating increase in Medicare and Medicaid rates, could have a material adverse effect on VITAS' business in the future. Additionally, regulators are increasing scrutiny of claims, including through the new TPE program, which may require additional resources to respond to audits, and which may cause additional delays or denials in receiving payments. Medicare and Medicaid currently adjust the various hospice payment rates annually based primarily on the increase or decrease of the hospital wage index basket, regionally adjusted. However, the increases may be less than actual inflation. VITAS' profitability could be negatively impacted if this adjustment were eliminated or reduced, or if VITAS' costs of providing hospice services increased more than the annual adjustment. In addition, cost pressures resulting from shorter patient lengths of stay and the use of more expensive forms of palliative care, including drugs and drug delivery systems, could negatively impact VITAS' profitability. Many payors are increasing pressure to control health care costs. The U.S. federal budget remains in flux, which could, among other things, cut Medicare payments to providers. The Medicare program is frequently mentioned as a target for spending cuts. The full impact on our business of any future cuts in Medicare or other programs is uncertain. In addition, both public and private payors are increasing pressure to decrease, or limit increases in, reimbursement rates for health care services. VITAS' levels of revenue and profitability will be subject to the effect of possible reductions in coverage or payment rates by third-party payors, including payment rates from Medicare and Medicaid.

Each state that maintains a Medicaid program has the option to provide reimbursement for hospice services at reimbursement rates generally required to be at least as much as Medicare rates. All states in which VITAS operates cover Medicaid hospice services; however, we cannot assure you that the states in which VITAS is presently operating or states into which VITAS could expand operations will continue to cover Medicaid hospice services. In addition, the Medicare and Medicaid programs are subject to statutory and regulatory changes, retroactive and prospective rate and payment adjustments, administrative rulings, freezes and funding reductions, all of which may adversely affect the level of program payments and could have a material adverse effect on VITAS' business. We cannot assure that Medicare and/or Medicaid payments to hospices will not decrease. Reductions in amounts paid by government programs for services or changes in methods or regulations governing payments could cause VITAS' net patient service revenue and profits to materially decline.

Approximately 20% of VITAS' days of care are provided to patients who reside in nursing homes. Changes in the laws and regulations regarding payments for hospice services and "room and board" provided to VITAS' hospice patients residing in nursing homes could reduce its net patient service revenue and profitability.

For VITAS' hospice patients receiving nursing home care under certain state Medicaid programs who elect hospice care under Medicare and Medicaid, the state generally must pay VITAS, in addition to the applicable Medicare or Medicaid hospice per diem rate, an amount equal to at least 95% of the Medicaid per diem nursing home rate for "room and board" furnished to the patient by the nursing home. VITAS contracts with various nursing homes for the nursing homes' provision of certain "room and board" services that the nursing homes would otherwise provide Medicaid nursing home patients. VITAS bills and collects from the applicable state Medicaid program an amount equal to approximately 95% of the amount that would otherwise have been paid directly to the nursing home under the state's Medicaid plan. Under VITAS' standard nursing home contracts, it pays the nursing home for these "room and board" services at approximately 100% of the Medicaid per diem nursing home rate.

The reduction or elimination of Medicare and Medicaid payments for hospice patients residing in nursing homes would reduce VITAS' net patient service revenue and profitability. In addition, changes in the way nursing homes are reimbursed for "room and board" services provided to hospice patients residing in nursing homes could affect VITAS' ability to serve patients in nursing homes.

If VITAS is unable to maintain relationships with existing patient referral sources or to establish new referral sources, VITAS' growth and profitability could be adversely affected.

VITAS' success is heavily dependent on referrals from physicians, long-term care facilities, hospitals and other institutional health care providers, managed care companies, insurance companies and other patient referral sources in the communities that its hospice locations serve, as well as on its ability to maintain good relations with these referral sources. VITAS' referral sources may refer their patients to other hospice care providers or not to a hospice provider at all. VITAS' growth and profitability depend significantly on its ability to establish and maintain close working relationships with these patient referral sources and to increase awareness and acceptance of hospice care by its referral sources and their patients. We cannot assure that VITAS will be able to maintain its existing relationships or that it will be able to develop and maintain new relationships in existing or new markets. VITAS' loss of existing relationships or its failure to develop new relationships could adversely affect its ability to expand or maintain its operations and operate profitably. Moreover, we cannot assure you that awareness or acceptance of hospice care will increase or remain at current levels.

VITAS operates in an industry that is subject to extensive government regulation and claims reviews, and changes in law and regulatory interpretations could reduce its net patient service revenue and profitability and adversely affect its financial condition and results of operations.

The healthcare industry is subject to extensive federal, state and local laws, rules and regulations relating to, among others:

- Payment for services;
- Conduct of operations, including fraud and abuse, anti-kickback prohibitions, self-referral prohibitions and false claims;
- Privacy and security of medical records;
- Employment practices; and
- Various state approval requirements, such as facility and professional licensure, certificate of need, compliance surveys and other certification or recertification requirements.

Changes in these laws, rules and regulations or their interpretations or methods of enforcement could reduce VITAS' net patient service revenue and profitability. VITAS' ability to comply with such regulations is a key factor in determining the success of its business. See the "Government Regulations" section of this 10-K for a greater description of these matters.

Fraud and Abuse Laws. VITAS contracts with a significant number of health care providers and practitioners, including physicians, hospitals and nursing homes and arranges for these entities to provide services to VITAS' patients. Some of these health care providers and practitioners may refer, or be in a position to refer, patients to VITAS (or VITAS may refer patients to them). These arrangements may not qualify for a safe harbor. VITAS from time to time seeks guidance from regulatory counsel as to the changing and evolving interpretations and the potential applicability of the Anti-Kickback Law to its programs, and in response thereto, takes such actions as it deems appropriate. VITAS generally believes that its contracts and arrangements with providers, practitioners and suppliers should not be found to violate the Anti-Kickback Law. However, we cannot assure you that such laws will ultimately be interpreted in a manner consistent with VITAS' practices.

Several health care reform proposals have included an expansion of the Anti-Kickback Law to include referrals of any patients regardless of payor source, which is similar to the scope of certain laws that have been enacted at the state level. In addition, a number of states in which VITAS operates have laws, which vary from state to state, prohibiting certain direct or indirect remuneration or fee-splitting arrangements between health care providers, regardless of payor source, for the referral of patients to a particular provider.

The federal Ethics in Patient Referral Act, Section 1877 of the Social Security Act (commonly known as the “Stark Law”) prohibits physicians from referring Medicare or Medicaid patients for “designated health services” to entities in which they hold an ownership or investment interest or with whom they have a compensation arrangement, subject to certain statutory or regulatory exceptions. We cannot assure you that future statutory or regulatory changes will not result in hospice services being subject to the Stark Law’s ownership, investment, compensation or referral prohibitions. Several states in which VITAS operates have similar laws which likewise are subject to change. Any such changes could adversely affect the business, financial condition and operating results of VITAS.

Further, under separate statutes, submission of claims for items or services that are “not provided as claimed” may lead to civil money penalties, criminal fines and imprisonment and/or exclusion from participation in Medicare, Medicaid and other federally funded state health care programs. These false claims statutes include the federal False Claims Act, which allows any person to bring suit on behalf of the federal government, known as a *qui tam* action, alleging false or fraudulent Medicare or Medicaid claims or other violations of the statute and to share in any amounts paid by the entity to the government in fines or settlement.

Certificate of Need Laws. Many states, including Florida, have certificate of need laws or other similar health planning laws that apply to hospice care providers. These states may require some form of state agency review or approval prior to opening a new hospice program, to adding or expanding hospice services, to undertaking significant capital expenditures or under other specified circumstances. Approval under these certificate of need laws is generally conditioned on the showing of a demonstrable need for services in the community. VITAS may seek to develop, acquire or expand hospice programs in states having certificate of need laws. To the extent that state agencies require VITAS to obtain a certificate of need or other similar approvals to expand services at existing hospice programs or to make acquisitions or develop hospice programs in new or existing geographical markets, VITAS’ plans could be adversely affected by a failure to obtain a certificate or approval. In addition, competitors may seek administratively or judicially to challenge such an approval or proposed approval by the state agency. Such a challenge, whether or not ultimately successful, as well as a state significantly changing its existing certificate of need rules and regulations, could adversely affect VITAS.

Other Federal and State Regulations. The federal government and all states regulate various aspects of the hospice industry and VITAS’ business. In particular, VITAS’ operations are subject to federal and state health regulatory laws, including those covering professional services, the dispensing of drugs and certain types of hospice activities. Certain of VITAS’ employees are subject to state laws and regulations governing professional practice. VITAS’ operations are subject to periodic survey by governmental authorities and private accrediting entities to assure compliance with applicable state licensing, and Medicare and Medicaid certification and accreditation standards, as the case may be. From time to time in the ordinary course of business, VITAS receives survey reports noting deficiencies for alleged failure to comply with applicable requirements. VITAS reviews such reports and takes appropriate corrective action. The failure to effect such action could result in one of VITAS’ hospice programs being terminated from the Medicare hospice program. Any termination of one or more of VITAS’ hospice locations from the Medicare hospice program could adversely affect VITAS’ net patient service revenue and profitability and adversely affect its financial condition and results of operations. The failure to obtain, renew or maintain any of the required regulatory approvals, certifications or licenses could materially adversely affect VITAS’ business and could prevent the programs involved from offering products and services to patients. In addition, laws and regulations often are adopted to regulate new products, services and industries. We cannot assure you that either the states or the federal government will not impose additional regulations on VITAS’ activities, which might materially adversely affect VITAS, including impairing the value of its brand.

Claims Review. The Medicare and Medicaid programs and their Medicare Administrative Contractors and other payors periodically conduct pre-payment or post-payment reviews and other reviews and audits of health care claims, including hospice claims. As a result of such reviews or audits, payments to VITAS could be delayed, suspended, or VITAS could be required to return any amounts found to be overpaid, or amounts found to be overpaid could be recouped through reductions in future payments. There is pressure from state and federal governments and other payors to scrutinize health care claims to determine their validity and appropriateness including the new TPE program. VITAS’ claims are periodically subject to review and audit. We cannot assure you that reviews and/or similar audits of VITAS’ claims will not result in material recoupments, delays, suspensions, denials or other actions that could have a material adverse effect on VITAS’ business, financial condition and results of operations.

Regulation and Provision of Continuous Home Care. VITAS provides continuous home care to patients requiring such care. Continuous home care is provided to allow the patient to remain in their home, 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 and ends at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed practical nurse.

Continuous home care can be challenging for a hospice to provide for a number of reasons, including the need to have available sufficient skilled and trained staff to furnish such care, the need to manage the staffing and provision of such care, and a shortage of nurses that can make it particularly difficult to attract and retain nurses that are required to furnish a majority of such care. Medicare reimbursement for continuous home care has been calculated by multiplying the applicable continuous home care hourly rate by the number of hours of care provided. If the care was provided for less than 1 hour, Medicare requires reporting in 15 minute increments of care provided, with no rounding.

Medicare reimbursement for continuous home care is subject to a number of requirements posing further challenges for a hospice providing such care. For example, if a patient requires skilled interventions for palliation or symptom management that can be accomplished in less than 8 aggregate hours within the 24 hour period, if the majority of care can be accomplished by someone other than a registered nurse or a licensed practical nurse (e.g., if a majority of care is furnished by a home health aide or homemaker), or if for any reason less than 8 hours of direct care are provided (such as when a patient dies before 8 AM even if 7 or more hours of care has been provided), the care rendered cannot be reimbursed by Medicare at the continuous home care rate (although the care instead may be eligible for Medicare reimbursement at the reduced routine home care day rate). As a result of such requirements, VITAS may incur the costs of providing services intended to be continuous home care services yet be unable to bill or be reimbursed for such services at the continuous home care rate. We cannot assure you that challenges in providing continuous home care will not cause VITAS' net patient service revenue and profits to materially decline or that reviews and/or similar audits of VITAS' claims will not result in material recoupments, denials or other actions that could have a material adverse effect on VITAS' business, financial condition and results of operations.

Compliance. VITAS maintains an internal regulatory compliance review program and from time to time retains regulatory counsel for guidance on compliance matters. We cannot assure you, however, that VITAS' practices, if reviewed, would be found to be in compliance with applicable health regulatory laws, as such laws ultimately may be interpreted, or that any non-compliance with such laws would not have a material adverse effect on VITAS.

Federal and state legislative and regulatory initiatives could require VITAS to expend substantial sums on acquiring, implementing and supporting new information systems, which could negatively impact its profitability.

There are currently numerous legislative and regulatory initiatives at both the state and federal levels that address patient privacy concerns. We cannot predict the total financial or other impact of the regulations on VITAS' operations. In addition, although VITAS' management believes it is in compliance with the requirement of patient privacy regulations, we cannot assure you that VITAS will not be found to have violated state and federal laws, rules or guidelines surrounding patient privacy. Compliance with current and future HIPAA and HITECH requirements or any other federal or state privacy initiatives could require VITAS to make substantial investments, which could negatively impact its profitability and cash flows.

VITAS' growth strategies may not be successful, which could adversely affect its business.

A significant element of VITAS' growth strategy is expected to include expansion of its business in new and existing markets. This aspect of VITAS' growth strategy may not be successful, which could adversely impact its growth and profitability. We cannot assure you that VITAS will be able to:

- Identify markets that meet its selection criteria for new hospice locations;
- Hire and retain qualified management teams to operate each of its new hospice locations;
- Manage a large and geographically diverse group of hospice locations;
- Become Medicare and Medicaid certified in new markets;
- Generate sufficient hospice admissions to operate profitably in these new markets;
- Compete effectively with existing hospices in new markets; or
- Obtain state licensure and/or a certificate of need from appropriate state agencies in new markets.

VITAS' loss of key management personnel or its inability to hire and retain skilled employees could adversely affect its business, financial condition and results of operations.

VITAS' future success significantly depends upon the continued service of its senior management personnel. The loss of one or more of VITAS' key senior management personnel or its inability to hire and retain new skilled employees could negatively impact VITAS' ability to maintain or increase patient referrals, a key aspect of its growth strategy, and could adversely affect its future operating results.

Competition for skilled employees is intense, and the process of locating and recruiting skilled employees with the combination of qualifications and attributes required to care effectively for terminally ill patients and their families can be difficult and lengthy. We cannot assure you that VITAS will be successful in attracting, retaining or training highly skilled nursing, management, community education, operations, admissions and other personnel. VITAS' business could be disrupted and its growth and profitability negatively impacted if it is unable to attract and retain skilled employees.

A nationwide shortage of qualified nurses could adversely affect VITAS' profitability, growth and ability to continue to provide quality, responsive hospice services to its patients as nursing wages and benefits increase.

A significant portion of VITAS' workforce is licensed nurses. VITAS depends on qualified nurses to provide quality, responsive hospice services to its patients. The current nationwide shortage of qualified nurses impacts some of the markets in which VITAS provides hospice services. In response to this shortage, VITAS has adjusted its wages and benefits to recruit and retain nurses and to engage contract nurses. VITAS' inability to attract and retain qualified nurses could adversely affect its ability to provide quality, responsive hospice services to its patients and its ability to increase or maintain patient census in those markets. Increases in the wages and benefits required to attract and retain qualified nurses or an increase in reliance on contract nurses could negatively impact profitability.

VITAS may not be able to compete successfully against other hospice providers, and competitive pressures may limit its ability to maintain or increase its market position and adversely affect its profitability, financial condition and results of operations.

Hospice care in the United States is highly competitive. In many areas in which VITAS' hospices are located, they compete with a large number of organizations, including:

- Community-based hospice providers;
- National and regional companies;
- Hospital-based hospice and palliative care programs;
- Physician groups;
- Nursing homes;
- Home health agencies;
- Infusion therapy companies; and
- Nursing agencies.

Various health care companies have diversified into the hospice industry. Other companies, including hospitals and health care organizations that are not currently providing hospice care, may enter the markets VITAS serves and expand the variety of services offered to include hospice care. We cannot assure you that VITAS will not encounter increased competition in the future that could limit its ability to maintain or increase its market position, including competition from parties in a position to impact referrals to VITAS. Such increased competition could have a material adverse effect on VITAS' business, financial condition and results of operations.

If VITAS fails to comply with the terms of the CIA, it could be subject to substantial monetary penalties or suspension or exclusion from participation in the Medicare and Medicaid programs.

VITAS and certain of its subsidiaries entered into a CIA with the Office of the OIG on October 30, 2017 in connection with the settlement of a False Claims Act Case. The CIA formalizes various aspects of VITAS' already existing Compliance Program and contains requirements designed to document compliance with federal healthcare program requirements. It has a term of five years during

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

Changes in rates or methods of payment for VITAS' services could adversely affect its revenues and profits.

Managed care organizations have grown substantially in terms of the percentage of the population they cover and their control over an increasing portion of the health care economy. Managed care organizations have continued to consolidate to enhance their ability to influence the delivery of health care services and to exert pressure to control health care costs. VITAS has a number of contractual arrangements with managed care organizations and other similar parties.

VITAS provides hospice care to many Medicare beneficiaries who have elected Medicare managed care. Under such contracts between HMOs and the federal Department of Health and Human Services, the Medicare payments for hospice services are excluded from the per-member, per-month payment from Medicare to HMOs and instead are paid directly by Medicare to the hospices. As a result, VITAS' payments for Medicare beneficiaries enrolled in Medicare risk HMOs are processed in the same way with the same rates as other Medicare beneficiaries. We cannot assure, however, that payment for hospice services will continue to be excluded from HMO payment under Medicare risk contracts and similar Medicare managed care plans or that if not excluded, managed care organizations or other large third-party payors would not use their power to influence and exert pressure on health care providers to reduce costs in a manner that could have a material adverse effect on VITAS' business, financial condition and results of operations.

Liability claims may have an adverse effect on VITAS, and its insurance coverage may be inadequate.

Participants in the hospice industry are subject to lawsuits alleging negligence, professional liability, wage and hour or other similar legal theories, many of which involve large claims and significant defense costs. We are also subject to the risk of lawsuits under the False Claims Act and comparable state laws for allegedly submitting fraudulent bills for services to the Medicare and Medicaid programs and other federal and state healthcare programs. These lawsuits, which may be initiated by "whistleblowers" can involve significant monetary damages, fines, attorneys' fees and the award of bounties to private qui tam plaintiffs. From time to time, VITAS is subject to such claims and other types of lawsuits. See the description below under Legal Proceedings. The ultimate liability for claims, if any, could have a material adverse effect on its financial condition or operating results. Although VITAS currently maintains liability insurance intended to cover certain claims, we cannot assure you that the coverage limits of such insurance policies will be adequate or that all such claims will be covered by the insurance. In addition, VITAS' insurance policies must be renewed annually and may be subject to cancellation during the policy period. While VITAS has been able to obtain liability insurance in the past, such insurance varies in cost, and may not be available in the future on terms acceptable to VITAS, if at all.

A successful claim in excess of the insurance coverage could have a material adverse effect on VITAS. Claims, regardless of their merit or eventual outcome, also may have a material adverse effect on VITAS' business and reputation due to the costs of litigation, diversion of management's time and related publicity.

VITAS procures professional liability coverage on a claims-made basis. The insurance contracts specify that coverage is available only during the term of each insurance contract. VITAS' management intends to renew or replace the existing claims-made policy annually but such coverage is difficult to obtain, may be subject to cancellation and may be written by carriers that are unable, or unwilling to pay claims. Additionally, some risks and liabilities, including claims for punitive damages, are not covered by insurance.

Cybersecurity

In the normal course of business, our information technology systems hold sensitive patient information including patient demographic data, eligibility for various medical plans including Medicare and Medicaid and protected health information. Additionally, we utilize those same systems to perform our day-to-day activities, such as receiving referrals, assigning medical teams to patients, documenting medical information and maintaining an accurate record of all transactions. We have not experienced any known attacks on our information technology systems that have compromised patient data or the Company's proprietary data. We maintain our information technology systems with safeguard protection against cyber-attacks including active intrusion protection, firewalls and virus detection software. As discussed previously, we are subject to and comply with HIPAA and HITECH regulations. We have developed and tested a response plan in the event of a successful attack and we maintain commercial insurance related to a cyber-attack. However, these safeguards do not ensure that a significant cyber-attack could not occur. A successful attack on our information technology systems could have significant consequences to the business including liability for compromised patient information and business interruption.

We are regularly the target of attempted cyber and other security threats and must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. Insider or employee cyber and security threats are increasingly a concern for all large companies, including ours.

VITAS' success is highly dependent on its brand reputation

VITAS' reputation for performing quality routine and high acuity patient hospice care within the regulations mandated by Medicare, Medicaid and commercial payors is critical to our success. Failure to provide quality patient care within the regulations mandated by our third-party payors, or the perception of inappropriate care resulting in adverse publicity, litigation or a campaign of negative on-line reviews are some of the factors that could negatively impact VITAS' national reputation. VITAS maintains a reputation management risk program however, a loss of brand reputation at VITAS could adversely affect referral sources' willingness to refer our service and thus, adversely affect our future operating performance.

VITAS' headquarters and a significant portion of its operations are in south Florida

The occurrence of a natural disaster in any region that VITAS has significant operations could have a negative impact on the business. VITAS' headquarters are located in Miami, Florida. In addition, two of our largest programs and an office complex are in south Florida. The location of our headquarters and these large programs increases our exposure to hurricanes. A major hurricane in south Florida could impede our ability to bill for our services, operate our businesses and serve our patients in the affected area. VITAS maintains a disaster recovery program to mitigate this risk; however, natural disasters could have an adverse effect on our future operating performance.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's corporate offices and the headquarters for Roto-Rooter are located in Cincinnati, Ohio. Roto-Rooter has manufacturing and distribution center facilities in West Des Moines, Iowa and has 234 leased and owned office and service facilities in 32 states. VITAS, headquartered in Miami, operates 48 programs from 172 leased and owned facilities and 27 inpatient units in 17 states and the District of Columbia.

All "owned" property is held in fee and is subject to the security interests of the holders of our debt instruments. The leased properties have lease terms ranging from monthly to eleven years. Management does not foresee any difficulty in renewing or replacing the remainder of its current leases. The Company considers all of its major operating properties to be maintained in good operating condition and to be generally adequate for present and anticipated needs.

Item 3. Legal Proceedings

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

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 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.

The Company has also entered into a settlement agreement that, once approved by the Los Angeles County Superior Court, will resolve state-wide wage and hour class action claims raised in four separate cases: (1) *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 (“*Seper*”); (2) *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 (“*Chhina*”) (which was subsequently merged with *Seper*); (3) *Chere Phillips and Lady Moore v. VITAS Healthcare Corporation of California*, Sacramento County Superior Court, Case No. 34-2017-0021-2755; and (4) *Williams v. VITAS Healthcare Corporation of California*, Alameda County Superior Court Case No. RG 17853886. These actions were brought by both current and former employees including a registered nurse, a licensed vocational nurse (LVN), home health aides and a social worker. Each action stated multiple claims generally including (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. The cases generally asserted claims on behalf of classes defined to include all current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of each lawsuit. For additional procedural history of these cases, please refer to our prior quarterly and annual filings.

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. Discovery in the remaining cases was stayed as to class claims and each court was advised of the pendency of the consolidated *Seper/Chhina* action. The parties engaged in a mediation process beginning in October 2018 and concluded with an agreement in March 2019. The settlement amount, subject to court approval, is \$5.75 million plus employment taxes. As of December 31, 2019, \$6.0 million was accrued in the accompanying Consolidated Balance Sheet. 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*. On January 28, 2020, the court granted preliminary approval of the settlement. A notice of the proposed settlement will be sent to the members of the class by the class claims administrator. The court has set the date for the final approval of the settlement hearing for May 21, 2020.

Alfred Lax (“Lax”), a current employee of Roto-Rooter Services Company (“RRSC”), was hired in 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 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 is, *Alfred Lax on behalf of himself and all others similarly situated v. Roto-Rooter Services Company, and Does 1 through 50 inclusive*; Santa Clara County Superior Court Case Number 18CV338652.

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

Item 4. Mine Safety Disclosures

None

Executive Officers of the Company

<u>Name</u>	<u>Age</u>	<u>Office</u>	<u>First Elected</u>
Kevin J. McNamara	66	President and Chief Executive Officer	August 2, 1994 (1)
David P. Williams	59	Executive Vice President and Chief Financial Officer	March 5, 2004 (2)
Spencer S. Lee	64	Executive Vice President	May 15, 2000 (3)
Nicholas M. Westfall	41	Executive Vice President	June 16, 2016 (4)
Naomi C. Dallob	66	Vice President and Chief Legal Officer	May 4, 1987 (5)

- (1) Mr. K.J. McNamara is President and Chief Executive Officer of the Company and has held these positions since August 1994 and May 2001, respectively. Previously, he served as an Executive Vice President, Secretary and General Counsel of the Company, since November 1993, August 1986 and August 1986, respectively. He previously held the position of Vice President of the Company, from August 1986 to May 1992.
- (2) Mr. D.P. Williams is an Executive Vice President and the Chief Financial Officer of the company and has held these positions since August 2007 and March 2004, respectively. Mr. Williams is also Senior Vice President and Chief Financial Officer of Roto-Rooter Group, Inc., and has held these positions since January 1999.
- (3) Mr. S.S. Lee is an Executive Vice President of the Company and has held this position since May 2000. Mr. Lee is also Chairman and Chief Executive Officer of Roto-Rooter Services Company, a wholly owned subsidiary of the Company, and has held this position since January 1999. Previously, he served as a Senior Vice President of Roto-Rooter Services Company from May 1997 to January 1999.
- (4) Mr. N.M. Westfall is an Executive Vice President of the Company and has held this position since June 2016. He is also Chief Executive Officer of VITAS, a wholly owned subsidiary of the Company, and has held this position since June 2016. Previously, from May 2015 to June 2016, he also served as Chief Operating Officer of VITAS. Previously, he served as Senior Vice President of VITAS from April 2012 to April of 2015. Prior to that he served as Director of Information Technology and Operations for Chemed from May 2009 to April 2012.
- (5) Ms. N.C. Dallob is a Vice President and the Secretary and Chief Legal Officer of the Company. She has held these positions since May 1987, May 1995, and May 2009, respectively. From May 1986 to May 1995 she held the position of Assistant Secretary of the Company.

Each executive officer holds office until the annual election at the next annual organizational meeting of the Board of Directors of the Company which is scheduled to be held on May 18, 2020.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company has historically paid cash dividends quarterly. However, future dividends are dependent upon the Company's earnings and financial condition, compliance with certain debt covenants and other factors not presently determinable.

As of February 14, 2020, there were approximately 1,515 stockholders of record of the Company's Capital Stock. This number only includes stockholders of record and does not include stockholders with shares beneficially held in nominee name or within clearinghouse positions of brokers, banks or other institutions.

During 2019, the number of shares of Capital Stock repurchased by the Company, the weighted average price paid for each share, the cumulative shares repurchased under each program and the dollar amounts remaining under each program were as follows:

Company Purchase of Shares of Capital Stock

	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share	Cumulative Shares Repurchased Under the Program	Dollar Amount Remaining Under The Program
<i>February 2011 Program</i>				
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	<u>8,526,864</u>	<u>\$ 147,399,943</u>
First Quarter Total	<u>150,000</u>	<u>\$ 328.33</u>		
April 1 through April 30, 2019	-	\$ -	8,526,864	\$ 147,399,943
May 1 through May 31, 2019	69,009	328.59	8,595,873	124,723,950
June 1 through June 30, 2019	-	-	<u>8,595,873</u>	<u>\$ 124,723,950</u>
Second Quarter Total	<u>69,009</u>	<u>\$ 328.59</u>		
July 1 through July 31, 2019	-	\$ -	8,595,873	\$ 124,723,950
August 1 through August 31, 2019	-	-	8,595,873	124,723,950
September 1 through September 30, 2019	-	-	<u>8,595,873</u>	<u>\$ 124,723,950</u>
Third Quarter Total	<u>-</u>	<u>\$ -</u>		
October 1 through October 31, 2019	-	\$ -	8,595,873	\$ 124,723,950
November 1 through November 30, 2019	50,000	414.11	8,645,873	104,018,683
December 1 through December 31, 2019	-	-	<u>8,645,873</u>	<u>\$ 104,018,683</u>
Fourth Quarter Total	<u>50,000</u>	<u>\$ 414.11</u>		

In February, 2019, our Board of Directors authorized an additional \$150 million under February 2011 Repurchase Program.

As of December 31, 2019, the number of stock options and performance share units outstanding under the Company's equity compensation plans, the weighted average exercise price of outstanding options, and the number of securities remaining available for issuance were as follows:

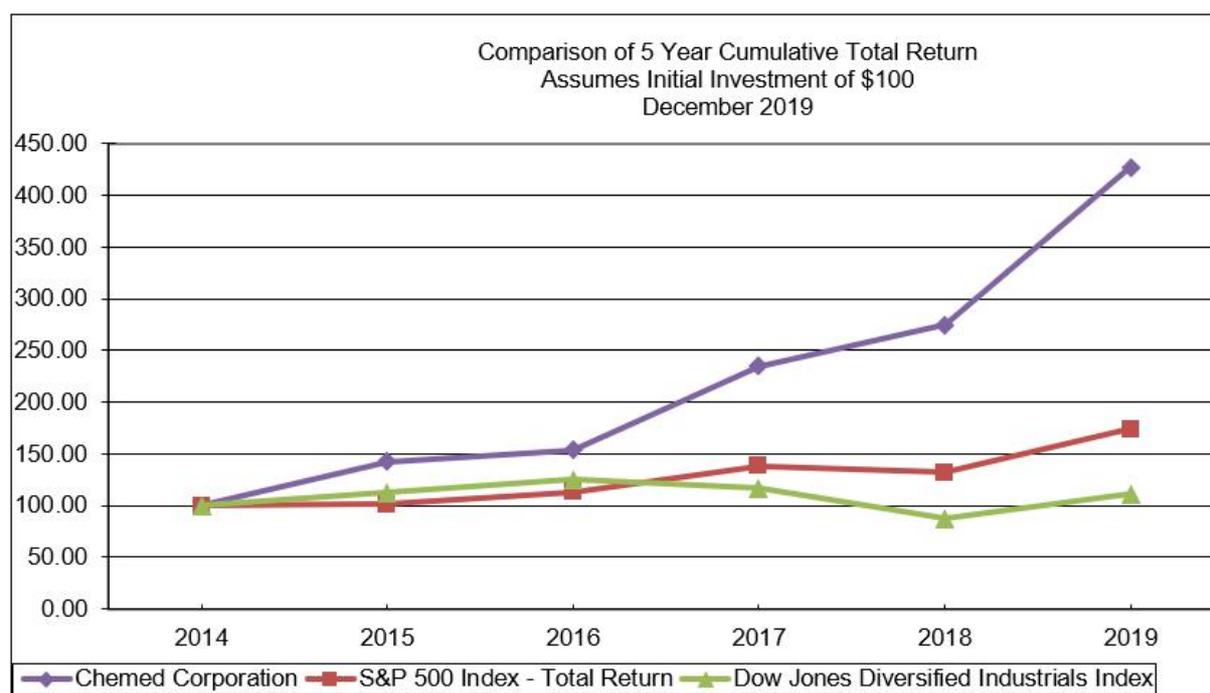
EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column)
Equity compensation plans approved by stockholders (1)	1,249,660	\$ 243.93	1,258,435

(1) Amount includes 43,712 shares allocated to certain employees which vest upon attainment of specified earnings per share targets and specified total shareholder return targets.

Comparative Stock Performance

The graph below compares the yearly percentage change in the Company's cumulative total stockholder return on Capital Stock (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the period December 31, 2014, to December 31, 2019, assuming dividend reinvestment, and (B) the difference between the Company's share price at December 31, 2014 and December 31, 2019; by (ii) the share price at December 31, 2014) with the cumulative total return, assuming reinvestment of dividends, of the (1) S&P 500 Stock Index and (2) Dow Jones Industrial Diversified Index.



December 31	2014	2015	2016	2017	2018	2019
Chemed Corporation	100.00	142.75	153.99	234.56	274.45	427.00
S&P 500	100.00	101.38	113.51	138.29	132.23	173.86
Dow Jones Diversified Industrials	100.00	112.84	125.21	116.95	87.62	111.19

Item 6. Selected Financial Data

The information called for by this Item for the five years ended December 31, 2019 is set forth on page 78 of the 2019 Annual Report to Stockholders and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information called for by this Item is set forth on pages 82 through 106 of the 2019 Annual Report to Stockholders and is incorporated herein by reference.

Item 7A. 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. 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.

The market value of the Company's long-term debt at December 31, 2019 is approximately \$90.0 million which equals the carrying value as all outstanding debt is at a variable interest rate.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 26, 2020, appearing on pages 42 through 75 of the 2019 Annual Report to Stockholders, along with the Supplementary Data (Unaudited Summary of Quarterly Results) appearing on pages 76-77, are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision of and with the participation of the Company's President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on such evaluation, the Company's President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective and are reasonably designed to ensure that all material information relating to the Company required to be included in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to management, including the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Refer to Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm on pages 42 through 45 of the Company's 2019 Annual Report to Stockholders, which are incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the Company's fiscal quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The directors of the Company are:

Kevin J. McNamara
Joel F. Gemunder
Patrick P. Grace
Thomas C. Hutton
Walter L. Krebs
Andrea R. Lindell
Thomas P. Rice
Donald E. Saunders
George J. Walsh III
Frank E. Wood

The additional information required under this Item is set forth in the Company's 2020 Proxy Statement and in Part I hereof under the caption "Executive Officers of the Registrant" and is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer, directors and employees. A copy of this Code of Ethics is incorporated with this report as Exhibit 14 and it is also posted on the Company's Web site, www.chemed.com.

Item 11. Executive Compensation

Information required under this Item is set forth in the Company's 2020 Proxy Statement, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required under this Item is set forth in the Company's 2020 Proxy Statement, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence.

Information required under this Item is set forth in the Company's 2020 Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services**Audit Fees**

PricewaterhouseCoopers LLP charged the Company \$2,200,000 for 2018 and \$2,297,000 for 2019. These fees were for professional services rendered for the integrated audit of the Company's annual financial statements and of its internal control over financial reporting, review of the financial statements included in the Company's Forms 10-Q and review of documents filed with the SEC.

Audit-Related Fees

PricewaterhouseCoopers LLP charged the Company \$141,000 and \$148,000 for 2018 and 2019, respectively, for audit-related services. These services were related primarily to the audit of one of VITAS' Florida subsidiaries.

Tax Fees

No such services were rendered in 2018 or 2019.

All Other Fees

No such other services were rendered in 2018 or 2019.

The Audit Committee has adopted a policy which requires the Committee's pre-approval of audit and non-audit services performed by the independent auditor to assure that the provision of such services does not impair the auditor's independence. The Audit Committee pre-approved all of the audit and non-audit services rendered by PricewaterhouseCoopers LLP as listed above.

PART IV

Item 15 Exhibits

Exhibits and Financial Statement Schedule

- 3.1 Certificate of Incorporation of Chemed Corporation.*
- 3.2 Certificate of Amendment to Certificate of Incorporation, dated May 15, 2006.*
- 3.3 By-Laws of Chemed Corporation, as amended February 17, 2017.*
- 4.1 Description of Securities.
- 10.1 2006 Stock Incentive Plan, as amended August 11, 2006.*,**
- 10.2 2010 Stock Incentive Plan.*,**
- 10.3 2015 Stock Incentive Plan.*,**
- 10.4 2018 Stock Incentive Plan.*,**
- 10.5 Employment Agreement with David P. Williams dated December 1, 2006.*,**
- 10.6 First Amendment to Employment Agreement with David P. Williams dated July 9, 2009.*,**
- 10.7 Consulting Agreement with Timothy S. O'Toole dated June 16, 2016.*,**
- 10.8 Employment Agreement with Kevin J. McNamara dated May 3, 2008.*,**
- 10.9 First Amendment to Employment Agreement with Kevin J. McNamara dated July 9, 2009.*,**
- 10.10 Excess Benefits Plan, as restated and amended, effective June 1, 2001.*,**
- 10.11 Amendment No. 1 to Excess Benefits Plan, effective July 1, 2001.*,**
- 10.12 Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003.*,**
- 10.13 Non-Employee Directors' Deferred Compensation Plan.*,**
- 10.14 Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999.*,**
- 10.15 First Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective September 6, 2000.*,**
- 10.16 Second Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 2001.*,**
- 10.17 Third Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective December 12, 2001.*,**
- 10.18 Directors Emeriti Plan.*,**
- 10.19 Chemed Corporation Change in Control Severance Plan, as amended August 3, 2018.*,**
- 10.20 Chemed Corporation Senior Executive Severance Policy, as amended August 3, 2018.*,**
- 10.21 Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998.*,**
- 10.22 Roto-Rooter Deferred Compensation Plan No. 2.*,**
- 10.23 Form of Performance-Based Restricted Stock Units Award.*,**
- 10.24 Form of Stock Option Grant, pre-2013.*,**
- 10.25 Form of Stock Option Grant, 2013.*,**
- 10.26 Form of Stock Option Grant, 2015.*,**
- 10.27 Form of Stock Option Grant, 2018.*,**
- 10.28 Settlement Agreement, effective October 30, 2017 by and among the United States of America, acting through the United States Department of Justice and on behalf of the Office of the Inspector General of the Department of Health and Human Services, VITAS Hospice Services, L.L.C., VITAS Healthcare Corporation, VITAS Healthcare Corporation of California, VITAS Healthcare Corporation of Illinois, VITAS Healthcare Corporation of Florida, Vitas Healthcare Corporation of Ohio, VITAS Healthcare Corporation of Atlantic, VITAS Healthcare of Texas, L.P., VITAS Healthcare Corporation Midwest, VITAS Healthcare Corporation of Georgia, Chemed Corporation, and the various Relators named therein.*

- 10.29 Corporate Integrity Agreement, effective October 30, 2017 between the Office of Inspector General of the Department of Health and Human Services and VITAS Hospice Services, L.L.C., VITAS Healthcare Corporation, VITAS Healthcare Corporation of California, VITAS Healthcare Corporation of Illinois, VITAS Healthcare Corporation of Florida, VITAS Healthcare Corporation of Ohio, VITAS Healthcare Corporation of Atlantic, VITAS Healthcare of Texas, L.P., VITAS Healthcare Corporation Midwest and VITAS Healthcare Corporation of Georgia.*
- 10.30 Fourth Amended and Restated Credit Agreement by and among Chemed Corporation, JP Morgan Chase Bank NA, and other lenders as of June 30, 2018, exhibits and schedules thereto.*
- 13 2019 Annual Report to Stockholders.
- 14 Policies on Business Ethics of Chemed Corporation
- 21 Subsidiaries of Chemed Corporation.
- 23 Consent of Independent Registered Public Accounting Firm.
- 24 Powers of Attorney.
- 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 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*
- *This exhibit is being filed by means of incorporation by reference (see Index to Exhibits on page E-1). Each other exhibit is being filed with this Annual Report on Form 10-K.
- **Management contract or compensatory plan or arrangement.
- Financial Statement Schedule**
See Index to Financial Statements and Financial Statement Schedule on page S-1.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 26, 2020

CHEMED CORPORATION

By /s/ Kevin J. McNamara
 Kevin J. McNamara
 President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

6	<u>Signature</u>	<u>Title</u>		<u>Date</u>
	<u>/s/ Kevin J. McNamara</u> Kevin J. McNamara	President and Chief Executive Officer and a Director (Principal Executive Officer)		February 26, 2020
	<u>/s/ David P. Williams</u> David P. Williams	Executive Vice President and Chief Financial Officer (Principal Financial Officer)		
	<u>/s/ Michael D. Witzeman</u> Michael D. Witzeman	Vice President and Controller (Principal Accounting Officer)		
	Joel F. Gemunder* Patrick P. Grace* Thomas C. Hutton* Walter L. Krebs* Andrea R. Lindell*	Thomas P. Rice* Donald E. Saunders* George J Walsh III* Frank E. Wood*		--Directors

* Naomi C. Dallob by signing her name hereto signs this document on behalf of each of the persons indicated above pursuant to powers of attorney duly executed by such persons and filed with the Securities and Exchange Commission.

February 26, 2020
Date

/s/ Naomi C. Dallob
Naomi C. Dallob
(Attorney-in-Fact)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE
2017, 2018 AND 2019

	<u>Page(s)</u>
Chemed Corporation Consolidated Financial Statements and Financial Statement Schedule	
<u>Report of Independent Registered Public Accounting Firm</u>	43*
<u>Consolidated Statements of Income</u>	46*
<u>Consolidated Balance Sheets</u>	47*
<u>Consolidated Statements of Cash Flows</u>	48*
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	49*
<u>Notes to Consolidated Financial Statements</u>	50*
<u>Report of Independent Registered Public Accounting Firm on Financial Statement Schedule Schedule II – Valuation and Qualifying Accounts</u>	33
	34

*Indicates page numbers in Chemed Corporation 2019 Annual Report to Stockholders

The consolidated financial statements of Chemed Corporation listed above, appearing in the 2019 Annual Report to Stockholders, are incorporated herein by reference. The Financial Statement Schedule should be read in conjunction with the consolidated financial statements listed above. Schedules not included have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto as listed above.

**Report of Independent Registered Public Accounting Firm on
Financial Statement Schedule**

To the Board of Directors and Stockholders of Chemed Corporation

Our audits of the consolidated financial statements referred to in our report dated February 26, 2020, which included a paragraph describing a change in the manner of accounting for revenues from contracts with customers in 2018, appearing in the 2019 Annual Report to Stockholders of Chemed Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the accompanying schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2019. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 26, 2020

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
VALUATION AND QUALIFYING ACCOUNTS (c)
(IN THOUSANDS)
DR/(CR)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS (a)	BALANCE AT END OF PERIOD
		(CHARGED) CREDITED TO COSTS AND EXPENSES	(CHARGED) CREDITED TO OTHER ACCOUNTS		
Allowances for doubtful accounts (b)					
For the year 2019	\$ (253)	\$ (116)	\$ -	\$ 16	\$ (353)
For the year 2018	\$ (15,175)	\$ (247)	\$ (1,436)	\$ 16,605	\$ (253)
For the year 2017	\$ (14,236)	\$ (17,376)	\$ (1,360)	\$ 17,797	\$ (15,175)

- (a) With respect to allowances for doubtful accounts, deductions include accounts considered uncollectible or written off, payments companies divested, etc.
- (b) Classified in consolidated balance sheets as a reduction of accounts receivable.
- (c) Beginning on January 1, 2018, in accordance with ASU 2014-09, *Revenue with Contracts with Customers*, revenue reductions resulting from implicit price concessions are recorded as a net reduction in accounts receivable. The remaining allowance for doubtful accounts relates to amounts deemed uncollectible due to an adverse change in our customer's ability to pay. See Footnote 2 to the Company's Consolidated Financial Statements for a full description.
- (d)

INDEX TO EXHIBITS

<u>Exhibit Number</u>		<u>File No. and Filing Date</u>	<u>Page Number or Incorporation by Reference</u>
3.1	Certificate of Incorporation of Chemed Corporation	Form S-3 Reg. No. 33-44177 11/26/91	4.1
3.2	Certificate of Amendment to Certificate of Incorporation, dated May 15, 2006	Form 8-K 5/16/06	3.1
3.3	By-Laws of Chemed Corporation as amended February 17, 2017	Form 8-K 2/17/17	3.1
4.1	Description of Securities	*	
10.1	2006 Stock Incentive Plan, as amended August 11, 2006	Form 10-Q 8/14/06, **	10.1
10.2	2010 Stock Incentive Plan	Form 8-K 5/18/10, **	99.1
10.3	2015 Stock Incentive Plan	Form S-8 7/15/15, **	4.5
10.4	2018 Stock Incentive Plan	Form S-8 5/23/18, **	4.5
10.5	Employment Agreement with David P. Williams dated December 1, 2006	Form 8-K 12/1/06, **	10.01
10.6	First Amendment to Employment Agreement with David P. Williams dated July 9, 2009.	Form 10-Q 10/30/09, **	10.2
10.7	Employment Agreement with Timothy S. O'Toole dated May 6, 2007.	Form 8-K 5/7/07, **	10.02
10.8	First Amendment to Employment Agreement with Timothy S. O'Toole dated July 9, 2009.	Form 10-Q 10/30/09, **	10.3
10.9	Consulting Agreement with Timothy S. O'Toole dated June 16, 2016.	Form 8-K 6/8/16, **	10.1

10.10	Employment Agreement with Kevin J. McNamara dated May 3, 2008.	Form 8-K 5/6/08, **	10.01
10.11	First Amendment to Employment Agreement with Kevin J. McNamara dated July 9, 2009.	Form 10-Q 10/30/09, **	10.1
10.12	Excess Benefits Plan, as restated and amended, effective June 1, 2001	Form 10-K 3/12/04, **	10.24
10.13	Amendment No. 1 to Excess Benefits Plan, effective July 1, 2002	Form 10-K 3/12/04, **	10.25
10.14	Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003	Form 10-K 3/12/04, **	10.26
10.15	Non-Employee Directors' Deferred Compensation Plan	Form 10-K 3/24/88, **	10.10
10.16	Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999	Form 10-K 3/25/99, **	10.25
10.17	First Amendment to Chemed/Roto-Rooter Savings & Retirement Plan effective September 6, 2000	Form 10-K 3/28/02, **	10.22
10.18	Second Amendment to Chemed/Roto-Rooter Savings & Retirement Plan effective January 1, 2001	Form 10-K 3/28/02, **	10.23
10.19	Third Amendment to Chemed/Roto-Rooter Savings & Retirement Plan effective December 12, 2001	Form 10-K 3/28/02, **	10.24
10.20	Directors Emeriti Plan	Form 10-Q 5/12/88, **	10.11
10.21	Change in Control Severance Plan as amended August 3, 2018.	Form 10-K 2/27/19, **	10.19
10.22	Senior Executive Severance Policy as amended August 3, 2018.	Form 10-K 2/27/19, **	10.20
10.23	Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998	Form 10-K 3/28/01, **	10.37
10.24	Roto-Rooter Deferred Compensation Plan No. 2	Form 10-K 3/28/01, **	10.38

10.25	Form of Performance Based Restricted Stock Unit Award	Form 10-K 2/27/14, **	10.32
10.26	Form of Stock Option Grant Pre-2013	Form 10-K 3/28/05, **	10.51
10.27	Form of Stock Option Grant – 2013	Form 10-K 2/27/14, **	10.35
10.28	Form of Stock Option Grant – 2015	Form 10-K 2/26/16,**	10.30
10.29	Form of Stock Option Grant - 2018	*	
10.30	Settlement Agreement, effective October 30, 2017 by and among the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General of the Department of Health and Human Services, VITAS Hospice Services, L.L.C., VITAS Healthcare Corporation, VITAS Healthcare Corporation Of California, VITAS Healthcare Corporation of Illinois, VITAS Healthcare Corporation of Florida, VITAS Healthcare Corporation of Ohio, VITAS Healthcare Corporation of Atlantic, VITAS Healthcare of Texas, L.P., VITAS Healthcare Corporation Midwest, VITAS Healthcare Corporation of Georgia, Chemed Corporation, and the various Relators named therein.2	Form 8-K 11/2/17	10.01
10.31	Corporate Integrity Agreement, effective October 30, 2017 between the Office of Inspector General of the Department of Health and Human Services and VITAS Hospice Services, L.L.C., VITAS Healthcare Corporation, VITAS Healthcare Corporation of California, VITAS Healthcare Corporation of Illinois, VITAS Healthcare Corporation of Florida, VITAS Healthcare Corporation of Ohio, VITAS Healthcare Corporation of Atlantic, VITAS Healthcare of Texas, L.P., VITAS Healthcare Corporation Midwest, and VITAS Healthcare Corporation of Georgia.	Form 8-K 11/2/17	10.02
10.32	Fourth Amended and Restated Credit Agreement by and among Chemed Corporation, JP Morgan Chase Bank NA, and other lenders As of June 20, 2018 exhibits and schedules thereto.	Form 8-K 6/22/18	10.1
14	Policies on Business Ethics of Chemed Corporation	Form 10-K 2/27/14	14
21	Subsidiaries of Chemed Corporation	*	
23	Consent of Independent Registered Public Accounting Firm	*	
24	Powers of Attorney	*	
31.1	Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.	*	

31.2	<u>Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.</u>	*
31.3	<u>Certification by Michael D. Witzeman pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.</u>	*
32.1	<u>Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	*
32.2	<u>Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	*
32.3	<u>Certification by Michael D. Witzeman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL 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	*

* Filed herewith.

** Management contract or compensatory plan or arrangement.

EXHIBIT 4.1

Description of the Company's Capital Stock

The following description of Chemed Corporation's capital stock is based on and qualified by the Company's Certificate of Incorporation, as amended (the "Certificate of Incorporation"), and our By-laws, as amended (the "By-laws"). This description does not purport to be complete, or to give full effect to the provisions of statutory or common law, and is subject to, and qualified in its entirety by reference to, the terms of our Certificate of Incorporation and our Bylaws, both of which are filed as exhibits to this Annual Report on Form 10-K.

General

Our Certificate of Incorporation authorizes the issuance of 80,000,000 shares of capital stock, par value \$1.00 per share. Our Certificate of Incorporation does not authorize the issuance of shares of preferred stock. As of February 14, 2020, we had 16,055,361 shares of capital stock outstanding.

The capital stock is listed on the New York Stock Exchange under the ticker symbol "CHE."

Rights of Holders of Our Capital Stock

Our stockholders are entitled to one vote for each share of our capital stock held of record on all matters on which stockholders are entitled or permitted to vote. Our Board of Directors is not classified, and our capital stock does not have cumulative voting rights in the election of directors. As a result, the holders of a majority of the shares of our capital stock voting for the election of directors can elect all the directors standing for election. Holders of our capital stock are entitled to receive dividends out of legally available funds when and if declared from time to time by our Board of Directors. In the event of our liquidation, dissolution or winding up, the holders of our capital stock will be entitled to share ratably in all assets remaining after payment of liabilities. Our capital stock has no preemptive, subscription or conversion rights, and there are no redemption or sinking fund provisions in our Certificate of Incorporation. The outstanding shares of our capital stock are fully paid and nonassessable.

Anti-takeover Effects of Our Certificate of Incorporation and By-laws and Delaware Law

Some provisions of Delaware law, the Certificate of Incorporation and By-laws could make certain extraordinary corporate transactions involving the Company more difficult. These provisions are summarized below:

Stockholder Meetings

Under the By-laws, only our Chairman, Chief Executive Officer, President, and the Secretary may call special meetings of our stockholders, and are required to call a special meeting upon the proper request of the Board of Directors or stockholders who in the aggregate beneficially own at least 25% of the voting power of all outstanding shares of our capital stock.

Requirements for Advance Notification of Stockholder Nominations and Proposals

The By-laws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of the Board.

Delaware Anti-takeover Law

The Company is a Delaware corporation that is subject to Section 203 of the Delaware General Corporation Law. Section 203 provides in general that a stockholder acquiring more than 15% of the outstanding voting stock of a corporation subject to Section 203, but less than 85% of such stock may not engage in a "Business Combination" (as defined in Section 203, including a merger, asset sale, or other transaction resulting in a financial benefit to a stockholder), with the corporation for a period of three years from the date on which that stockholder became an "Interested Stockholder" unless (i) prior to such date, the corporation's board of directors approved either the Business Combination or the transaction in which the stockholder became an Interested Stockholder, or (ii) the Business Combination is approved by the corporation's board of directors and authorized by the holders of at least 66% of the outstanding voting stock of the corporation not owned by the Interested Stockholder. We have not opted out of Section 203.

**Chemed Corporation
Form of Stock Option Grant - 2019**

Name
Address
City, State ZIP Code

Dear _____,

In accordance with the 2018* Stock Incentive Plan (the "Plan") of Chemed Corporation (the "Corporation"), you are hereby granted an option to purchase 2018 shares of the capital stock, par value \$1.00 per share, of the Corporation upon the following terms and conditions.

(1) The purchase price shall be \$ _____ per share. Payment thereof shall be made in cash or, subject to the next sentence, by delivery to the Corporation of shares of capital stock of the Corporation which shall be valued at their Fair Market Value on the date of exercise, or in a combination of cash and such shares. Your right to pay the purchase price, in whole or in part, by delivery to the Corporation of shares of capital stock of the Corporation is expressly subject to temporary or permanent revocation or withdrawal at any time and from time to time by action of the Board of Directors of the Corporation without any requirement that advance notice of such revocation or withdrawal be given to you.

(2) Subject to the provisions of paragraphs (3) and (7), this option is exercisable in whole or in part at any time and from time to time as follows:

_____ Shares on or after October 29, 2020

_____ Shares on or after October 29, 2021

_____ Shares on or after October 29, 2022

Once an installment becomes exercisable, it may be exercised at any time in whole or part until the expiration or termination of this option. Neither this option nor any right hereunder may be assigned or transferred by you, except by will, the laws of descent and distribution, pursuant to a qualified Domestic Relations order, or to a permitted transferee. It may be exercised during your life only by you or by a permitted transferee. Within fifteen (15) months after your death it may be exercised only by your estate, by a permitted transferee, or by a person who acquired the right to exercise the option by bequest or inheritance or by reason of your death. At the time of each exercise of this option, you or the person or persons exercising the option shall, if requested by the Corporation, give assurances, satisfactory to counsel to the Corporation, that the shares are being acquired for investment and not with a view to resale or distribution thereof and assurances in respect of such other matters as the Corporation may deem desirable to assure compliance with all applicable legal requirements.

(3) This option, to the extent that it shall not have been exercised, shall terminate when you cease to be an employee of the Corporation or a subsidiary, unless you cease to be an employee because of your resignation with the consent of the Committee or because of your death, incapacity or retirement under a retirement plan of the Corporation or a subsidiary. If you cease to be an employee because of such resignation, this option shall terminate upon the expiration of three months after you cease to be an employee, except as provided in the next sentence. If you cease to be an employee because of your death, incapacity or retirement under a retirement plan of the Corporation or a subsidiary, or if you cease to be an employee because of your resignation with the consent of the Committee and die during the three-month period referred to in the preceding sentence, this option shall terminate fifteen (15) months after you ceased to be an employee. Where this option is exercised more than three months after termination of employment, as aforesaid, only those installments which shall have become exercisable prior to the expiration of three months after you ceased to be an employee, whether by death or otherwise, may be exercised. A leave of absence for military or governmental service or for other purposes shall not, if approved by the Committee be deemed a termination of employment within the meaning of this paragraph (3), provided, however, that this option may not be exercised during any such leave of absence. Notwithstanding the foregoing provisions of this paragraph (3) or any provision of the Plan, this option shall not be exercisable after the expiration of five years from the date this option is granted.

(4) Upon the occurrence of a Change in Control (as defined in the Chemed Corporation Change in Control Severance Plan, the "CIC Severance Plan"), the Corporation shall cause the surviving entity to issue replacement options or stock appreciation rights in the surviving entity's common stock ("Replacement Award"). Such Replacement Award shall provide you with substantially the same economic value and benefits as provided by this option, including (i) an aggregate purchase price equal to the aggregate purchase price of this option, (ii) an aggregate spread determined immediately after such Change in Control equal to the aggregate spread of this option as determined immediately prior to such Change in Control, and (iii) a ratio of purchase price to the Fair Market Value of the shares subject to such Replacement Award, as determined immediately after the Change in Control, that is equal to the

ratio of the purchase price of this option to the Fair Market Value of the Corporation's Capital Stock, as determined immediately prior to the Change in Control. Notwithstanding anything to the contrary contained herein, the substitution of the Replacement Award for this option shall be done in a manner that complies with Section 409A of the Code. To the extent such Replacement Award is not fully exercisable, it shall become exercisable on the date this option would otherwise have become exercisable under the terms of this option, subject to your continued employment with the surviving or successor entity through such date, provided, however, that such Replacement Award will become exercisable immediately if your employment is terminated by the surviving or successor entity without Cause or by you for Good Reason (as defined in the CIC Severance Plan). Such Replacement Award shall become exercisable immediately prior to any transaction with respect to the surviving or successor entity (or parent or subsidiary company thereof) of substantially similar character to a Change in Control. Upon such substitution, this option shall terminate and be of no further force and effect, provided however that if such Replacement Award is not issued for any reason or if the common stock of the surviving entity is not publicly traded on a United States exchange at the date of the Change in Control, then this option shall become exercisable in full upon the occurrence of the Change in Control. By accepting this grant, you explicitly agree that, to the extent there is a conflict between the terms of this Section 4 and the CIC Severance Plan or the Plan, the terms of this Section 4 shall apply.

(5) The number and class of shares or other securities covered by this option and the price to be paid therefore shall be subject to adjustment as, and under the circumstances, provided in Section 8 of the Plan.

(6) This option may be exercised only by serving written notice on the Secretary or Treasurer of the Corporation. The Corporation shall deliver the shares to you against payment; provided, however, no share shall be issued or transferred pursuant to this option unless and until all legal requirements applicable to the issuance or transfer of such shares have, in the opinion of the counsel to the Corporation, been complied with. Any Federal, state or local withholding taxes applicable to any compensation you may realize by reason of the exercise of the option or any subsequent disposition of the shares acquired on exercise shall, upon request, be remitted to the Corporation or the subsidiary by which you are employed at the time of exercise or sale, as the case may be. You shall have the rights of a stockholder only as to stock actually delivered to you.

(7) If you are or become an employee of a subsidiary, the Corporation's obligations hereunder shall be contingent on the approval of the Plan and this option by the subsidiary and the subsidiary's agreement that (a) the Corporation may administer the Plan on its behalf, and (b) upon the exercise of the option, it will purchase from the Corporation the shares subject to the exercise at their Fair Market Value on the date of exercise, such shares to be then transferred by the subsidiary to the holder of this option upon payment by the holder of the purchase price to the subsidiary. Where appropriate, such approval and agreement of the subsidiary shall be indicated by its signature below. The obligation of the subsidiary so undertaken may be waived by the Corporation.

(8) The Plan is hereby incorporated by reference. Each term which is defined in the Plan and used in this option shall have the same meaning in this option as it has in the Plan. This option is granted subject to the Plan and, unless otherwise stated herein, shall be construed to conform to the Plan. The Corporation may cancel, forfeit or recoup any rights or benefits of, or payments to, you hereunder, including but not limited to any Capital Stock issued by the Corporation upon exercise of this option or the proceeds from the sale of any such Capital Stock, under any current or future compensation recovery policy that it may establish and maintain from time to time to meet listing requirements that may be imposed in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act or otherwise.

Very truly yours,

CHEMED CORPORATION

By: _____

Naomi C. Dallob
Chief Legal Officer

Receipt Acknowledged:

Employee

EXHIBIT 13

Financial Review

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

The Company's management, including the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller, has conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2019, based on the framework established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that internal control over financial reporting was effective as of December 31, 2019, based on criteria in *Internal Control—Integrated Framework* issued by COSO.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, as stated in their report which appears on pages 43 through 45.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Chemed Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Chemed Corporation and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of income, of changes in stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Notes 1 and 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenues from contracts with customers in 2018.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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

Critical Audit Matters

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

VITAS Revenue Implicit Price Concessions

As described in Note 2 to the consolidated financial statements, service revenue for VITAS is reported at the amount that reflects the ultimate consideration management expects to receive in exchange for providing patient care. These amounts are due from third-party payors, primarily commercial health insurers and government programs (Medicare and Medicaid). Management estimates the transaction price for patients with deductibles and coinsurance, along with those uninsured patients, based on historical experience and current conditions. The estimate of any contractual adjustments, discounts or implicit price concessions reduces the amount of revenue initially recognized. Settlement with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. The variable consideration is estimated based on the terms of the payment agreement, existing correspondence from the payor and the Company's historical settlement activity. The impact of these estimates is disclosed as implicit price concessions and totaled \$14.9 million for the year-ended December 31, 2019.

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

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the VITAS revenue implicit price concessions estimate. These procedures also included, among others, evaluating and testing management's process for developing the estimate, which included evaluating the reasonableness of the estimate for each third-party payor based on existing correspondence from the payor and the Company's historical settlement activity. Evaluating the reasonableness of the estimate for each third-party payor involved inspecting evidence of correspondence from payors, testing the completeness and accuracy of historical settlement activity on a sample basis, and performing a retrospective review of consideration received subsequent to prior and current year-end to evaluate the reasonableness of the prior and current period estimated implicit price concessions applied by management.

Acquisition of HSW RR, Inc.— Valuation of Reacquired Franchise Rights Intangible Asset

As described in Notes 1 and 7 to the consolidated financial statements, in September 2019, the Company completed the acquisition of substantially all of the assets of HSW RR, Inc. for \$120 million, subject to a working capital adjustment that resulted in an additional \$1.4 million payment to HSW, which resulted in \$53 million of reacquired franchise rights intangible asset being recorded. Management applied significant judgment in estimating the fair value of the reacquired franchise rights intangible asset acquired, which involved the use of significant estimates and assumptions including revenue growth rates, the amount and timing of future cash flows, discount rates, useful lives, royalty rates and future tax rates.

The principal considerations for our determination that performing procedures relating to the valuation of the reacquired franchise rights intangible asset is a critical audit matter are (i) there was a high degree of auditor judgment and subjectivity in applying procedures relating to the fair value measurement of the reacquired franchise rights intangible asset acquired due to the significant amount of judgment by management when developing the estimate, (ii) significant audit effort was required in evaluating the significant assumptions relating to the estimate, such as the revenue growth rates, amount and timing of future cash flows and the discount rate, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge to assist in evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to the acquisition accounting, including controls over management's valuation of the reacquired franchise rights intangible asset and controls over development of the assumptions related to the valuation of the reacquired franchise rights intangible asset, including revenue growth rates, amount and timing of future cash flows, and the discount rate. These procedures also included, among others, (i) reading the purchase agreement; (ii) testing management's process for estimating the fair value of reacquired franchise rights intangible asset; and (iii) testing management's cash flow projections used to estimate the fair value of the reacquired franchise rights intangible asset. Testing management's process included evaluating the appropriateness of the valuation methods and the reasonableness of significant assumptions, including the revenue growth rates, amount and timing of future cash flows and the discount rate for the intangible assets. Evaluating the reasonableness of the revenue growth rates and amount and timing of future cash flows involved considering the past performance of the acquired business, as well as the Company's historical results, and considering whether they were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the valuation methods and the reasonableness of significant assumptions, including the discount rate.

/s/ PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 26, 2020

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

CONSOLIDATED STATEMENTS OF INCOME

Chemed Corporation and Subsidiary Companies

(in thousands, except per share data)

For the Years Ended December 31,

	2019	2018	2017
Service revenues and sales (Note 2)	\$ 1,938,555	\$ 1,782,648	\$ 1,666,724
Cost of services provided and goods sold (excluding depreciation)	1,321,126	1,227,644	1,150,532
Selling, general and administrative expenses	305,712	271,209	276,652
Depreciation	40,870	38,464	35,488
Amortization	4,335	399	137
Other operating expenses (Note 19)	9,132	1,300	90,880
Total costs and expenses	<u>1,681,175</u>	<u>1,539,016</u>	<u>1,553,689</u>
Income from operations	257,380	243,632	113,035
Interest expense	(4,535)	(4,990)	(4,272)
Other income--net (Note 10)	8,764	958	8,154
Income before income taxes	<u>261,609</u>	<u>239,600</u>	<u>116,917</u>
Income taxes (Note 11)	<u>(41,686)</u>	<u>(34,056)</u>	<u>(18,740)</u>
Net Income	<u>\$ 219,923</u>	<u>\$ 205,544</u>	<u>\$ 98,177</u>
Earnings Per Share (Note 15)			
Net Income	<u>\$ 13.77</u>	<u>\$ 12.80</u>	<u>\$ 6.11</u>
Average number of shares outstanding	<u>15,969</u>	<u>16,059</u>	<u>16,057</u>
Diluted Earnings Per Share (Note 15)			
Net Income	<u>\$ 13.31</u>	<u>\$ 12.23</u>	<u>\$ 5.86</u>
Average number of shares outstanding	<u>16,527</u>	<u>16,803</u>	<u>16,742</u>

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

CONSOLIDATED BALANCE SHEETS

Chemed Corporation and Subsidiary Companies

(in thousands, except shares and per share data)

December 31,	2019	2018
Assets		
Current assets		
Cash and cash equivalents (Note 9)	\$ 6,158	\$ 4,831
Accounts receivable	143,827	119,504
Inventories	7,462	5,705
Prepaid income taxes	10,074	10,646
Prepaid expenses	23,150	19,154
Total current assets	<u>190,671</u>	<u>159,840</u>
Investments of deferred compensation plans held in trust (Notes 14 and 16)	77,446	65,624
Properties and equipment, at cost, less accumulated depreciation (Note 12)	175,763	162,033
Lease right of use asset (Note 13)	111,652	-
Identifiable intangible assets less accumulated amortization of \$37,620 (2018 - \$33,283) (Note 6)	126,370	68,253
Goodwill	577,367	510,570
Other assets	9,048	9,209
Total Assets	<u>\$ 1,268,317</u>	<u>\$ 975,529</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 51,101	\$ 50,150
Accrued insurance	50,328	46,095
Accrued compensation	70,814	63,329
Accrued legal	6,941	1,857
Short-term lease liability (Note 13)	39,280	-
Other current liabilities	43,756	30,239
Total current liabilities	<u>262,220</u>	<u>191,670</u>
Deferred income taxes (Note 11)	18,504	21,598
Long-term debt (Note 3)	90,000	89,200
Deferred compensation liabilities (Note 14)	76,446	64,616
Long-term lease liability (Note 13)	86,656	-
Other liabilities	7,883	17,111
Total Liabilities	<u>541,709</u>	<u>384,195</u>
Commitments and contingencies (Note 17)		
Stockholders' Equity		
Capital stock - authorized 80,000,000 shares \$1 par; issued 35,810,528 shares (2018 - 35,311,418 shares)	35,811	35,311
Paid-in capital	860,671	774,358
Retained earnings	1,425,752	1,225,617
Treasury stock - 19,867,220 shares (2018 - 19,438,358 shares), at cost	(1,597,940)	(1,446,296)
Deferred compensation payable in Company stock (Note 14)	2,314	2,344
Total Stockholders' Equity	<u>726,608</u>	<u>591,334</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,268,317</u>	<u>\$ 975,529</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Chemed Corporation and Subsidiary Companies

(in thousands)

For the Years Ended December 31,

	2019	2018	2017
Cash Flows from Operating Activities			
Net income	\$ 219,923	\$ 205,544	\$ 98,177
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	45,205	38,863	35,625
Stock option expense	14,831	12,611	10,485
Accrued litigation settlement	6,000	-	-
Noncash portion of long-term incentive compensation	5,740	5,405	3,774
Provision/(benefit) for deferred income taxes (Note 11)	(2,770)	5,187	2,407
Noncash directors' compensation	767	766	766
Loss on sale of transportation equipment (Note 19)	2,266	-	5,266
Amortization of debt issuance costs	306	441	516
Amortization of restricted stock awards	-	446	1,231
Provision for uncollectible accounts receivable	-	-	17,306
Changes in operating assets and liabilities:			
Decrease/(increase) in accounts receivable	(19,247)	(5,570)	1,072
Decrease/(increase) in inventories	(1,757)	(351)	421
Increase in prepaid expenses	(3,491)	(2,665)	(2,987)
Increase in accounts payable and other current liabilities	28,417	8,935	12,890
Net change in lease assets and liabilities	3,108	-	-
Change in current income taxes	161	18,898	(26,104)
Increase in other assets	(11,963)	(5,544)	(8,330)
Increase in other liabilities	12,354	3,451	8,561
Other sources	1,399	721	1,419
Net cash provided by operating activities	<u>301,249</u>	<u>287,138</u>	<u>162,495</u>
Cash Flows from Investing Activities			
Business combinations, net of cash acquired (Note 7)	(138,010)	(53,177)	(4,725)
Capital expenditures	(53,022)	(52,872)	(64,300)
Other sources	272	824	1,417
Net cash used by investing activities	<u>(190,760)</u>	<u>(105,225)</u>	<u>(67,608)</u>
Cash Flows from Financing Activities			
Proceeds from revolving line of credit	482,900	469,550	212,350
Payments on revolving line of credit	(482,100)	(406,550)	(211,150)
Purchases of treasury stock	(92,631)	(158,884)	(94,640)
Proceeds from exercise of stock options (Note 4)	34,380	32,412	27,092
Capital stock surrendered to pay taxes on stock-based compensation	(28,474)	(27,548)	(14,223)
Dividends paid	(19,788)	(18,662)	(17,371)
Change in cash overdraft payable	(3,927)	(1,531)	6,700
Payments on other long-term debt	-	(75,000)	(8,750)
Debt issuance costs	-	(1,052)	-
Other sources/(uses)	478	(938)	916
Net cash used by financing activities	<u>(109,162)</u>	<u>(188,203)</u>	<u>(99,076)</u>
Increase/(decrease) in cash and cash equivalents	<u>1,327</u>	<u>(6,290)</u>	<u>(4,189)</u>
Cash and cash equivalents at beginning of year	4,831	11,121	15,310
Cash and cash equivalents at end of year	<u>\$ 6,158</u>	<u>\$ 4,831</u>	<u>\$ 11,121</u>

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

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

Chemed Corporation and Subsidiary Companies
(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, 2016	\$ 34,270	\$ 639,703	\$ 958,149	\$ (1,110,536)	\$ 2,513	\$ 524,099
Net income	-	-	98,177	-	-	98,177
Dividends paid (\$1.08 per share)	-	-	(17,371)	-	-	(17,371)
Stock awards and exercise of stock options (Note 4)	462	55,264	-	(26,467)	-	29,259
Purchases of treasury stock (Note 18)	-	-	-	(94,640)	-	(94,640)
Other	-	830	-	311	(311)	830
Balance at December 31, 2017	34,732	695,797	1,038,955	(1,231,332)	2,202	540,354
Net income	-	-	205,544	-	-	205,544
Dividends paid (\$1.16 per share)	-	-	(18,662)	-	-	(18,662)
Stock awards and exercise of stock options (Note 4)	579	79,452	-	(55,939)	-	24,092
Purchases of treasury stock (Note 18)	-	-	-	(158,884)	-	(158,884)
Other	-	(891)	(220)	(141)	142	(1,110)
Balance at December 31, 2018	35,311	774,358	1,225,617	(1,446,296)	2,344	591,334
Net income	-	-	219,923	-	-	219,923
Dividends paid (\$1.24 per share)	-	-	(19,788)	-	-	(19,788)
Stock awards and exercise of stock options (Note 4)	500	85,788	-	(59,043)	-	27,245
Purchases of treasury stock (Note 18)	-	-	-	(92,631)	-	(92,631)
Other	-	525	-	30	(30)	525
Balance at December 31, 2019	<u>\$ 35,811</u>	<u>\$ 860,671</u>	<u>\$ 1,425,752</u>	<u>\$ (1,597,940)</u>	<u>\$ 2,314</u>	<u>\$ 726,608</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

NATURE OF OPERATIONS

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

PRINCIPLES OF ACCOUNTING

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

Certain reclassifications have been made to prior year financial statements to conform to current presentation.

CASH EQUIVALENTS

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

CONCENTRATION OF RISK

As of December 31, 2019 and 2018, approximately 71% and 68%, respectively, of VITAS’ total accounts receivable balance were from Medicare and 24% and 26%, respectively, of VITAS’ total accounts receivable balance were due from various state Medicaid or managed Medicaid programs. Combined accounts receivable from Medicare, Medicaid, and managed Medicaid represent approximately 75% of the consolidated net accounts receivable in the accompanying consolidated balance sheets as of December 31, 2019.

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

INVENTORIES

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

DEPRECIATION AND PROPERTIES AND EQUIPMENT

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

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

The weighted average lives of our property and equipment at December 31, 2019, were:

Buildings and building improvements	15.1 yrs.
Transportation equipment	4.6
Machinery and equipment	5.2
Computer software	4.2
Furniture and fixtures	4.6

GOODWILL AND INTANGIBLE ASSETS

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

	<u>Vitas</u>	<u>Roto- Rooter</u>	<u>Total</u>
Balance at December 31, 2017	\$ 328,301	\$ 148,586	\$ 476,887
Business combinations	5,030	28,780	33,810
Foreign currency adjustments	-	(127)	(127)
Balance at December 31, 2018	<u>\$ 333,331</u>	<u>\$ 177,239</u>	<u>\$ 510,570</u>
Business combinations	-	66,726	66,726
Foreign currency adjustments	-	71	71
Balance at December 31, 2019	<u><u>\$ 333,331</u></u>	<u><u>\$ 244,036</u></u>	<u><u>\$ 577,367</u></u>

Identifiable, definite-lived intangible assets arise from purchase business combinations and are amortized using either an accelerated method or the straight-line method over the estimated useful lives of the assets. The selection of an amortization method is based on which method best reflects the economic pattern of usage of the asset. Reacquired franchise rights are amortized over the remaining term of the franchise agreement at the time of acquisition. The weighted average lives of our identifiable, definite-lived intangible assets at December 31, 2019, were:

Covenants not to compete	6.4 yrs.
Reacquired franchise rights	7.4
Referral networks	10.0
Customer lists	16.8

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

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

We completed our qualitative analysis for impairment of goodwill and our indefinite-lived intangible assets as of October 1, 2019. Based on our assessment, we do not believe that it is more likely than not that our reporting units or indefinite-lived assets fair values are less than their carrying values.

LONG-LIVED ASSETS

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

LEASE ACCOUNTING

In February 2016, the FASB issued Accounting Standards Update “ASU No. 2016-02 Leases” which introduced a lessee model that brings most leases onto the balance sheet and updates lessor accounting to align with changes in the lessee model and the revenue recognition standard. This standard is also referred to as Accounting 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 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 \$93.1 million and \$104.3 million, respectively, as January 1, 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 December 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 \$5.7 million related to implementation of these projects which are included in prepaid assets in the accompanying balance sheets. There has been no amortization expense associated with the assets, 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.

OTHER ASSETS

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

SALES TAX

The Roto-Rooter segment collects sales tax from customers when required by state and federal laws. We record the amount of sales tax collected net in the accompanying consolidated statements of income.

OPERATING EXPENSES

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

ADVERTISING

We expense the production costs of advertising the first time the advertising takes place. We pay for and expense the cost of internet advertising and placement on a “per click” basis. Similarly, the majority of our telephone directory listings are paid for and expensed on a “cost per call” basis. For those directories that are not on this billing basis, the cost of the directory is expensed when the directories are placed in circulation. Advertising expense for the year ended December 31, 2019, was \$49.5 million (2018 – \$47.0 million; 2017 - \$40.9 million).

OTHER CURRENT LIABILITIES

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

OTHER LIABILITIES (NON-CURRENT)

There are no amounts included in other liabilities that individually exceed 5% of total liabilities.

STOCK-BASED COMPENSATION PLANS

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

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.

INSURANCE ACCRUALS

For our Roto-Rooter segment and Corporate Office, we initially self-insure for all casualty insurance claims (workers’ compensation, auto liability and general liability). As a result, we closely monitor and frequently evaluate our historical claims experience to estimate the appropriate level of accrual for self-insured claims. Our third-party administrator (“TPA”) processes and reviews claims on a monthly basis. Currently, our exposure on any single claim is capped by stop-loss coverage at \$750,000. In developing our estimates, we accumulate historical claims data for the previous 10 years to calculate loss development factors (“LDF”) by insurance coverage type. LDFs are applied to known claims to estimate the ultimate potential liability for known and unknown claims for each open policy year. LDFs are updated annually. Because this methodology relies heavily on historical claims data, the key risk is whether the historical claims are an accurate predictor of future claims exposure. The risk also exists that certain claims have been incurred and not reported on a timely basis. To mitigate these risks, in conjunction with our TPA, we closely monitor claims to ensure timely accumulation of data and compare claims trends with the industry experience of our TPA.

For the VITAS segment, we initially self-insure for workers’ compensation claims. Currently, VITAS’ exposure on any single claim is capped by stop-loss coverage at \$1,000,000. For VITAS’ self-insurance accruals for workers’ compensation, the valuation methods used are similar to those used internally for our other business units. We are also insured for other risks with respect to professional liability with a deductible of \$750,000.

Our casualty insurance liabilities are recorded gross before any estimated recovery for amounts exceeding our stop loss limits. Estimated recoveries from insurance carriers are recorded as accounts receivable. Claims experience adjustments to our casualty and workers’ compensation accrual for the years ended December 31, 2019, 2018 and 2017, were net pretax credits of (\$1,664,000), (\$3,437,000), and (\$1,800,000) respectively.

TAXES ON INCOME

On December 22, 2017, the President of the United States signed into law H.R.1, “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (previously known as “The Tax Cuts and Jobs Act”) or (the “Act”). The Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, U.S. generally accepted accounting principles requires resulting tax effects for the Act, to be recorded in the reporting period of enactment.

The SEC issued SAB 118, which provides guidance on accounting for the Act's impact. Under SAB 118, an entity would use something similar to the measurement period in a business combination, not to exceed one year. For matters that have not been completed, the Company would recognize provisional amounts to the extent that they are reasonably estimable, adjust them over time as more information becomes available, and disclose this information in its financial statements.

Our accounting for all elements of the Tax Act is complete. The Company did not record any material changes to the provisional amounts previously recorded, net benefit recorded in 2017 of \$8.3 million. The Company also determined new rules, such as the Global Intangible Low-Taxed Income (GILTI) and Base Erosion and Anti-Abuse Tax (BEAT), have no material impact to the financial statements.

Historically, the Company has not provided for deferred taxes on undistributed earnings because such earnings are considered to be indefinitely reinvested outside of the U.S. The Company continues this assertion that foreign earnings are permanently reinvested under the Act.

The Act provides for 100 percent bonus depreciation on personal tangible property expenditures starting September 27, 2017 through 2022. The bonus depreciation percentage is phased down from 100 percent beginning in 2023 through 2026. The Company expects to take full benefit of these bonus depreciation rules.

The IRS and other tax authorities are still issuing guidance on the Act, through various regulations some of which are still proposed and not final. The Company will implement any changes related to finalized regulations and other guidance in the period issued.

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized due to insufficient taxable income within the carryback or carryforward period available under the tax laws. Deferred tax assets and liabilities are adjusted for the effects of changes in law and rates on the date of enactment.

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

CONTINGENCIES

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

BUSINESS COMBINATIONS

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

ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Disclosures of after-tax expenses and adjustments are based on estimates of the effective income tax rates for the applicable segments.

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 4 hours per day in 15 minute increments at the continuous home care rate.

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

Continuous Home Care is provided to patients while at home, including a nursing home setting, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24 hour day, which begins at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed nurse practitioner. While the published Medicare continuous home care rates are daily rates, Medicare pays for continuous home care in 15 minute increments. This 15 minute rate is calculated by dividing the daily rate by 96.

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

Each level of care represents a separate promise under the contract of care and is provided independently for each patient contingent upon the patient’s specific medical needs as determined by a physician. However, the clinical criteria used to determine a patient’s level of care is consistent across all patients, given that, each patient is subject to the same payor rules and regulations. As a result, we have concluded that each level of care is capable of being distinct and is distinct in the context of the contract. Furthermore, we have determined that each level of care represents a stand ready service provided as a series of either days or hours of patient care. We believe that the performance obligations for each level of care meet criteria to be satisfied over time. VITAS recognizes revenue based on the service output. VITAS believes this to be the most faithful depiction of the transfer of control of services as the patient simultaneously receives and consumes the benefits provided by our performance. Revenue is recognized on a daily or hourly basis for each patient in accordance with the reimbursement model for each type of service. VITAS’ performance obligations relate to contracts with an expected duration of less than one year. Therefore, VITAS has elected to apply the optional exception provided in ASC 606

and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above relate to bereavement services provided to patients' families for at least 12 months after discharge.

Care is provided to patients regardless of their ability to pay. Patients who meet our criteria for charity care are provided care without charge. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of providing charity care during the years ended December 31, 2019, 2018 and 2017, was \$9.0 million, \$8.2 million and \$7.7 million, respectively and is included in cost of services provided and goods sold. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care.

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

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

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

Inpatient Cap. If the number of inpatient care days any hospice program provides to Medicare beneficiaries exceeds 20% of the total days of hospice care such program provided to all Medicare patients for an annual period beginning September 28, the days in excess of the 20% figure may be reimbursed only at the routine homecare rate. None of VITAS' hospice programs exceeded the payment limits on inpatient services during the years ended December 31, 2019, 2018 and 2017.

Medicare Cap. We are also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured in one of two ways based on a provider election. The "streamlined" method compares total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by that Medicare provider number with the product of the per-beneficiary cap amount and the number of Medicare beneficiaries electing hospice care for the first time from that hospice program or programs from September 28 through September 27 of the following year. At December 31, 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 \$7.6 million is owed for Medicare cap in three programs arising during the 2013 through 2019 measurement periods. The amounts are automatically deducted from our semi-monthly periodic interim payments (“PIP”). We do not believe that CMS is authorized under the sequestration authority or the statutory methodology for establishing the Medicare cap to the amounts they have withheld and intend to withhold under their current “as if” methodology. We have appealed CMS’s methodology change.

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

During the years ended December 31, 2018, we recorded \$4.1 million in Medicare cap revenue reduction related to two programs’ 2018 measurement period liability and two programs’ 2019 measurement period liability.

During the year ended December 31, 2017, we recorded \$2.4 million in Medicare cap revenue reduction related to two programs’ 2018 measurement period liability and \$247,000 for two programs’ cap liability for prior periods.

At December 31, 2019 and 2018, the Medicare cap liability included in other current liabilities on the accompanying balance sheets was \$16.3 million and \$6.4 million, respectively.

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

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

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

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

	Medicare	Medicaid	Commercial	Total
Routine home care	\$ 939,951	\$ 47,609	\$ 22,958	\$ 1,010,518
Continuous care	110,596	6,126	5,776	122,498
Inpatient care	69,354	8,156	5,167	82,677
	<u>\$ 1,119,901</u>	<u>\$ 61,891</u>	<u>\$ 33,901</u>	<u>\$ 1,215,693</u>
All other revenue - self-pay, respite care, etc.				7,831
Subtotal				\$ 1,223,524
Medicare cap adjustment				(4,123)
Implicit price concessions				(11,785)
Room and board, net				(10,054)
Net revenue				<u>\$ 1,197,562</u>

Roto-Rooter

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

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

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

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

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

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

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

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

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

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

The composition of disaggregated revenue for the years ended December 31, 2019 and 2018 is as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Short-term core service jobs	\$ 482,625	\$ 425,845
Water restoration	115,949	109,484
Contractor revenue	58,086	50,169
Franchise fees	6,152	6,382
All other	12,279	11,958
Subtotal	<u>\$ 675,091</u>	<u>\$ 603,838</u>
Implicit price concessions and credit memos	(17,720)	(18,752)
Net revenue	<u>\$ 657,371</u>	<u>\$ 585,086</u>

Initial Adoption of ASC 606

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

For VITAS, expenses related to payor audits and reviews, as well as variable consideration estimated for patient deductibles and coinsurance, have been historically estimated as revenue was recognized and classified as bad debt expense, included in the consolidated statements of income as selling, general and administrative expense. Upon adoption of ASC 606, these expenses are classified as contra-revenue. There is no change in the timing of recognition related to the variable consideration. The amount of these expenses during the years ended December 31, 2019 and 2018 were \$14.9 million and \$11.8 million, respectively.

Also for VITAS, the 5% net expense related to Medicaid room and board has been historically recorded on a net basis in cost of services provided in the consolidated income statements. Upon adoption of ASC 606, due to the change in the residual value method required by ASC 606, the expense will be classified as a contra-revenue. The amount of the change in the classification for these expenses during the years ended December 31, 2019 and 2018 was \$11.4 million and \$10.1 million, respectively. There has been no change in the evaluation of Medicaid room and board related to net versus gross presentation.

Related to Roto-Rooter, expenses related to post-invoice variable consideration in our short-term core portfolio, and adjustments made subsequent to initial estimates related to allowances taken by insurance companies for water restoration, have been classified as a contra-revenue account in the statements of income. These amounts were previously classified as bad debt expense in SG&A. The amount of the change in classification for these expenses during the year ended December 31, 2019 and 2018 was \$6.2 million and \$6.9 million. The initial estimate related to allowances taken by insurance companies for water restoration services has historically been classified as contra-revenue and did not change as a result of the transition.

There was no material impact on the consolidated balance sheets related to the initial adoption. There is no impact to consolidated net income as a result of the initial adoption. As a result of the change in classification in the statements of income, amounts previously included in the provision for uncollectible accounts in the statements of cash flow have been included in the decrease/(increase) in accounts receivable line item in 2019 and 2018. The total impact of the change from prior revenue guidance (ASC 605) to guidance adopted on January 1, 2018 related to classification in the statements of income is as follows (in thousands):

	Impact for the year ended December 31, 2018		
	ASC 605	Adjustment	ASC 606
Service revenue and sales	\$ 1,811,408	\$ (28,760)	\$ 1,782,648
Cost of services provided and goods sold	1,238,698	(10,054)	1,228,644
Selling, general and administrative expenses	288,915	(18,706)	270,209

3. Long-Term Debt and Lines of Credit

On June 20, 2018, we replaced our existing credit agreement with the Fourth Amended and Restated Credit Agreement (“2018 Credit Agreement”). Terms of the 2018 Credit Agreement consist of a five year, \$450 million revolving credit facility and a \$150 million expansion feature, which may consist of term loans or additional revolving commitments. The 2018 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio. For December 31, 2019 and 2018, respectively, the interest rate is LIBOR plus 100 basis points. The 2018 Credit Agreement includes transition provisions in the instance LIBOR is no longer published or used as an industry-accepted rate.

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

The debt outstanding at December 31, 2019 and 2018 consists of the following (in thousands):

	December 31,	
	2019	2018
Revolver	\$ 90,000	\$ 89,200
Term loan	-	-
Total	90,000	89,200
Current portion of term loan	-	-
Long-term debt	\$ 90,000	\$ 89,200

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

2019	\$ 4,125
2018	4,178
2017	3,626

The 2018 Credit Agreement contains the following quarterly financial covenants effective as of December 31, 2019:

Description	Requirement	Chemed December 31, 2019
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	0.37 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00	4.34 to 1.00

We are in compliance with all debt covenants as of December 31, 2019. We have issued \$37.9 million in standby letters of credit as of December 31, 2019 for insurance purposes. Issued letters of credit reduce our available credit under the 2018 Credit Agreement. As of December 31, 2019, we have approximately \$322.1 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility.

4. Stock-Based Compensation Plans

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

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

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

In May 2019, the CIC granted 2,313 unrestricted shares of stock to the Company’s outside directors.

PERFORMANCE AWARDS

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

In February 2017, 2018 and 2019, the CIC granted PSUs contingent upon the achievement of certain TSR targets as compared to the TSR of a group of peer companies for the three year measurement period, at which date the awards may vest. We utilize a Monte Carlo simulation approach in a risk-neutral framework with inputs including historical volatility and the risk-free rate of interest to value these TSR awards. We amortize the total estimated cost over the service period of the award.

In February 2017, 2018 and 2019, the CIC granted PSUs contingent on the achievement of certain EPS targets over the three year measurement period. At the end of each reporting period, we estimate the number of shares of stock we believe will ultimately vest and record that expense over the service period of the award.

Comparative data for the PSUs include:

	<u>2019 Awards</u>	<u>2018 Awards</u>	<u>2017 Awards</u>
TSR Awards			
Shares of stock granted - target	7,029	7,523	7,304
Per-share fair value	\$ 434.51	\$ 341.20	\$ 226.95
Volatility	21.4%	22.9%	21.8%
Risk-free interest rate	2.45%	2.34%	1.44%
EPS Awards			
Shares of stock granted - target	7,029	7,523	7,304
Per-share fair value	\$ 322.40	\$ 256.29	\$ 172.60
Common Assumptions			
Service period (years)	2.9	2.9	2.9
Three-year measurement period ends December 31,	2021	2020	2019

The following table summarizes total stock option, stock award and PSU activity during 2019:

	Stock Options			Aggregate Intrinsic Value (thousands)	Stock Awards		Performance Units (PSUs)	
	Number of Options	Exercise Price	Remaining Contractual Life (Years)		Number of Awards	Weighted Average Grant-Date Per-Share Fair Value	Number of Target Units	Weighted Average Grant-Date Price
Outstanding at January 1, 2019	1,395,034	\$ 181.82		-	\$ -	48,160	\$ 207.17	
Granted	287,010	413.19		2,313	331.69	27,688	253.44	
Exercised/Vested	(464,661)	139.78		(2,313)	331.69	(32,136)	136.48	
Canceled/ Forfeited	(11,435)	215.86		-	-	(734)	269.08	
Outstanding at December 31, 2019	<u>1,205,948</u>	\$ 252.77	3.3	\$ 225,226	\$ -	<u>42,978</u>	\$ 288.78	
Vested and expected to vest at December 31, 2019	1,205,948	\$ 252.77	3.3	\$ 225,226	- *\$ -	82,603	*\$ 290.11	
Exercisable at December 31, 2019	654,424	172.20	2.6	174,949	n.a.	n.a.	n.a.	

* Amount includes 27,761 share units which vested and were converted to shares of stock and distributed in the first quarter of 2020.

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

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

	Years Ended December 31,		
	2019	2018	2017
Total compensation expense of stock-based compensation plans charged against income	\$ 21,338	\$ 19,229	\$ 16,256
Total income tax benefit recognized in income for stock based compensation expense charged against income	5,373	4,788	5,690
Total intrinsic value of stock options exercised	106,793	102,144	50,192
Total intrinsic value of stock awards vested during the period	767	4,003	6,983
Per-share weighted average grant-date fair value of stock awards granted	331.69	333.75	203.52

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

	2019	2018	2017
Stock price on date of issuance	\$ 413.19	\$ 306.70	\$ 231.91
Grant date fair value per share	\$ 78.06	\$ 67.16	\$ 46.27
Number of options granted	287,010	246,350	330,550
Expected term (years)	4.0	4.0	4.0
Risk free rate of return	1.65%	2.99%	1.86
Volatility	21.25%	22.42%	22.80
Dividend yield	0.3%	0.4%	0.5
Forfeiture rate	-	-	-

Other data for stock options, stock awards and PSUs for 2018 include (dollar amounts in thousands):

	<u>Stock Options</u>	<u>Stock Awards</u>	<u>PSUs</u>
Total unrecognized compensation at the end of the year	\$ 34,640	\$ -	\$ 7,475
Weighted average period over which unrecognized compensation to be recognized (years)	2.3	-	1.7
Actual income tax benefit realized	\$ 25,193	\$ 181	\$ 2,489
Aggregate intrinsic value vested and expected to vest	\$ 225,226	\$ -	\$ 36,306

EMPLOYEE STOCK PURCHASE PLAN (“ESPP”)

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

5. Segments and Nature of the Business

Our segments include the VITAS segment and the Roto-Rooter segment. Relative contributions of each segment to service revenues and sales were 66% and 34% in 2019, 67% and 33% in 2018 and 69% and 31% in 2017. The vast majority of our service revenues and sales from continuing operations are generated from business within the United States. Service revenues and sales by business segment are shown in Footnote 2.

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

We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as “Corporate”. Corporate administrative expense includes the stewardship, accounting and reporting, legal, tax and other costs of operating a publicly held corporation. Corporate investing and financing income and expenses include the costs and income associated with corporate debt and investment arrangements.

Segment data are set forth below (in thousands):

	For the Years Ended December 31,		
	2019	2018	2017
<u>After-tax Segment Earnings/(Loss)</u>			
VITAS	\$ 155,822	\$ 138,846	\$ 57,645
Roto-Rooter	103,710	98,711	73,299
Total	259,532	237,557	130,944
Corporate	(39,609)	(32,013)	(32,767)
Net income	\$ 219,923	\$ 205,544	\$ 98,177
<u>Interest Income</u>			
VITAS	\$ 18,515	\$ 13,412	\$ 12,044
Roto-Rooter	8,285	7,000	5,635
Total	26,800	20,412	17,679
Intercompany eliminations	(26,287)	(19,741)	(17,252)
Total interest income	\$ 513	\$ 671	\$ 427
<u>Interest Expense</u>			
VITAS	\$ 169	\$ 175	\$ 188
Roto-Rooter	345	319	323
Total	514	494	511
Corporate	4,021	4,496	3,761
Total interest expense	\$ 4,535	\$ 4,990	\$ 4,272
<u>Income Tax Provision</u>			
VITAS	\$ 48,711	\$ 40,847	\$ 16,436
Roto-Rooter	30,276	28,850	32,782
Total	78,987	69,697	49,218
Corporate	(37,301)	(35,641)	(30,478)
Total income tax provision	\$ 41,686	\$ 34,056	\$ 18,740
<u>Identifiable Assets</u>			
VITAS	\$ 663,455	\$ 553,949	\$ 545,304
Roto-Rooter	507,480	351,030	294,663
Total	1,170,935	904,979	839,967
Corporate	97,382	70,550	80,059
Total identifiable assets	\$ 1,268,317	\$ 975,529	\$ 920,026
<u>Additions to Long-Lived Assets</u>			
VITAS	\$ 25,530	\$ 36,969	\$ 23,469
Roto-Rooter	162,494	68,786	45,386
Total	188,024	105,755	68,855
Corporate	1,000	128	483
Total additions to long-lived assets	\$ 189,024	\$ 105,883	\$ 69,338
<u>Depreciation and Amortization</u>			
VITAS	\$ 20,055	\$ 19,700	\$ 18,630
Roto-Rooter	24,994	19,016	16,790
Total	45,049	38,716	35,420
Corporate	156	147	205
Total depreciation and amortization	\$ 45,205	\$ 38,863	\$ 35,625

6. Intangible Assets

Amortization of definite-lived intangible assets for the years ended December 31, 2019, 2018, and 2017, was \$4.3 million, \$399,000 and \$137,000 respectively. The following is a schedule by year of projected amortization expense for definite-lived intangible assets (in thousands):

2020	\$	9,907
2021		9,904
2022		9,883
2023		9,828
2024		9,779
Thereafter		21,329

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

	Gross Asset	Accumulated Amortization	Net Book Value
December 31, 2019			
Referral networks	\$ 21,850	\$ (21,223)	\$ 627
Covenants not to compete	10,036	(9,478)	558
Customer lists	4,746	(1,362)	3,384
Reacquired franchise rights	71,618	(5,557)	66,061
Subtotal - definite-lived intangibles	108,250	(37,620)	70,630
VITAS trade name	51,300	-	51,300
Roto-Rooter trade name	150	-	150
Operating licenses	4,290	-	4,290
Total	<u>\$ 163,990</u>	<u>\$ (37,620)</u>	<u>\$ 126,370</u>
December 31, 2018			
Referral networks	\$ 21,850	\$ (21,152)	\$ 698
Covenants not to compete	9,796	(9,367)	429
Customer lists	2,025	(1,235)	790
Reacquired franchise rights	12,447	(1,529)	10,918
Subtotal - definite-lived intangibles	46,118	(33,283)	12,835
VITAS trade name	51,300	-	51,300
Roto-Rooter trade name	150	-	150
Operating licenses	3,968	-	3,968
Total	<u>\$ 101,536</u>	<u>\$ (33,283)</u>	<u>\$ 68,253</u>

7. Acquisitions

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

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

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

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

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

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

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

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

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

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

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

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

Amortization of reacquired franchise agreements is \$4.0 million for 2019.

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

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

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.

The pro forma revenue and earnings of the Company, as if all acquisitions made in fiscal 2018 and 2019 were completed on January 1, 2018, are as follows (in thousands, except per share data):

	For the Years Ended December 31,	
	<u>2019</u>	<u>2018</u>
Service revenues and sales	\$ 1,995,688	\$ 1,900,218
Net income	\$ 228,939	\$ 224,851
Earnings per share	\$ 14.34	\$ 14.00
Diluted earnings per share	\$ 13.85	\$ 13.38

8. Discontinued Operations

At December 31, 2019 and 2018, the accrual for our estimated liability for potential environmental cleanup and related costs arising from the 1991 sale of DuBois amounted to \$1.7 million. Of the 2019 balance, \$826,000 is included in other current liabilities and \$901,000 is included in other liabilities (long-term). The estimated amounts and timing of payments of these liabilities follows (in thousands):

2020	\$	826
2021		300
Thereafter		601
	\$	<u>1,727</u>

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

9. Cash Overdrafts and Cash Equivalents

Included in the accompanying Consolidated Balance Sheets are \$1.8 million, \$3.2 million, and \$2.7 million of capitalized property and equipment which were not paid for as of December 31, 2019, December 31, 2018 and December 31, 2017, respectively. These amounts have been excluded from capital expenditures in the accompanying Consolidated Statements of Cash Flow. There are no material non-cash amounts included in interest expense for any period presented.

Included in accounts payable are cash overdrafts of \$9.8 million and \$13.8 million as of December 31, 2019 and 2018, respectively.

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

10. Other Income -- Net

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

	For the Years Ended December 31,		
	2019	2018	2017
Market value gains related to deferred compensation trusts	\$ 8,254	\$ 287	\$ 8,430
Interest income	513	671	427
Other--net	(3)	-	(703)
Total other income	<u>\$ 8,764</u>	<u>\$ 958</u>	<u>\$ 8,154</u>

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

11. Income Taxes

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

	For the Years Ended December 31,		
	2019	2018	2017
Current			
U.S. federal	\$ 36,779	\$ 23,934	\$ 11,724
U.S. state and local	7,078	4,484	4,144
Foreign	600	452	465
Deferred			
U.S. federal, state and local	(2,773)	5,185	2,402
Foreign	2	1	5
Total	<u>\$ 41,686</u>	<u>\$ 34,056</u>	<u>\$ 18,740</u>

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

	December 31,	
	2019	2018
Accrued liabilities	\$ 32,498	\$ 30,702
Lease liabilities	32,476	-
Stock compensation expense	5,425	5,894
Implicit price concessions	4,165	1,171
State net operating loss carryforwards	2,678	2,422
Other	894	626
Deferred income tax assets	<u>78,136</u>	<u>40,815</u>
Amortization of intangible assets	(39,679)	(38,346)
Right of use lease assets	(28,807)	-
Accelerated tax depreciation	(21,942)	(19,685)
Currents assets	(2,510)	(1,861)
Market valuation of investments	(2,058)	(1,068)
State income taxes	(1,477)	(1,261)
Other	(167)	(192)
Deferred income tax liabilities	<u>(96,640)</u>	<u>(62,413)</u>
Net deferred income tax liabilities	<u>\$ (18,504)</u>	<u>\$ (21,598)</u>

At December 31, 2019 and 2018, state net operating loss carryforwards were \$43.1 million and \$39.3 million, respectively. These net operating losses will expire, in varying amounts, between 2024 and 2039. Based on our history of operating earnings, we have determined that our operating income will, more likely than not, be sufficient to ensure realization of our deferred income tax assets.

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

	2019	2018	2017
Balance at January 1,	\$ 1,348	\$ 1,123	\$ 1,069
Unrecognized tax benefits due to positions taken in current year	234	453	268
Decrease due to expiration of statute of limitations	(259)	(228)	(214)
Balance at December 31,	<u>\$ 1,323</u>	<u>\$ 1,348</u>	<u>\$ 1,123</u>

We file tax returns in the U.S. federal jurisdiction and various states. The years ended December 31, 2016 and forward remain open for review for federal income tax purposes. The earliest open year relating to any of our major state jurisdictions is the fiscal year ended December 31, 2014. During the next twelve months, we do not anticipate a material net change in unrecognized tax benefits.

We classify interest related to our accrual for uncertain tax positions in separate interest accounts. As of December 31, 2019 and 2018, we have approximately \$159,000 and \$136,000, respectively, accrued in interest payable related to uncertain tax positions. These accruals are included in other current liabilities in the accompanying consolidated balance sheet. Net interest expense related to uncertain tax positions included in interest expense in the accompanying consolidated statement of income is not material.

The difference between the actual income tax provision for continuing operations and the income tax provision calculated at the statutory U.S. federal tax rate is explained as follows (in thousands):

	For the Years Ended December 31,		
	2019	2018	2017
Income tax provision calculated using the statutory rate of 21%	\$ 54,938	\$ 50,316	\$ 40,921
Stock compensation tax benefits	(24,177)	(22,862)	(18,932)
State and local income taxes, less federal income tax effect	7,880	7,150	4,600
Nondeductible expenses	3,048	2,280	1,041
Enactment of the tax reform act	-	-	(8,305)
Other--net	(3)	(2,828)	(585)
Income tax provision	<u>\$ 41,686</u>	<u>\$ 34,056</u>	<u>\$ 18,740</u>
Effective tax rate	<u>15.9 %</u>	<u>14.2 %</u>	<u>16.0 %</u>

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

2019	\$	44,063
2018		9,749
2017		42,311

Provision has not been made for additional taxes on \$35.1 million of undistributed earnings of our domestic subsidiaries. Should we elect to sell our interest in these businesses rather than to affect a tax-free liquidation, additional taxes amounting to approximately \$8.4 million would be incurred based on current income tax rates.

12. Properties and Equipment

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

	December 31,	
	2019	2018
Land	\$ 8,360	\$ 7,964
Buildings and building improvements	109,404	96,361
Transportation equipment	41,897	51,559
Machinery and equipment	123,102	111,183
Computer software	57,508	49,928
Furniture and fixtures	79,792	72,898
Projects under development	25,840	20,510
Total properties and equipment	<u>445,903</u>	<u>410,403</u>
Less accumulated depreciation	<u>(270,140)</u>	<u>(248,370)</u>
Net properties and equipment	<u>\$ 175,763</u>	<u>\$ 162,033</u>

The net book value of computer software at December 31, 2019 and 2018, was \$9.6 million and \$6.6 million, respectively. Depreciation expense for computer software was \$4.6 million, \$5.4 million and \$4.4 million for the years ended December 31, 2019, 2018 and 2017, respectively.

13. Leases

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

We made a policy election to exclude leases with a lease term less than 12 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.

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:

	<u>December 31,</u> <u>2019</u>
Assets	
Operating lease assets	\$ 111,652
Liabilities	
Current operating leases	39,280
Noncurrent operating leases	86,656
Total operating lease liabilities	<u>\$ 125,936</u>

The components of lease expense were as follows:

	<u>December 31,</u> <u>2019</u>
Lease Expense (a)	
Operating lease expense	\$ 49,112
Sublease income	(6)
Net lease expense	<u>\$ 49,106</u>

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

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

	<u>December 31,</u> <u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from leases	\$ 41,525
Leased assets obtained in exchange for new operating lease liabilities	
	\$ 150,356
Weighted Average Remaining Lease Term	
Operating leases	4.52years
Weighted Average Discount Rate	
Operating leases	3.3%
Maturity of Operating Lease Liabilities (in thousands)	
2020	\$ 44,262
2021	31,177
2022	23,588
2023	17,316
2024	12,119
Thereafter	15,807
Total lease payments	<u>\$ 144,269</u>
Less: interest	(10,250)
Less: lease obligations signed but not yet commenced	(8,083)
Total liability recognized on the balance sheet	<u>\$ 125,936</u>

The following is a summary of future minimum rental payments 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	<u>\$</u>	<u>103,616</u>

For leases commencing prior to 2019, minimum rental payments exclude payments to landlords for real estate taxes and common area maintenance. Operating lease payments include \$2.3 million related to extended lease terms that are reasonably certain of being exercised and exclude \$8.1 million lease payments for leases signed but not yet commenced.

14. Retirement Plans

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

			For the Years Ended December 31,		
<u>2019</u>			<u>2018</u>		<u>2017</u>
\$	25,529	\$	16,502	\$	22,025

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

Trust assets invested in shares of our stock are included in treasury stock, and the corresponding liability is included in a separate component of stockholders' equity. At December 31, 2019, these trusts held 77,963 shares at historical average cost or \$2.3 million of our stock (2018 – 80,584 shares or \$2.3 million).

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

15. Earnings Per Share

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

For the Years Ended December 31,	Net Income			Earnings per Share
	Net Income	Shares		
2019				
Earnings	\$ 219,923	15,969		\$ 13.77
Dilutive stock options	-	480		
Nonvested stock awards	-	78		
Diluted earnings	<u>\$ 219,923</u>	<u>16,527</u>		<u>\$ 13.31</u>
2018				
Earnings	\$ 205,544	16,059		\$ 12.80
Dilutive stock options	-	650		
Nonvested stock awards	-	94		
Diluted earnings	<u>\$ 205,544</u>	<u>16,803</u>		<u>\$ 12.23</u>
2017				
Earnings	\$ 98,177	16,057		\$ 6.11
Dilutive stock options	-	596		
Nonvested stock awards	-	89		
Diluted earnings	<u>\$ 98,177</u>	<u>16,742</u>		<u>\$ 5.86</u>

During 2019, 287,000 stock options were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price during most of the year. During 2018, 246,000 stock options were also excluded. During 2017, 328,000 stock options were also excluded.

16. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2019 (in thousands):

	Carrying Value	Fair Value Measure		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments of deferred compensation plans held in trust	\$ 77,446	\$ 77,446	\$ -	\$ -
Long-term debt and current portion of long-term debt	90,000	-	90,000	-

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2018 (in thousands):

	Carrying Value	Fair Value Measure		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments of deferred compensation plans held in trust	\$ 65,624	\$ 65,624	\$ -	\$ -
Long-term debt and current portion of long-term 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 3, our outstanding long-term debt and current portion of long-term debt have floating interest rates that are reset at short-term intervals, generally 30 or 60 days. The interest rate we pay also includes an additional amount based on our current leverage ratio. As such, we believe our borrowings reflect significant nonperformance risks, mainly credit risk. Based on these factors, we believe the fair value of our long-term debt and current portion of long-term debt approximate the carrying value.

17. Legal and Regulatory Matters

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

Regulatory Matters and Litigation

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.

The 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 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.

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 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 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 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.

The Company has also entered into a settlement agreement that, once approved by the Los Angeles County Superior Court, will resolve state-wide wage and hour class action claims raised in four separate cases: (1) *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 ("*Seper*"); (2) *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 ("*Chhina*") (which was subsequently merged with *Seper*); (3) *Chere Phillips and Lady Moore v. VITAS Healthcare Corporation of California, Sacramento County Superior Court, Case No. 34-2017-0021-2755*; and (4) *Williams v. VITAS Healthcare Corporation of California, Alameda County Superior Court Case No. RG 17853886*. These actions were brought by both current and former employees including a registered nurse, a licensed vocational

nurse (LVN), home health aides and a social worker. Each action stated multiple claims generally including (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. The cases generally asserted claims on behalf of classes defined to include all current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of each lawsuit. For additional procedural history of these cases, please refer to our prior quarterly and annual filings.

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. Discovery in the remaining cases was stayed as to class claims and each court was advised of the pendency of the consolidated *Seper/Chhina* action. The parties engaged in a mediation process beginning in October 2018 and concluded with an agreement in March 2019. The settlement amount, subject to court approval, is \$5.75 million plus employment taxes. As of December 31, 2019, \$6.0 million was accrued in the accompanying Consolidated Balance Sheet. 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*. On January 28, 2020, the court granted preliminary approval of the settlement. A notice of the proposed settlement will be sent to the members of the class by the class claims administrator. The court has set the date for the final approval of the settlement hearing for May 21, 2020.

Alfred Lax (“Lax”), a current employee of Roto-Rooter Services Company (“RRSC”), was hired in 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 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 is, *Alfred Lax on behalf of himself and all others similarly situated v. Roto-Rooter Services Company, and Does 1 through 50 inclusive*; Santa Clara County Superior Court Case Number 18CV338652.

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

18. Capital Stock Transactions

We repurchased the following capital stock:

	For the Years Ended December 31,		
	2019	2018	2017
Total cost of repurchased shares (in thousands):	\$ 92,631	\$ 158,884	\$ 94,640
Shares repurchased	269,009	561,146	500,000
Weighted average price per share	\$ 344.34	\$ 283.14	\$ 189.28

In February 2019, the Board of Directors authorized an additional \$150.0 million for stock repurchase under the February 2011 repurchase program. We currently have \$104.0 million of authorization remaining under this share purchase plan.

19. Other Operating Expenses

	December 31,		
	2019	2018	2017
Litigation settlement	\$ 6,000	\$ 796	\$ 84,476
Loss on sale of transportation equipment	2,266	-	5,266
Loss on disposal of property and equipment	866	504	-
Program closure expenses	-	-	1,138
Total other operating expenses	<u>\$ 9,132</u>	<u>\$ 1,300</u>	<u>\$ 90,880</u>

During the first quarter of 2019, the Company recorded \$6.0 million for a potential legal settlement, which includes the settlement amount, estimated employment taxes and other litigation costs. Also during 2019, the Company recorded \$2.3 million for the loss on sale of transportation equipment.

During 2017, the Company recorded \$84.5 million related to the Settlement Agreement and a related qui tam case. See Footnote 17 for further discussion. The company recorded \$5.3 million related to the loss on the sale of transportation equipment. Also during 2017, the Company recorded \$1.1 million related to the closure of three Alabama programs at VITAS.

20. Recent Accounting Standards

In December 2019, the FASB issued Accounting Standards Update “ASU No. 2019-12 – Simplifying the Accounting Income Taxes”. The ASU adds new guidance to simplify accounting for income taxes, changes the accounting for certain income tax transactions and makes minor improvements to the codifications. The ASU is effective for the Company on January 1, 2021. We are currently evaluating the impact of this standard on our consolidated financial statements.

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

In June 2016, FASB issued Accounting Standards Update “ASU No. 2016-13 - Measurement of Credit Losses on Financial Instruments”. The ASU requires the use of the current expected credit loss model to measure impairments of financial assets. The ASU is effective for the Company for fiscal years beginning after December 15, 2019. The adoption of ASU No. 2016-13 will not have a material impact on our consolidated financial statements.

UNAUDITED SUMMARIES OF QUARTERLY RESULTS

Chemed Corporation and Subsidiary Companies
(in thousands, except per share and footnote data)

For the Year Ended December 31, 2019	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Total service revenues and sales	\$ 462,034	\$ 473,584	\$ 480,613	\$ 522,324	\$ 1,938,555
Gross profit (excluding depreciation)	\$ 140,083	\$ 149,947	\$ 152,430	\$ 174,969	\$ 617,429
Income/(loss) from operations	\$ 49,472	\$ 65,527	\$ 64,929	\$ 77,452	\$ 257,380
Interest expense	(1,124)	(1,237)	(1,041)	(1,133)	(4,535)
Other income--net	2,439	13	3,036	3,276	8,764
Income before income taxes	50,787	64,303	66,924	79,595	261,609
Income taxes	(6,120)	(13,575)	(7,976)	(14,015)	(41,686)
Net income/(loss) (a)	\$ 44,667	\$ 50,728	\$ 58,948	\$ 65,580	\$ 219,923
Earnings/(Loss) Per Share (a)					
Net income/(loss)	\$ 2.80	\$ 3.18	\$ 3.69	\$ 4.09	\$ 13.77
Average number of shares outstanding	15,954	15,928	15,970	16,022	15,969
Diluted Earnings/(Loss) Per Share (a)					
Net income/(loss)	\$ 2.70	\$ 3.08	\$ 3.56	\$ 3.96	\$ 13.31
Average number of shares outstanding	16,525	16,449	16,555	16,565	16,527

(a) The following amounts are included in income during the respective quarter (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Pretax (cost)/benefit:					
Stock option expense	\$ (4,089)	\$ (3,929)	\$ (2,711)	\$ (4,102)	\$ (14,831)
Long-term incentive compensation	(1,488)	(1,386)	(1,677)	(3,079)	(7,630)
Expenses related to litigation settlements	(6,000)	-	-	-	(6,000)
Acquisition expenses	(120)	(97)	(3,281)	(1,336)	(4,834)
Medicare cap sequestration adjustment	(515)	(1,689)	(859)	(919)	(3,982)
Amortization of reacquired franchise agreements	(441)	(331)	(331)	(2,861)	(3,964)
Loss on sale of transportation equipment	-	(2,266)	-	-	(2,266)
Non cash ASC 842 expenses	(548)	-	-	-	(548)
Total	\$ (13,201)	\$ (9,698)	\$ (8,859)	\$ (12,297)	\$ (44,055)
After-tax (cost)/benefit:					
Stock option expense	\$ (3,327)	\$ (3,197)	\$ (2,278)	\$ (3,435)	\$ (12,237)
Long-term incentive compensation	(1,230)	(1,199)	(1,486)	(2,525)	(6,440)
Expenses related to litigation settlements	(4,476)	-	-	-	(4,476)
Acquisition expenses	(91)	(71)	(2,411)	(984)	(3,557)
Medicare cap sequestration adjustment	(387)	(1,253)	(639)	(686)	(2,965)
Amortization of reacquired franchise agreements	(324)	(244)	(244)	(2,101)	(2,913)
Loss on sale of transportation equipment	-	(1,733)	-	-	(1,733)
Non cash ASC 842 expenses	(405)	(1)	-	-	(406)
Excess tax benefits on stock compensation	6,732	3,212	8,792	5,441	24,177
Total	\$ (3,508)	\$ (4,486)	\$ 1,734	\$ (4,290)	\$ (10,550)

UNAUDITED SUMMARIES OF QUARTERLY RESULTS

Chemed Corporation and Subsidiary Companies
(in thousands, except per share and footnote data)

For the Year Ended December 31, 2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Total service revenues and sales	\$ 439,176	\$ 441,813	\$ 444,151	\$ 457,508	\$ 1,782,648
Gross profit (excluding depreciation)	\$ 134,640	\$ 136,072	\$ 138,839	\$ 145,453	\$ 555,004
Income from operations	\$ 56,397	\$ 58,141	\$ 61,713	\$ 67,381	\$ 243,632
Interest expense	(1,207)	(1,524)	(1,082)	(1,177)	(4,990)
Other income/(expense)--net	1,018	1,038	2,300	(3,398)	958
Income before income taxes	56,208	57,655	62,931	62,806	239,600
Income taxes	(11,212)	(2,684)	(11,682)	(8,478)	(34,056)
Net income (a)	\$ 44,996	\$ 54,971	\$ 51,249	\$ 54,328	\$ 205,544
Earnings Per Share (a)					
Net income	\$ 2.79	\$ 3.43	\$ 3.19	\$ 3.39	\$ 12.80
Average number of shares outstanding	16,100	16,035	16,074	16,026	16,059
Diluted Earnings Per Share (a)					
Net income	\$ 2.66	\$ 3.27	\$ 3.06	\$ 3.26	\$ 12.23
Average number of shares outstanding	16,887	16,811	16,772	16,670	16,803

(a) The following amounts are included in income during the respective quarter (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Pretax (cost)/benefit:					
Stock option expense	\$ (3,653)	\$ (3,652)	\$ (2,055)	\$ (3,251)	\$ (12,611)
Long-term incentive compensation	(1,920)	(1,222)	(1,234)	(2,242)	(6,618)
Medicare cap sequestration adjustment	(352)	(185)	(503)	(456)	(1,496)
Expenses related to litigation settlements	-	204	-	(1,000)	(796)
Acquisition expense	-	-	(354)	(403)	(757)
Total	\$ (5,925)	\$ (4,855)	\$ (4,146)	\$ (7,352)	\$ (22,278)
After-tax (cost)/benefit:					
Stock option expense	\$ (2,891)	\$ (2,900)	\$ (1,674)	\$ (2,653)	\$ (10,118)
Long-term incentive compensation	(1,499)	(1,003)	(1,013)	(1,792)	(5,307)
Medicare cap sequestration adjustment	(263)	(138)	(376)	(337)	(1,114)
Expenses related to litigation settlements	-	152	-	(746)	(594)
Acquisition expense	-	-	(262)	(297)	(559)
Excess tax benefits on stock compensation	3,798	11,702	3,118	4,244	22,862
Total	\$ (855)	\$ 7,813	\$ (207)	\$ (1,581)	\$ 5,170

SELECTED FINANCIAL DATA

Chemed Corporation and Subsidiary Companies

(in thousands, except per share and footnote data, ratios, percentages and personnel)

	2019	2018	2017	2016	2015
Summary of Operations					
Continuing operations (a)					
Service revenues and sales	\$ 1,938,555	\$ 1,782,648	\$ 1,666,724	\$ 1,576,881	\$ 1,543,388
Gross profit (excluding depreciation)	617,429	555,004	516,192	461,450	455,778
Depreciation	40,870	38,464	35,488	34,279	32,369
Amortization	4,335	399	137	359	1,130
Income from operations	257,380	243,632	113,035	178,749	184,458
Net income	219,923	205,544	98,177	108,743	110,274
Earnings per share					
Net income	\$ 13.77	\$ 12.80	\$ 6.11	\$ 6.64	\$ 6.54
Average number of shares outstanding	15,969	16,059	16,057	16,383	16,870
Diluted earnings per share					
Net income	\$ 13.31	\$ 12.23	\$ 5.86	\$ 6.48	\$ 6.33
Average number of shares outstanding	16,527	16,803	16,742	16,789	17,422
Cash dividends per share	\$ 1.24	\$ 1.16	\$ 1.08	\$ 1.00	\$ 0.92
Financial Position--Year-End					
Cash and cash equivalents	\$ 6,158	\$ 4,831	\$ 11,121	\$ 15,310	\$ 14,727
Working capital/(deficit)	(71,549)	(31,830)	(17,476)	(1,932)	(20,528)
Current ratio	0.73	0.83	0.91	0.99	0.88
Properties and equipment, at cost less accumulated depreciation	\$ 175,763	\$ 162,033	\$ 143,034	\$ 121,302	\$ 117,370
Total assets	1,268,317	975,529	920,026	880,059	852,325
Long-term debt	90,000	89,200	91,200	100,000	83,750
Stockholders' equity	726,608	591,334	540,354	524,099	513,253
Other Statistics					
Capital expenditures	\$ 53,022	\$ 52,872	\$ 64,300	\$ 39,772	\$ 44,135
Number of employees	16,641	15,707	14,813	14,613	14,406

(a) The following amounts are included in income from continuing operations during the respective year (in thousands):

	2019	2018	2017	2016	2015
After-tax benefit/(cost):					
Excess tax benefits on stock compensation	\$ 24,177	\$ 22,862	\$ 18,932	\$ -	\$ -
Stock option expense	(12,237)	(10,118)	(6,892)	(5,266)	(3,439)
Long-term incentive compensation	(6,440)	(5,307)	(3,243)	(1,221)	(4,752)
Litigation settlements	(4,476)	(594)	(52,504)	(28)	(3)
Acquisition expense	(3,557)	(559)	-	-	(104)
Medicare cap sequestration adjustment	(2,965)	(1,114)	(276)	(141)	-
Amortization of reacquired franchise agreements	(2,913)	-	-	-	-
Loss on sale of transportation equipment	(1,733)	-	(3,314)	-	-
Non cash ASC 842 expenses	(406)	-	-	-	-
Program closure expenses	-	-	(675)	-	-
Impact of tax reform	-	-	8,302	-	-
Expenses incurred in connection with the Office of Inspector General investigation	-	-	(3,207)	(3,248)	(3,072)
Early retirement expenses	-	-	-	(2,840)	-
Expenses of securities litigation	-	-	-	-	(23)
Total	\$ (10,550)	\$ 5,170	\$ (42,877)	\$ (12,744)	\$ (11,393)

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

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

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

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

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

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATING STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(in thousands)(unaudited)

2018	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 1,197,562	\$ 585,086	\$ -	\$ 1,782,648
Cost of services provided and goods sold	928,306	299,338	-	1,227,644
Selling, general and administrative expenses	81,969	145,683	43,557	271,209
Depreciation	19,688	18,629	147	38,464
Amortization	12	387	-	399
Other operating expenses	1,130	170	-	1,300
Total costs and expenses	<u>1,031,105</u>	<u>464,207</u>	<u>43,704</u>	<u>1,539,016</u>
Income/(loss) from operations	166,457	120,879	(43,704)	243,632
Interest expense	(175)	(319)	(4,496)	(4,990)
Intercompany interest income/(expense)	12,832	6,908	(19,740)	-
Other income/(expense)—net	579	93	286	958
Income/(loss) before income taxes	179,693	127,561	(67,654)	239,600
Income taxes	(40,847)	(28,850)	35,641	(34,056)
Net income/(loss)	<u>\$ 138,846</u>	<u>\$ 98,711</u>	<u>\$ (32,013)</u>	<u>\$ 205,544</u>

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

	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (12,611)	\$ (12,611)
Long-term incentive compensation	-	-	(6,618)	(6,618)
Medicare cap sequestration adjustment	(1,496)	-	-	(1,496)
Litigation settlements	(796)	-	-	(796)
Acquisition expense	(209)	(548)	-	(757)
Total	<u>\$ (2,501)</u>	<u>\$ (548)</u>	<u>\$ (19,229)</u>	<u>\$ (22,278)</u>

	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Excess tax benefits on stock compensation	\$ -	\$ -	\$ 22,862	\$ 22,862
Stock option expense	-	-	(10,118)	(10,118)
Long-term incentive compensation	-	-	(5,307)	(5,307)
Medicare cap sequestration adjustment	(1,114)	-	-	(1,114)
Litigation settlements	(594)	-	-	(594)
Acquisition expense	(156)	(403)	-	(559)
Total	<u>\$ (1,864)</u>	<u>\$ (403)</u>	<u>\$ 7,437</u>	<u>\$ 5,170</u>

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATING STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
(in thousands)(unaudited)

2017	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 1,148,260	\$ 518,464	\$ -	\$ 1,666,724
Cost of services provided and goods sold	886,062	264,470	-	1,150,532
Selling, general and administrative expenses	95,215	136,248	45,189	276,652
Depreciation	18,616	16,667	205	35,488
Amortization	14	123	-	137
Other operating expenses	85,614	-	5,266	90,880
Total costs and expenses	<u>1,085,521</u>	<u>417,508</u>	<u>50,660</u>	<u>1,553,689</u>
Income/(loss) from operations	62,739	100,956	(50,660)	113,035
Interest expense	(188)	(323)	(3,761)	(4,272)
Intercompany interest income/(expense)	11,656	5,596	(17,252)	-
Other income/(expense)—net	(126)	(148)	8,428	8,154
Income/(loss) before income taxes	74,081	106,081	(63,245)	116,917
Income taxes	(16,436)	(32,782)	30,478	(18,740)
Net income/(loss)	<u>\$ 57,645</u>	<u>\$ 73,299</u>	<u>\$ (32,767)</u>	<u>\$ 98,177</u>

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

Pretax benefit/(cost):	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
Litigation settlements	\$ (84,476)	\$ (213)	\$ -	\$ (84,689)
Stock option expense	-	-	(10,485)	(10,485)
Loss on sale of transportation equipment	-	-	(5,266)	(5,266)
Expenses incurred in connection with the Office of Inspector General investigation	(5,194)	-	-	(5,194)
Long-term incentive compensation	-	-	(4,994)	(4,994)
Program closure expenses	(1,138)	-	-	(1,138)
Medicare cap sequestration adjustment	(447)	-	-	(447)
Total	<u>\$ (91,255)</u>	<u>\$ (213)</u>	<u>\$ (20,745)</u>	<u>\$ (112,213)</u>

After-tax benefit/(cost):	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
Litigation settlements	\$ (52,375)	\$ (129)	\$ -	\$ (52,504)
Excess tax benefits on stock compensation	-	-	18,932	18,932
Impact of tax reform	11,057	7,761	(10,516)	8,302
Stock option expense	-	-	(6,892)	(6,892)
Loss on sale of transportation equipment	-	-	(3,314)	(3,314)
Long-term incentive compensation	-	-	(3,243)	(3,243)
Expenses incurred in connection with the Office of Inspector General investigation	(3,207)	-	-	(3,207)
Program closure expenses	(675)	-	-	(675)
Medicare cap sequestration adjustment	(276)	-	-	(276)
Total	<u>\$ (45,476)</u>	<u>\$ 7,632</u>	<u>\$ (5,033)</u>	<u>\$ (42,877)</u>

EXECUTIVE SUMMARY

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

The following is a summary of the key operating results for the years ended December 31, 2019, 2018 and 2017 (in thousands except percentages and per share amounts):

	2019	2018	2017
Consolidated service revenues and sales	\$ 1,938,555	\$ 1,782,648	\$ 1,666,724
Consolidated net income	\$ 219,923	\$ 205,544	\$ 98,177
Diluted EPS	\$ 13.31	\$ 12.23	\$ 5.86
Adjusted net income	\$ 230,473	\$ 200,374	\$ 141,054
Adjusted diluted EPS	\$ 13.95	\$ 11.93	\$ 8.43
Adjusted EBITDA	\$ 350,927	\$ 305,506	\$ 268,459
Adjusted EBITDA as a % of revenue	18.1 %	17.1 %	16.1 %

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

2019 versus 2018

The increase in consolidated service revenues and sales from 2018 to 2019 was a result of a 12.4% increase at Roto-Rooter and a 7.0% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines as well as a \$25.3 million increase as a result of acquisitions completed in 2019. The increase in service revenues at VITAS is comprised primarily of a 2.0% geographically weighted average Medicare reimbursement rate increase, a 6.2% increase in days of care, offset by \$12.4 million in Medicare cap revenue reduction (compared to \$4.1 million for 2018) and acuity mix shift, fluctuations in net room and board and contractual adjustments.

On August 6, 2019, the Centers for Medicare and Medicaid Services released the fiscal year 2020 hospice wage index and payment rate update (FY 2020 update). The FY 2020 update includes the normal yearly inflationary increase by level of care plus a rebasing of the continuous care, inpatient care and respite care rates. The rebasing of these levels of care was to reflect non-inflationary changes in providers' costs over time. The rebasing increased the national average reimbursement rate for continuous care by 39.9% and inpatient care by 34.7%. Respite care is not material to our operations. The rebasing of these levels of care was effective on October 1, 2019.

In February 2016, the FASB issued Accounting Standards Update “ASU No. 2016-02 Leases” which introduced a lessee model that brings most leases onto the balance 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 \$93.1 million and \$104.3 million, respectively, as of January 1, 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.

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

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

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

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

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

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

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

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

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

Amortization of reacquired franchise agreements is \$4.0 million for 2019.

2018 versus 2017

The increase in consolidated service revenues and sales from 2017 to 2018 was a result of a 12.8% increase at Roto-Rooter and a 4.3% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines offset by a \$6.9 million decrease related to the adoption of the new revenue recognition standard. The increase in service revenues at VITAS is comprised primarily of a 1.1% geographically weighted average Medicare reimbursement rate increase, a 7.2% increase in average daily census, offset by \$4.1 million in Medicare cap revenue reduction (compared to \$2.7 million for 2017), acuity mix shift and a \$21.8 million decrease related to the adoption of the new revenue recognition standard.

Impact of Current Market Conditions

On December 22, 2017, the President of the United States signed into law H.R.1, “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (previously known as “The Tax Cuts and Jobs Act”) or (the “Act”). The Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, U.S. generally accepted accounting principles requires resulting tax effects for the Act, to be recorded in the reporting period of enactment.

Our accounting for all elements of the Tax Act is complete. The Tax Act reduced our statutory Federal tax rate from 35% in 2017 to 21% in 2018. The Company did not record any material changes to the provisional amounts previously recorded. The Company also determined new rules, such as the Global Intangible Low-Taxed Income (GILTI) and Base Erosion and Anti-Abuse Tax (BEAT), have no material impact to the financial statements.

Full-year 2020 revenue growth for VITAS, prior to Medicare Cap, is estimated to be in the range of 8.5% to 9.5%. Admissions and average daily census is estimated to expand approximately 3.5% to 4.5% Full-year Adjusted EBITDA margin, prior to Medicare Cap, is estimated to be 18.7% to 19.0%. We are currently estimating \$18.0 million for Medicare Cap billing limitations in the 2020 calendar year.

Roto-Rooter is forecasted to achieve full-year 2020 revenue growth of 13.0% to 14.0%. This revenue estimate is based upon unit for unit revenue growth of 4.0% to 5.0% in core plumbing and drain cleaning services, continued but slowing revenue growth from water restoration services, combined with 12-months of revenue in the Oakland and HSW acquisitions. Adjusted EBITDA margin for 2020 is estimated to be in the range of 23.0% and 23.5%..

Based upon the above, full-year 2020 adjusted earnings per diluted share, excluding non-cash expense for stock options, tax benefits from stock options, costs related to litigation, and other discrete items, is estimated to be in the range of \$16.20 to \$16.50. This 2020 guidance assumes an effective corporate tax rate of 25.2%. This compares to Chemed’s 2019 reported adjusted earnings per diluted share of \$13.95.

LIQUIDITY AND CAPITAL RESOURCES

Significant factors affecting our cash flows during 2019 and financial position at December 31, 2019, include the following:

- Our operations generated cash of \$301.2 million.
- We spent \$138.0 million on business combinations.
- We repurchased \$92.6 million of our stock.
- We spent \$53.0 million on capital expenditures.
- We paid \$19.8 million in dividends.

The ratio of total debt to total capital was 11.0% at December 31, 2019, compared with 13.1% at December 31, 2018. Our current ratio was 0.73 and 0.83 at December 31, 2019 and 2018, respectively.

On June 20, 2018, we replaced our existing credit agreement with the Fourth Amended and Restated Credit Agreement (“2018 Credit Agreement”). Terms of the 2018 Credit Agreement consist of a five-year, \$450 million revolving credit facility and a \$150 million expansion feature, which may consist of term loans or additional revolving commitments. The interest rate at inception of the agreement is LIBOR plus 100 basis points. The 2018 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio. For December 31, 2019 and 2018, respectively, the interest rate is LIBOR plus 100 basis points. The 2018 Credit Agreement includes transition provisions in the instance LIBOR is no longer published or used as an industry-accepted rate.

The 2018 Credit Agreement contains the following quarterly financial covenants effective as of December 31, 2019:

Description	Requirement	Chemed December 31, 2019
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	0.37 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00	4.34 to 1.00

We forecast to be in compliance with all debt covenants through fiscal 2020.

We have issued \$37.9 million in standby letters of credit as of December 31, 2019, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2019, we have approximately \$322.1 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility. We believe our cash flow from operating activities and our unused eligible lines of credit are sufficient to fund our obligations and operate our business in the near and long term. We continually evaluate cash utilization alternatives, including share repurchase, debt repurchase, acquisitions, and increased dividends to determine the most beneficial use of available capital resources.

CASH FLOW

Our cash flows for 2019, 2018 and 2017 are summarized as follows (in millions):

	For the Years Ended December 31,		
	2019	2018	2017
Net cash provided by operating activities	\$ 301.2	\$ 287.1	\$ 162.5
Capital expenditures	(53.0)	(52.9)	(64.3)
Net cash provided for operating activities after capital expenditures	248.2	234.2	98.2
Purchase of treasury stock in the open market	(92.6)	(158.9)	(94.6)
Business combinations	(138.0)	(53.2)	(4.7)
Proceeds from exercise of stock options	34.4	32.4	27.1
Capital stock surrendered to pay taxes on on stock-based compensation	(28.5)	(27.5)	(14.2)
Dividends paid	(19.8)	(18.7)	(17.4)
Net increase/(decrease) in long-term debt	0.8	(12.0)	(7.6)
Increase/(decrease) in cash overdraft payable	(3.9)	(1.5)	6.7
Other--net	0.7	(1.1)	2.3
Increase/(decrease) in cash and cash equivalents	\$ 1.3	\$ (6.3)	\$ (4.2)

2019 versus 2018

The change in net cash provided by operating activities is mainly the result of a \$14.4 million increase in net income. Significant changes in our accounts receivable balances are driven mainly by the timing of payments received from the Federal government at our VITAS subsidiary. We typically receive a payment in excess of \$40.0 million from the Federal government from hospice services every other Friday. The timing of year end will have a significant impact on the accounts receivable at VITAS. These changes generally normalize over a two year period, as cash flow variations in one year are offset in the following year.

In 2019, we repurchased 269,009 shares of Chemed capital stock at a weighted average price of \$344.34 per share. In 2018, we repurchased approximately 561,146 shares of Chemed stock at a weighted average price of \$283.14 per share. Based on our current operations and our current sources of capital, we believe we have the ability to continue our current share repurchase program into the foreseeable future.

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

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

The change in overdrafts payable is also a function of the timing of cash payments made and cash receipts near year end.

2018 versus 2017

The change in net cash provided by operating activities is mainly the result of a \$107.4 million increase in net income. Significant changes in our accounts receivable balances are driven mainly by the timing of payments received from the Federal government at our VITAS subsidiary. We typically receive a payment in excess of \$35.0 million from the Federal government from hospice services every other Friday. The timing of year end will have a significant impact on the accounts receivable at VITAS. These changes generally normalize over a two year period, as cash flow variations in one year are offset in the following year.

In 2018, we repurchased 561,146 shares of Chemed capital stock at a weighted average price of \$283.14 per share. In 2017, we repurchased approximately 500,000 shares of Chemed stock at a weighted average price of \$189.28 per share. Based on our current operations and our current sources of capital, we believe we have the ability to continue our current share repurchase program into the foreseeable future.

We made two significant acquisitions in 2018. We acquired five Roto-Rooter franchises in northern California and assets of a non-profit hospice in Florida to increase market penetration.

The change in overdrafts payable is also a function of the timing of cash payments made and cash receipts near year end.

COMMITMENTS AND CONTINGENCIES

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

In connection with the sale of DuBois Chemicals, Inc. ("DuBois") in 1991, we provided allowances and accruals relating to several long-term costs, including income tax matters, lease commitments and environmental costs. Additionally, we retained liability for casualty insurance claims for Service America and Patient Care that were incurred prior to the respective disposal dates, 2005 and 2002. In the aggregate, we believe these allowances and accruals are adequate as of December 31, 2019. Based on reviews of our environmental-related liabilities under the DuBois sale agreement, we have estimated our remaining liability to be \$1.7 million. As of December 31, 2019, we are contingently liable for additional cleanup and related costs up to a maximum of \$14.9 million. We do not believe it is probable that we will be required to make any payment towards this contingent liability. Thus, no provision has been recorded in accordance with the applicable accounting guidance.

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

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.

The 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 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.

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 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 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 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.

The Company has also entered into a settlement agreement that, once approved by the Los Angeles County Superior Court, will resolve state-wide wage and hour class action claims raised in four separate cases: (1) *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 ("Seper"); (2) *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 ("Chhina") (which was subsequently merged with Seper); (3) *Chere Phillips and Lady Moore v. VITAS Healthcare Corporation of California*, Sacramento County Superior Court, Case No. 34-2017-0021-2755; and (4) *Williams v. VITAS Healthcare Corporation of California*, Alameda County Superior Court Case No. RG 17853886. These actions were brought by both current and former employees including a registered nurse, a licensed vocational nurse (LVN), home health aides and a social worker. Each action stated multiple claims generally including (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. The cases generally asserted claims on behalf of classes defined to include all current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of each lawsuit. For additional procedural history of these cases, please refer to our prior quarterly and annual filings.

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. Discovery in the remaining cases was stayed as to class claims and each court was advised of the pendency of the consolidated *Seper/Chhina* action. The parties engaged in a mediation process beginning in October 2018 and concluded with an agreement in March 2019. The settlement amount, subject to court approval, is \$5.75 million plus employment taxes. As of December 31, 2019, \$6.0 million was accrued in the accompanying Consolidated Balance Sheet. 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*. On January 28, 2020, the court granted preliminary approval of the settlement. A notice of the proposed settlement will be sent to the members of the class by the class claims administrator. The court has set the date for the final approval of the settlement hearing for May 21, 2020.

Alfred Lax ("Lax"), a current employee of Roto-Rooter Services Company ("RRSC"), was hired in 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 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 is, *Alfred Lax on behalf of himself and all others similarly situated v. Roto-Rooter Services Company, and Does 1 through 50 inclusive*; Santa Clara County Superior Court Case Number 18CV338652

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

CONTRACTUAL OBLIGATIONS

The table below summarizes our debt and contractual obligations as of December 31, 2019 (in thousands):

	Total	Less than 1 year	1-3 Years	3-5 Years	After 5 Years
Long-term debt obligations (a)	\$ 90,000	\$ -	\$ -	\$ 90,000	\$ -
Interest on long-term debt	10,931	3,123	6,246	1,562	-
Lease liabilities	125,936	38,932	44,196	27,658	15,150
Purchase obligations (b)	51,101	51,101	-	-	-
Other long-term obligations (c)	82,122	1,419	2,838	1,419	76,446
Total contractual cash obligations	<u>\$ 360,090</u>	<u>\$ 94,575</u>	<u>\$ 53,280</u>	<u>\$ 120,639</u>	<u>\$ 91,596</u>

(a) Represents the face value of the obligation.

(b) Purchase obligations consist of accounts payable at December 31, 2019.

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

RESULTS OF OPERATIONS

2019 Versus 2018 – Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to income for 2019 versus 2018 (in thousands, except percentages):

	Favorable/(Unfavorable)	
	Amount	Percent
Service revenues and sales		
VITAS	\$ 83,622	7
Roto-Rooter	72,285	12
Total	155,907	9
Cost of services provided and goods sold	(93,482)	(8)
Selling, general and administrative expenses	(34,503)	(13)
Depreciation	(2,406)	(6)
Amortization	(3,936)	(986)
Other operating expenses	(7,832)	(602)
Income from operations	13,748	6
Interest expense	455	9
Other income - net	7,806	815
Income before income taxes	22,009	9
Income taxes	(7,630)	(22)
Net income	<u>\$ 14,379</u>	7

The VITAS segment revenue increase is the result of the following (dollars in thousands):

	2019	2018
Routine homecare	\$ 1,076,025	\$ 1,010,518
Continuous care	133,473	122,498
Inpatient care	99,920	82,677
Other	10,433	7,831
Medicare cap adjustment	(12,415)	(4,123)
Implicit price concessions	(14,893)	(11,785)
Room and board, net	(11,359)	(10,054)
Net revenue	<u>\$ 1,281,184</u>	<u>\$ 1,197,562</u>

Days of care changed as follows:

	Days of Care		Increase/(Decrease)
	2019	2018	Percent
Routine homecare	6,578,815	6,192,858	6
Continuous care	166,783	169,828	(2)
General inpatient	133,033	113,453	17
Total days of care	<u>6,878,631</u>	<u>6,476,139</u>	6

The remaining increase in VITAS' revenues for 2019 versus 2018 was primarily comprised of a geographically weighted average Medicare reimbursement rate increase of approximately 2.0%, offset by \$12.4 million in Medicare cap revenue reductions compared to \$4.1 million in Medicare cap revenue reductions in the same period of 2018, acuity mix shift, fluctuations in net room and board and contractual adjustments that negatively impacted revenue growth, when compared to the prior-year period.

The Roto-Rooter segment revenue increase is the result of the following (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Drain cleaning - short term core	\$ 195,063	\$ 170,250
Plumbing - short term core	<u>139,662</u>	<u>124,390</u>
Subtotal	334,725	294,640
Excavation - short term core	145,540	128,885
Water restoration	115,949	109,484
Contractor operations	58,086	50,169
Outside franchisee fees	6,152	6,382
Other - short term core	2,360	2,320
Other	12,279	11,958
Implicit price concessions and credit memos	<u>(17,720)</u>	<u>(18,752)</u>
Total	<u>\$ 657,371</u>	<u>\$ 585,086</u>

All major lines of business at Roto-Rooter were impacted by the Oakland and HSW acquisitions that occurred during 2019 which increased revenue \$25.3 million. The increase in drain cleaning revenues for 2019 versus 2018 is attributable to an 8.1% increase in price and service mix shift and a 6.5% increase in job count. The increase in plumbing revenues for 2019 versus 2018 is attributable to a 7.6% increase in price and service mix shift and a 4.7% increase in job count. The increase in excavation revenues for 2019 versus 2018 is attributable to an 8.7% increase in price and service mix shift and a 4.2% increase in job count. Water restoration revenue for 2019 versus 2018 is attributable to a 1.2% increase in price and service mix shift and a 4.7% increase in job count. Contractor operations increased 15.8% mainly due to their continued expansion into water restoration.

The consolidated gross margin excluding depreciation was 31.8% in 2019 versus 31.1% in 2018. On a segment basis, VITAS' gross margin excluding depreciation was 23.3% in 2019 and 22.5% in 2018 primarily due to improved labor management and reduced ancillary costs. Roto-Rooter's gross margin excluding depreciation was 48.4% in 2019 and 48.8% in 2018.

Selling, general and administrative expenses ("SG&A") for 2019 and 2018 comprise (in thousands):

	<u>2019</u>	<u>2018</u>
SG&A expenses before long-term incentive compensation, and the impact of market value adjustments related to deferred compensation trusts	\$ 289,828	\$ 264,304
Impact of market value adjustments related to assets held in deferred compensation trusts	8,254	287
Long-term incentive compensation	<u>7,630</u>	<u>6,618</u>
Total SG&A expenses	<u>\$ 305,712</u>	<u>\$ 271,209</u>

SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts for 2019 were up 9.7% when compared to 2018. This increase was mainly a result of the increase in variable selling expenses caused by increased revenue and increased advertising expense at Roto-Rooter as well as \$4.7 million in acquisition related expenses at Roto-Rooter in 2019.

Amortization expense increased \$3.9 million mainly as a result of reacquired franchise rights amortization from the Oakland and HSW acquisition.

Other operating expense for 2019 and 2018 comprise (in thousands):

	<u>2019</u>	<u>2018</u>
Litigation settlements	\$ 6,000	\$ 796
Loss on sale of transportation equipment	2,266	-
Loss on disposal of property and equipment	866	504
Total other operating expenses	<u>\$ 9,132</u>	<u>\$ 1,300</u>

Other income-net for 2019 and 2018 comprise (in thousands):

	<u>2019</u>	<u>2018</u>
Market value gains on assets held in deferred compensation trusts	\$ 8,254	\$ 287
Interest income	513	671
Other	(3)	-
Total other income	<u>\$ 8,764</u>	<u>\$ 958</u>

Our effective tax rate reconciliation is as follows:

	<u>2019</u>	<u>2018</u>
Income tax provision calculated using the statutory rate	\$ 54,938	\$ 50,316
Stock compensation tax benefits	(24,177)	(22,862)
State and local income taxes, less federal income tax effect	7,880	7,150
Nondeductible expenses	3,048	2,280
Other--net	(3)	(2,828)
Income tax provision	<u>\$ 41,686</u>	<u>\$ 34,056</u>
Effective tax rate	<u>15.9 %</u>	<u>14.2 %</u>

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

	<u>2019</u>	<u>2018</u>
VITAS		
Litigation settlements	\$ (4,476)	\$ (594)
Medicare cap sequestration adjustment	(2,965)	(1,114)
Non cash ASC 842 expense	(490)	-
Acquisition expense	-	(156)
Roto-Rooter		
Acquisition expense	(3,429)	(403)
Amortization of reacquired franchise agreements	(2,913)	-
Non cash ASC 842 expense	(40)	-
Corporate		
Excess tax benefits on stock compensation	24,177	22,862
Stock option expense	(12,237)	(10,118)
Long-term incentive compensation	(6,440)	(5,307)
Loss on sale of transportation equipment	(1,733)	-
Acquisition expense	(128)	-
Non cash ASC 842 expense	124	-
Total	<u>\$ (10,550)</u>	<u>\$ 5,170</u>

2019 Versus 2018 – Segment Results

Net income/(loss) for 2019 versus 2018 (in thousand):

	<u>2019</u>	<u>2018</u>
VITAS	\$ 155,822	\$ 138,846
Roto-Rooter	103,710	98,711
Corporate	<u>(39,609)</u>	<u>(32,013)</u>
	<u>\$ 219,923</u>	<u>\$ 205,544</u>

VITAS' after-tax earnings were positively impacted in 2019 compared to 2018 due to higher gross margin 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 2019 was 12.2% as compared to 11.6% in 2018.

Roto-Rooter's net income was positively impacted in 2019 compared to 2018 primarily by an increase in revenue offset by acquisition related expenses. After-tax earnings as a percent of revenue at Roto-Rooter in 2019 was 15.8% as compared to 16.9% in 2018,

After-tax Corporate expenses for 2019 increased by 23.7% when compared to 2018 due mainly to a \$2.3 million (\$1.7 million after-tax) loss on the sale of transportation equipment and increased stock-based compensation in 2019 when compared to 2018.

2018 Versus 2017 – Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to income for 2018 versus 2017 (in thousands, except percentages):

	<u>Favorable/(Unfavorable)</u>	
	<u>Amount</u>	<u>Percent</u>
Service revenues and sales		
VITAS	\$ 49,302	4
Roto-Rooter	66,622	13
Total	<u>115,924</u>	7
Cost of services provided and goods sold	(77,112)	(7)
Selling, general and administrative expenses	5,443	2
Depreciation	(2,976)	(8)
Amortization	(262)	(191)
Other operating expenses	<u>89,580</u>	99
Income from operations	130,597	116
Interest expense	(718)	(17)
Other income - net	<u>(7,196)</u>	(88)
Income before income taxes	122,683	105
Income taxes	<u>(15,316)</u>	(82)
Net income	<u>\$ 107,367</u>	109

The VITAS segment revenue increase is the result of the following (dollars in thousands):

	<u>2018</u>	<u>2017</u>
Routine homecare	\$ 1,010,518	\$ 935,913
Continuous care	122,498	124,557
Inpatient care	82,677	90,472
Other	7,861	-
Medicare cap adjustment	(4,123)	(2,682)
Implicit price concessions	(11,785)	-
Room and board, net	<u>(10,054)</u>	-
Net revenue	<u>\$ 1,197,592</u>	<u>\$ 1,148,260</u>

Days of care change as follows:

	Days of Care		Increase/(Decrease)
	2018	2017	Percent
Routine homecare	6,192,858	5,743,414	8
Continuous care	169,828	171,395	(1)
General inpatient	113,453	125,971	(10)
Total days of care	<u>6,476,139</u>	<u>6,040,780</u>	7

The remaining increase in VITAS' revenues for 2018 versus 2017 was primarily comprised of a geographically weighted average Medicare reimbursement rate increase of approximately 1.1%, offset by \$4.1 million in Medicare cap liability compared to \$2.7 million contra-revenue in the same period of 2017 and \$21.8 million change in classification of implicit price concessions and room and board, net related to the adoption of the new revenue recognition standard.

The Roto-Rooter segment revenue increase is the result of the following (dollars in thousands):

	2018	2017
Drain cleaning - short term core	\$ 170,250	\$ 151,667
Plumbing - short term core	<u>124,390</u>	<u>108,267</u>
Subtotal	294,640	259,934
Excavation - short term core	128,885	111,248
Water restoration	109,484	82,272
Contractor operations	50,169	43,770
Outside franchisee fees	6,382	6,130
Other - short term core	2,320	2,397
Other	11,958	12,713
Implicit price concessions and credit memo	<u>(18,752)</u>	<u>-</u>
	<u>\$ 585,086</u>	<u>\$ 518,464</u>

Short-term core service revenue increased 12.9% as a result of an 8.8% increase in price and service mix shift as well as a 4.1% increase in the number of jobs performed. Water restoration revenue increased 33.1% as a result of a 16.3% increase in the number of jobs performed and a 16.8% increase in price and service mix shift. Contractor operations increased 14.4% due mainly to their continued expansion into water restoration. Revenue was negatively impacted by the change in the classification of implicit price concessions and credit memos from selling, general and administrative expenses of \$6.9 million due to the adoption of the new revenue recognition standard.

The consolidated gross margin excluding depreciation was 31.1% in 2018 versus 31.0% in 2017. On a segment basis, VITAS' gross margin excluding depreciation was 22.5% in 2018 and 22.8% in 2017. Roto-Rooter's gross margin excluding depreciation was 48.8% in 2018 and 49.0% in 2017.

Selling, general and administrative expenses ("SG&A") for 2018 and 2017 comprise (in thousands):

	2018	2017
SG&A expenses before long-term incentive compensation, OIG expenses and the impact of market gains of deferred compensation plans	\$ 264,304	\$ 258,034
Long-term incentive compensation	6,618	4,994
Impact of market value gains on liabilities held in deferred compensation trusts	287	8,430
Expenses related to OIG investigation	-	5,194
Total SG&A expenses	<u>\$ 271,209</u>	<u>\$ 276,652</u>

SG&A expenses before long-term incentive compensation, expenses related to OIG investigation and the impact of market value adjustments related to deferred compensation trusts for 2018 were up 2.4% when compared to 2017. This increase was mainly a result of the increase in variable selling expenses caused by increased revenue and increased advertising expense at Roto-Rooter offset

by \$18.7 million of implicit price concessions being classified in revenue versus selling, general and administrative expenses due to the new revenue recognition standard.

Other operating expense for 2018 and 2017 comprise (in thousands):

	<u>2018</u>	<u>2017</u>
Litigation settlement of VITAS segment	\$ 796	\$ 84,476
Loss on sale of transportation equipment	504	5,266
Program closure expenses	-	1,138
Total other operating expenses	<u>\$ 1,300</u>	<u>\$ 90,880</u>

During 2017, the Company recorded \$84.5 million related to the Settlement Agreement and a related qui tam case. See Footnote 17 for further discussion. The Company recorded \$5.3 million related to the loss on the sale of transportation equipment. Also during 2017, the Company recorded \$1.1 million related to the closure of three Alabama programs at VITAS.

Other income-net for 2018 and 2017 comprise (in thousands):

	<u>2018</u>	<u>2017</u>
Interest income	\$ 671	\$ 427
Market value gains on assets held in deferred compensation trusts	287	8,430
Loss on disposal of property and equipment	-	(703)
Total other income	<u>\$ 958</u>	<u>\$ 8,154</u>

Our effective tax rate reconciliation is as follows:

	<u>2018</u>	<u>2017</u>
Income tax provision calculated using the statutory rate	\$ 50,316	\$ 40,921
Stock compensation tax benefits	(22,862)	(18,932)
State and local income taxes, less federal income tax effect	7,150	4,600
Nondeductible expenses	2,280	1,041
Enactment of the tax reform act	-	(8,305)
Other--net	(2,828)	(585)
Income tax provision	<u>\$ 34,056</u>	<u>\$ 18,740</u>
Effective tax rate	<u>14.2 %</u>	<u>16.0 %</u>

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

	<u>2018</u>	<u>2017</u>
VITAS		
Medicare cap sequestration adjustment	\$ (1,114)	\$ (276)
Expenses related to litigation settlements	(594)	(52,375)
Acquisition expense	(156)	-
Impact of tax reform	-	11,057
Costs associated with the OIG investigation	-	(3,207)
Program closure expenses	-	(675)
Roto-Rooter		
Acquisition expense	(403)	-
Impact of tax reform	-	7,761
Expenses related to litigation settlements	-	(129)
Corporate		
Excess tax benefits on stock compensation	22,862	18,932
Stock option expense	(10,118)	(6,892)
Long-term incentive compensation	(5,307)	(3,243)
Impact of tax reform	-	(10,516)
Loss on sale of transportation equipment	-	(3,314)
Total	<u>\$ 5,170</u>	<u>\$ (42,877)</u>

2018 Versus 2017 – Segment Results

Net income/(loss) for 2018 versus 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
VITAS	\$ 138,846	\$ 57,645
Roto-Rooter	98,711	73,299
Corporate	(32,013)	(32,767)
	<u>\$ 205,544</u>	<u>\$ 98,177</u>

VITAS' after-tax earnings were increased as the result the result of higher revenues and a lower effective tax rate. Additionally, VITAS settled a lawsuit in 2017 for \$55.8 million (after-tax) which did not recur in 2018.

Roto-Rooter's net income was positively impacted in 2018 compared to 2017 primarily by an increase in revenue as well as a reduced effective tax rate.

After-tax Corporate expenses for 2018 decreased by 2.3% when compared to 2017 by a \$3.9 million increase in tax benefit related to the adoption of ASU No. 2016-09 offset by increased stock compensation expense, and a lower effective tax rate (results in a lower tax benefit).

CRITICAL ACCOUNTING POLICIES

Business Combinations

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

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update "ASU No. 2014-09 – Revenue from Contracts with Customers." The standard and subsequent amendments are theoretically intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide for more useful information to users through improved disclosure

requirements and simplify the preparation of financial statements. The standard is also referred to as Accounting Standards Codification No. 606 (“ASC606”). We adopted ASC 606 effective January 1, 2018. The required disclosures of ASC 606 and impact of adoption are discussed below for each of our operating subsidiaries.

VITAS

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

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

Routine Home Care occurs when a patient receives hospice care in their home, including a nursing home setting. The routine home care rate is paid for each day that a patient is in a hospice program and is not receiving one of the other categories of hospice care. For Medicare patients, the routine home care rate reflects a two-tiered rate, with a higher rate for the first 60 days of a hospice patient’s care and a lower rate for days 61 and after. In addition, there is a Service Intensity Add-on payment which covers direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient’s life, reimbursed up to 4 hours per day in 15 minute increments at the continuous home care rate.

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

Continuous Home Care is provided to patients while at home, including a nursing home setting, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24 hour day, which begins at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed nurse practitioner. While the published Medicare continuous home care rates are daily rates, Medicare pays for continuous home care in 15 minute increments. This 15 minute rate is calculated by dividing the daily rate by 96.

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

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

Care is provided to patients regardless of their ability to pay. Patients who meet our criteria for charity care are provided care without charge. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of providing charity care during the years ended December 31, 2019, 2018 and 2017, was \$8.2 million, \$8.2 million and \$7.7 million, respectively and is included in cost of services provided and goods sold. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care.

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

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

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

Inpatient Cap. If the number of inpatient care days any hospice program provides to Medicare beneficiaries exceeds 20% of the total days of hospice care such program provided to all Medicare patients for an annual period beginning September 28, the days in excess of the 20% figure may be reimbursed only at the routine homecare rate. None of VITAS' hospice programs exceeded the payment limits on inpatient services during the years ended December 31, 2019, 2018, and 2017.

Medicare Cap. We are also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured in one of two ways based on a provider election. The "streamlined" method compares total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by that Medicare provider number with the product of the per-beneficiary cap amount and the number of Medicare beneficiaries electing hospice care for the first time from that hospice program or programs from September 28 through September 27 of the following year. At December 31, 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 \$3.6 million is owed for Medicare cap in three programs arising during the 2013 through 2018 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 years ended December 31, 2019, we recorded \$12.4 million in Medicare cap revenue reduction related to four programs’ 2020 measurement period liability and four programs’ projected 2019 measurement period liability.

During the year ended December 31, 2018, we recorded \$4.1 million in Medicare cap revenue reduction related to two programs’ 2018 measurement period liability and two programs’ projected 2019 measurement period liability.

During the year ended December 31, 2017, we recorded \$2.4 million in Medicare cap revenue reduction related to two programs’ projected 2018 measurement period liability and \$247,000 for two programs’ cap liability for prior periods.

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 year ended December 31, 2019 is as follows (in thousands):

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

Roto-Rooter

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

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

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

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

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

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

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

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

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

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

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

	<u>2019</u>	<u>2018</u>
Short-term core service jobs	\$ 482,625	\$ 425,845
Water restoration	115,949	109,484
Contractor revenue	58,086	50,169
Franchise fees	6,152	6,382
All other	12,279	11,958
Subtotal	<u>\$ 675,091</u>	<u>\$ 603,838</u>
Implicit price concessions and credit memos	(17,720)	(18,752)
Net revenue	<u>\$ 657,371</u>	<u>\$ 585,086</u>

Initial Adoption of ASC 606

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

For VITAS, expenses related to payor audits and reviews, as well as variable consideration estimated for patient deductibles and coinsurance, have been historically estimated as revenue was recognized and classified as bad debt expense, included in the consolidated statements of income as selling, general and administrative expense. Upon adoption of ASC 606, these expenses are classified as contra-revenue. There is no change in the timing of recognition related to the variable consideration. The amount of these expenses during the year ended December 31, 2018 was \$11.8 million.

Also for VITAS, the 5% net expense related to Medicaid room and board has been historically recorded on a net basis in cost of services provided in the consolidated income statements. Upon adoption of ASC 606, due to the change in the residual value method required by ASC 606, the expense will be classified as a contra-revenue. The amount of the change in the classification for these expenses during the year ended December 31, 2018 was \$10.1 million. There has been no change in the evaluation of Medicaid room and board related to net versus gross presentation.

Related to Roto-Rooter, expenses related to post-invoice variable consideration in our short-term core portfolio, and adjustments made subsequent to initial estimates related to allowances taken by insurance companies for water restoration, have been classified as a contra-revenue account in the statements of income. These amounts were previously classified as bad debt expense in SG&A. The amount of the change in classification for these expenses during the year ended December 31, 2018 was \$6.9 million. The initial estimate related to allowances taken by insurance companies for water restoration services have historically been classified as contra-revenue and did not change as a result of the transition.

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

	<u>Impact for the year ended December 31, 2018</u>		
	<u>ASC 605</u>	<u>Adjustment</u>	<u>ASC 606</u>
Service revenue and sales	\$ 1,811,408	\$ (28,760)	\$ 1,782,648
Cost of services provided and goods sold	1,238,698	(10,054)	1,228,644
Selling, general and administrative expenses	288,915	(18,706)	270,209

Lease Accounting

In February 2016, the FASB issued Accounting Standards Update "ASU No. 2016-02 Leases" which introduced a lessee model that brings most leases onto the balance 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 \$93.1 million and \$104.3 million, respectively, as of January 1, 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.

Insurance Accruals

For the Roto-Rooter segment and Chemed’s Corporate Office, we initially self-insure for all casualty insurance claims (workers’ compensation, auto liability and general liability). As a result, we closely monitor and frequently evaluate our historical claims experience to estimate the appropriate level of accrual for self-insured claims. Our third-party administrator (“TPA”) processes and reviews claims on a monthly basis. Currently, our exposure on any single claim is capped at \$750,000. In developing our estimates, we accumulate historical claims data for the previous 10 years to calculate loss development factors (“LDF”) by insurance coverage type. LDFs are applied to known claims to estimate the ultimate potential liability for known and unknown claims for each open policy year. LDFs are updated annually. Because this methodology relies heavily on historical claims data, the key risk is whether the historical claims are an accurate predictor of future claims exposure. The risk also exists that certain claims have been incurred and not reported on a timely basis. To mitigate these risks, in conjunction with our TPA, we closely monitor claims to ensure timely accumulation of data and compare claims trends with the industry experience of our TPA.

For the VITAS segment, we initially self-insure for workers’ compensation claims. Currently, VITAS’ exposure on any single claim is capped at \$1,000,000. For VITAS’ self-insurance accruals for workers’ compensation, the valuation methods used are similar to those used internally for our other business units. We are also insured for other risks with respect to professional liability with a deductible of \$750,000.

Our casualty insurance liabilities are recorded gross before any estimated recovery for amounts exceeding our stop loss limits. Estimated recoveries from insurance carriers are recorded as accounts receivable. Claims experience adjustments to our casualty and workers’ compensation accrual for the years ended December 31, 2019, 2018 and 2017, were net pretax credits of (\$1,664,000), (\$3,437,000), and (\$1,800,000) respectively.

As an indication of the sensitivity of the accrued liability to reported claims, our analysis indicates that a 1% across-the-board increase or decrease in the amount of projected losses would increase or decrease the accrued insurance liability at December 31, 2019 by \$3.7 million or 8.3%. While the amount recorded represents our best estimate of the casualty and workers’ compensation insurance liability, we have calculated, based on historical claims experience, the actual loss could reasonably be expected to increase or decrease by approximately \$3.0 million as of December 31, 2019.

Income Taxes

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized due to insufficient taxable income within the carryback or carryforward period available under the tax laws. Deferred tax assets and liabilities are adjusted for the effects of changes in laws and rates on the date of enactment.

In November 2015, the 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.

We are subject to income taxes in the federal and most state jurisdictions. We are periodically audited by various taxing authorities. Significant judgment is required to determine our provision for income taxes. We adopted FASB's authoritative guidance on accounting for uncertainty in income taxes, which prescribes a comprehensive model for how to recognize, measure, present and disclose in financial statements uncertain tax positions taken or expected to be taken on a tax return. Upon adoption of this guidance, the financial statements reflect expected future tax consequences of such uncertain positions assuming the taxing authorities' full knowledge of the position and all relevant facts.

Goodwill and Intangible Assets

Identifiable, definite-lived intangible assets arise from purchase business combinations and are amortized using either an accelerated method or the straight-line method over the estimated useful lives of the assets. The selection of an amortization method is based on which method best reflects the economic pattern of usage of the asset.

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

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

We completed our qualitative analysis for impairment of goodwill and our indefinite-lived intangible assets as of October 1, 2019. We assessed such qualitative factors as macroeconomic conditions, industry and market conditions, cost factors, financial performance and the legislative and regulatory environment. Based on our assessment, we do not believe that it is more likely than not that our reporting units' or indefinite-lived assets fair values are less than their carrying values.

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.

Stock-based Compensation Plans

Stock-based compensation cost is measured at the grant date, based on the fair value of the award and recognized as expense over the employee's requisite service period on a straight-line basis. We estimate the fair value of stock options using the Black-Scholes valuation model. We estimate the fair value and derived service periods of market based awards using a Monte Carlo simulation approach in a risk neutral framework. We determine expected term, volatility, dividend yield and forfeiture rate based on our historical experience. We believe that historical experience is the best indicator of these factors.

Contingencies

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

Unaudited Consolidating Summaries and Reconciliations of Adjusted EBITDA (in thousands)

Chemed Corporation and Subsidiary Companies

2019	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 155,822	\$ 103,710	\$ (39,609)	\$ 219,923
Add/(deduct):				
Interest expense	169	345	4,021	4,535
Income taxes	48,711	30,276	(37,301)	41,686
Depreciation	19,984	20,730	156	40,870
Amortization	71	4,264	-	4,335
EBITDA	224,757	159,325	(72,733)	311,349
Add/(deduct):				
Intercompany interest/(expense)	(18,135)	(8,152)	26,287	-
Interest income	(380)	(133)	-	(513)
Stock option expense	-	-	14,831	14,831
Litigation settlement	6,000	-	-	6,000
Long-term incentive compensation	-	-	7,630	7,630
Acquisition expense	-	4,664	170	4,834
Medicare cap sequestration adjustment	3,982	-	-	3,982
Loss on sale of transportation equipment	-	-	2,266	2,266
Non cash ASC 842 expenses/(benefit)	656	55	(163)	548
Adjusted EBITDA	\$ 216,880	\$ 155,759	\$ (21,712)	\$ 350,927
2018	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 138,846	\$ 98,711	\$ (32,013)	\$ 205,544
Add/(deduct):				
Interest expense	175	319	4,496	4,990
Income taxes	40,847	28,850	(35,641)	34,056
Depreciation	19,688	18,629	147	38,464
Amortization	12	387	-	399
EBITDA	199,568	146,896	(63,011)	283,453
Add/(deduct):				
Intercompany interest/(expense)	(12,832)	(6,908)	19,740	-
Interest income	(580)	(92)	1	(671)
Stock option expense	-	-	12,611	12,611
Long-term incentive compensation	-	-	6,618	6,618
Medicare cap sequestration adjustment	1,496	-	-	1,496
Litigation settlement	796	-	-	796
Acquisition expense	209	548	-	757
Stock award expense	107	100	239	446
Adjusted EBITDA	\$ 188,764	\$ 140,544	\$ (23,802)	\$ 305,506
2017	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 57,645	\$ 73,299	\$ (32,767)	\$ 98,177
Add/(deduct):				
Interest expense	188	323	3,761	4,272
Income taxes	16,436	32,782	(30,478)	18,740
Depreciation	18,616	16,667	205	35,488
Amortization	14	123	-	137
EBITDA	92,899	123,194	(59,279)	156,814
Add/(deduct):				
Intercompany interest/(expense)	(11,656)	(5,596)	17,252	-
Interest income	(388)	(39)	-	(427)
Litigation settlement	84,476	213	-	84,689
Stock option expense	-	-	10,485	10,485
Loss on sale of transportation equipment	-	-	5,266	5,266
Expenses related to OIG investigation	5,194	-	-	5,194
Long-term incentive compensation	-	-	4,994	4,994
Advertising cost adjustment	-	(1,371)	-	(1,371)
Stock award expense	291	269	670	1,230
Program closure expenses	1,138	-	-	1,138
Medicare cap sequestration adjustment	447	-	-	447
Adjusted EBITDA	\$ 172,401	\$ 116,670	\$ (20,612)	\$ 268,459

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
RECONCILIATION OF ADJUSTED NET INCOME
(in thousands, except per share data)(unaudited)

	For the Years Ended December 31,		
	2019	2018	2017
Net income as reported	\$ 219,923	\$ 205,544	\$ 98,177
Add/(deduct) pre-tax cost of:			
Stock option expense	14,831	12,611	10,485
Long-term incentive compensation	7,630	6,618	4,994
Litigation settlements	6,000	796	84,476
Acquisition expenses	4,834	757	-
Medicare cap sequestration adjustment	3,982	1,496	447
Amortization of reacquired franchise agreements	3,964	-	-
Loss on sale of transportation equipment	2,266	-	5,266
Non cash ASC 842 expenses	548	-	-
Expenses related to OIG investigation	-	-	5,194
Program closure expenses	-	-	1,138
Early retirement expenses	-	-	-
Net expenses related to litigation settlements	-	-	213
Add/(deduct) tax impacts:			
Tax impact of the above pre-tax adjustments (1)	(9,328)	(4,586)	(42,102)
Impact of tax reform	-	-	(8,302)
Excess tax benefits on stock compensation	(24,177)	(22,862)	(18,932)
Adjusted net income	<u>\$ 230,473</u>	<u>\$ 200,374</u>	<u>\$ 141,054</u>
Diluted Earnings Per Share As Reported			
Net income	<u>\$ 13.31</u>	<u>\$ 12.23</u>	<u>\$ 5.86</u>
Average number of shares outstanding	<u>16,527</u>	<u>16,803</u>	<u>16,742</u>
Adjusted Diluted Earnings Per Share			
Net income	<u>\$ 13.95</u>	<u>\$ 11.93</u>	<u>\$ 8.43</u>
Average number of shares outstanding	<u>16,527</u>	<u>16,803</u>	<u>16,742</u>

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

The "Footnotes to Financial Statements" are integral parts of this financial information.

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

OPERATING STATISTICS	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Net revenue (\$000)				
Homecare	\$ 275,976	\$ 261,972	\$ 1,076,025	\$ 1,010,518
Inpatient	30,857	20,874	99,920	82,677
Continuous care	40,997	30,834	133,473	122,498
Other	3,825	1,986	10,433	7,831
Subtotal	\$ 351,655	\$ 315,666	\$ 1,319,851	\$ 1,223,524
Room and board, net	(3,260)	(2,191)	(11,359)	(10,054)
Contractual allowances	(3,990)	(3,036)	(14,893)	(11,785)
Medicare cap allowance	(4,500)	(3,454)	(12,415)	(4,123)
Total	<u>\$ 339,905</u>	<u>\$ 306,985</u>	<u>\$ 1,281,184</u>	<u>\$ 1,197,562</u>
Net revenue as a percent of total before Medicare cap allowance				
Homecare	78.5%	83.0%	81.5%	82.6%
Inpatient	8.8	6.6	7.6	6.8
Continuous care	11.7	9.8	10.1	10.0
Other	1.0	0.6	0.8	0.6
Subtotal	100.0	100.0	100.0	100.0
Room and board, net	(0.9)	(0.7)	(0.9)	(0.8)
Contractual allowances	(1.1)	(1.0)	(1.1)	(1.1)
Medicare cap allowance	(1.3)	(1.1)	(0.9)	(0.2)
Total	<u>96.7%</u>	<u>97.2%</u>	<u>97.1%</u>	<u>97.9%</u>
Days of Care				
Homecare	1,377,403	1,293,694	5,338,664	4,983,159
Nursing home	314,946	300,029	1,224,264	1,190,820
Respite	7,305	6,185	28,857	24,663
Subtotal routine homecare and respite	1,699,654	1,599,908	6,591,785	6,198,642
Inpatient	30,697	27,081	120,063	107,669
Continuous care	41,386	42,681	166,783	169,828
Total	<u>1,771,737</u>	<u>1,669,670</u>	<u>6,878,631</u>	<u>6,476,139</u>
Number of days in relevant time period	92	92	365	365
Average daily census ("ADC") (days)				
Homecare	14,972	14,062	14,626	13,652
Nursing home	3,423	3,261	3,354	3,263
Respite	79	67	79	68
Subtotal routine homecare and respite	18,474	17,390	18,059	16,983
Inpatient	334	294	329	295
Continuous care	450	465	458	464
Total	<u>19,258</u>	<u>18,149</u>	<u>18,846</u>	<u>17,742</u>
Total Admissions	17,479	16,579	69,859	68,119
Total Discharges	17,575	16,623	68,857	66,868
Average length of stay (days)	95.2	92.6	92.6	89.9
Median length of stay (days)	16.0	17.0	16.0	17.0
ADC by major diagnosis				
Cerebro	35.8%	35.8%	36.0%	36.3%
Neurological	21.1	18.6	20.6	19.0
Cancer	12.8	13.7	12.9	13.7
Cardio	16.2	16.3	16.5	16.4
Respiratory	8.1	8.0	8.1	8.2
Other	6.0	7.6	5.9	6.4
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Admissions by major diagnosis				
Cerebro	21.9%	20.9%	21.1%	21.8%
Neurological	12.9	11.5	12.6	11.4
Cancer	29.2	31.1	29.2	30.2
Cardio	14.7	14.6	15.5	15.4
Respiratory	10.5	10.1	11.0	10.9
Other	10.8	11.8	10.6	10.3
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Bad debt expense as a percent of revenues	1.2 %	1.0 %	1.2 %	1.0 %
Accounts receivable --				
Days of revenue outstanding- excluding unapplied Medicare payments	35.4	35.0	N.A.	N.A.
Days of revenue outstanding- including unapplied Medicare payments	27.2	24.6	N.A.	N.A.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 REGARDING FORWARD-LOOKING INFORMATION

In addition to historical information, this report contains forward-looking statements and performance trends that are based upon assumptions subject to certain known and unknown risks, uncertainties, contingencies and other factors. Such forward-looking statements and trends include, but are not limited to, the impact of laws and regulations on our operations, our estimate of future effective income tax rates and the recoverability of deferred tax assets. Variances in any or all of the risks, uncertainties, contingencies, and other factors from our assumptions could cause actual results to differ materially from these forward-looking statements and trends. Our ability to deal with the unknown outcomes of these events, many of which are beyond our control, may affect the reliability of our projections and other financial matters.

Description of the Company's Capital Stock

The following description of Chemed Corporation's capital stock is based on and qualified by the Company's Certificate of Incorporation, as amended (the "Certificate of Incorporation"), and our By-laws, as amended (the "By-laws"). This description does not purport to be complete, or to give full effect to the provisions of statutory or common law, and is subject to, and qualified in its entirety by reference to, the terms of our Certificate of Incorporation and our Bylaws, both of which are filed as exhibits to this Annual Report on Form 10-K.

General

Our Certificate of Incorporation authorizes the issuance of 80,000,000 shares of capital stock, par value \$1.00 per share. Our Certificate of Incorporation does not authorize the issuance of shares of preferred stock. As of February 14, 2020, we had 16,055,361 shares of capital stock outstanding.

The capital stock is listed on the New York Stock Exchange under the ticker symbol "CHE."

Rights of Holders of Our Capital Stock

Our stockholders are entitled to one vote for each share of our capital stock held of record on all matters on which stockholders are entitled or permitted to vote. Our Board of Directors is not classified, and our capital stock does not have cumulative voting rights in the election of directors. As a result, the holders of a majority of the shares of our capital stock voting for the election of directors can elect all the directors standing for election. Holders of our capital stock are entitled to receive dividends out of legally available funds when and if declared from time to time by our Board of Directors. In the event of our liquidation, dissolution or winding up, the holders of our capital stock will be entitled to share ratably in all assets remaining after payment of liabilities. Our capital stock has no preemptive, subscription or conversion rights, and there are no redemption or sinking fund provisions in our Certificate of Incorporation. The outstanding shares of our capital stock are fully paid and nonassessable.

Anti-takeover Effects of Our Certificate of Incorporation and By-laws and Delaware Law

Some provisions of Delaware law, the Certificate of Incorporation and By-laws could make certain extraordinary corporate transactions involving the Company more difficult. These provisions are summarized below:

Stockholder Meetings

Under the By-laws, only our Chairman, Chief Executive Officer, President, and the Secretary may call special meetings of our stockholders, and are required to call a special meeting upon the proper request of the Board of Directors or stockholders who in the aggregate beneficially own at least 25% of the voting power of all outstanding shares of our capital stock.

Requirements for Advance Notification of Stockholder Nominations and Proposals

The By-laws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of the Board.

Delaware Anti-takeover Law

The Company is a Delaware corporation that is subject to Section 203 of the Delaware General Corporation Law. Section 203 provides in general that a stockholder acquiring more than 15% of the outstanding voting stock of a corporation subject to Section 203, but less than 85% of such stock may not engage in a "Business Combination" (as defined in Section 203, including a merger, asset sale, or other transaction resulting in a financial benefit to a stockholder), with the corporation for a period of three years from the date on which that stockholder became an "Interested Stockholder" unless (i) prior to such date, the corporation's board of directors approved either the Business Combination or the transaction in which the stockholder became an Interested Stockholder, or (ii) the Business Combination is approved by the corporation's board of directors and authorized by the holders of at least 66% of the outstanding voting stock of the corporation not owned by the Interested Stockholder. We have not opted out of Section 203.

**Chemed Corporation
Form of Stock Option Grant - 2019**

Name
Address
City, State ZIP Code

Dear _____,

In accordance with the 2018* Stock Incentive Plan (the "Plan") of Chemed Corporation (the "Corporation"), you are hereby granted an option to purchase 2018 shares of the capital stock, par value \$1.00 per share, of the Corporation upon the following terms and conditions.

(1) The purchase price shall be \$_____per share. Payment thereof shall be made in cash or, subject to the next sentence, by delivery to the Corporation of shares of capital stock of the Corporation which shall be valued at their Fair Market Value on the date of exercise, or in a combination of cash and such shares. Your right to pay the purchase price, in whole or in part, by delivery to the Corporation of shares of capital stock of the Corporation is expressly subject to temporary or permanent revocation or withdrawal at any time and from time to time by action of the Board of Directors of the Corporation without any requirement that advance notice of such revocation or withdrawal be given to you.

(2) Subject to the provisions of paragraphs (3) and (7), this option is exercisable in whole or in part at any time and from time to time as follows:

_____ Shares on or after October 29, 2020

_____ Shares on or after October 29, 2021

_____ Shares on or after October 29, 2022

Once an installment becomes exercisable, it may be exercised at any time in whole or part until the expiration or termination of this option. Neither this option nor any right hereunder may be assigned or transferred by you, except by will, the laws of descent and distribution, pursuant to a qualified Domestic Relations order, or to a permitted transferee. It may be exercised during your life only by you or by a permitted transferee. Within fifteen (15) months after your death it may be exercised only by your estate, by a permitted transferee, or by a person who acquired the right to exercise the option by bequest or inheritance or by reason of your death. At the time of each exercise of this option, you or the person or persons exercising the option shall, if requested by the Corporation, give assurances, satisfactory to counsel to the Corporation, that the shares are being acquired for investment and not with a view to resale or distribution thereof and assurances in respect of such other matters as the Corporation may deem desirable to assure compliance with all applicable legal requirements.

(3) This option, to the extent that it shall not have been exercised, shall terminate when you cease to be an employee of the Corporation or a subsidiary, unless you cease to be an employee because of your resignation with the consent of the Committee or because of your death, incapacity or retirement under a retirement plan of the Corporation or a subsidiary. If you cease to be an employee because of such resignation, this option shall terminate upon the expiration of three months after you cease to be an employee, except as provided in the next sentence. If you cease to be an employee because of your death, incapacity or retirement under a retirement plan of the Corporation or a subsidiary, or if you cease to be an employee because of your resignation with the consent of the Committee and die during the three-month period referred to in the preceding sentence, this option shall terminate fifteen (15) months after you ceased to be an employee. Where this option is exercised more than three months after termination of employment, as aforesaid, only those installments which shall have become exercisable prior to the expiration of three months after you ceased to be an employee, whether by death or otherwise, may be exercised. A leave of absence for military or governmental service or for other purposes shall not, if approved by the Committee be deemed a termination of employment within the meaning of this paragraph (3), provided, however, that this option may not be exercised during any such leave of absence. Notwithstanding the foregoing provisions of this paragraph (3) or any provision of the Plan, this option shall not be exercisable after the expiration of five years from the date this option is granted.

(4) Upon the occurrence of a Change in Control (as defined in the Chemed Corporation Change in Control Severance Plan, the "CIC Severance Plan"), the Corporation shall cause the surviving entity to issue

replacement options or stock appreciation rights in the surviving entity's common stock ("Replacement Award"). Such Replacement Award shall provide you with substantially the same economic value and benefits as provided by this option, including (i) an aggregate purchase price equal to the aggregate purchase price of this option, (ii) an aggregate spread determined immediately after such Change in Control equal to the aggregate spread of this option as determined immediately prior to such Change in Control, and (iii) a ratio of purchase price to the Fair Market Value of the shares subject to such Replacement Award, as determined immediately after the Change in Control, that is equal to the ratio of the purchase price of this option to the Fair Market Value of the Corporation's Capital Stock, as determined immediately prior to the Change in Control. Notwithstanding anything to the contrary contained herein, the substitution of the Replacement Award for this option shall be done in a manner that complies with Section 409A of the Code. To the extent such Replacement Award is not fully exercisable, it shall become exercisable on the date this option would otherwise have become exercisable under the terms of this option, subject to your continued employment with the surviving or successor entity through such date, provided, however, that such Replacement Award will become exercisable immediately if your employment is terminated by the surviving or successor entity without Cause or by you for Good Reason (as defined in the CIC Severance Plan). Such Replacement Award shall become exercisable immediately prior to any transaction with respect to the surviving or successor entity (or parent or subsidiary company thereof) of substantially similar character to a Change in Control. Upon such substitution, this option shall terminate and be of no further force and effect, provided however that if such Replacement Award is not issued for any reason or if the common stock of the surviving entity is not publicly traded on a United States exchange at the date of the Change in Control, then this option shall become exercisable in full upon the occurrence of the Change in Control. By accepting this grant, you explicitly agree that, to the extent there is a conflict between the terms of this Section 4 and the CIC Severance Plan or the Plan, the terms of this Section 4 shall apply.

(5) The number and class of shares or other securities covered by this option and the price to be paid therefore shall be subject to adjustment as, and under the circumstances, provided in Section 8 of the Plan.

(6) This option may be exercised only by serving written notice on the Secretary or Treasurer of the Corporation. The Corporation shall deliver the shares to you against payment; provided, however, no share shall be issued or transferred pursuant to this option unless and until all legal requirements applicable to the issuance or transfer of such shares have, in the opinion of the counsel to the Corporation, been complied with. Any Federal, state or local withholding taxes applicable to any compensation you may realize by reason of the exercise of the option or any subsequent disposition of the shares acquired on exercise shall, upon request, be remitted to the Corporation or the subsidiary by which you are employed at the time of exercise or sale, as the case may be. You shall have the rights of a stockholder only as to stock actually delivered to you.

(7) If you are or become an employee of a subsidiary, the Corporation's obligations hereunder shall be contingent on the approval of the Plan and this option by the subsidiary and the subsidiary's agreement that (a) the Corporation may administer the Plan on its behalf, and (b) upon the exercise of the option, it will purchase from the Corporation the shares subject to the exercise at their Fair Market Value on the date of exercise, such shares to be then transferred by the subsidiary to the holder of this option upon payment by the holder of the purchase price to the subsidiary. Where appropriate, such approval and agreement of the subsidiary shall be indicated by its signature below. The obligation of the subsidiary so undertaken may be waived by the Corporation.

(8) The Plan is hereby incorporated by reference. Each term which is defined in the Plan and used in this option shall have the same meaning in this option as it has in the Plan. This option is granted subject to the Plan and, unless otherwise stated herein, shall be construed to conform to the Plan. The Corporation may cancel, forfeit or recoup any rights or benefits of, or payments to, you hereunder, including but not limited to any Capital Stock issued by the Corporation upon exercise of this option or the proceeds from the sale of any such Capital Stock, under any current or future compensation recovery policy that it may establish and maintain from time to time to meet listing requirements that may be imposed in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act or otherwise.

Very truly yours,

CHEMED CORPORATION

By: _____
Naomi C. Dallob

Chief Legal Officer

Receipt Acknowledged:

Employee

EXHIBIT 21

SUBSIDIARIES OF CHEMED CORPORATION

The following is a list of subsidiaries of the Company as of December 31, 2019: Other subsidiaries which have been omitted from the list would not, when considered in the aggregate, constitute a significant subsidiary. Each of the companies is incorporated under the laws of the state following its name. The percentage given for each company represents the percentage of voting securities of such company owned by the Company or, where indicated, subsidiaries of the Company as of December 31, 2019.

All of the majority owned companies listed below are included in the consolidated financial statements as of December 31, 2019.

Chemed RT, Inc. (Delaware, 100%)

Comfort Care Holdings Co. (Nevada, 100%)

Consolidated HVAC, Inc. (Ohio, 100% by Roto-Rooter Services Company)

Jet Resource, Inc. (Delaware, 100%)

Nurotoco of Massachusetts, Inc. (Massachusetts, 100% by Roto-Rooter Services Company)

Nurotoco of Massachusetts, Inc. II (Massachusetts, 100% by Roto-Rooter Services Company)

Nurotoco of Massachusetts, Inc. III (Massachusetts, 100% by Roto-Rooter Services Company)

Nurotoco of New Jersey, Inc. (Delaware, 80% by Roto-Rooter Services Company)

Roto RT, Inc. (Delaware, 100% by Roto-Rooter Group, Inc.)

Roto-Rooter Canada, Ltd. (British Columbia, 100% by Roto-Rooter Services Company)

Roto-Rooter Corporation (Iowa, 100% by Roto-Rooter Group, Inc.)

Roto-Rooter Development Company (Delaware, 100% by Roto-Rooter Corporation)

Roto-Rooter Group, Inc. (Delaware, 100%)

Roto-Rooter Services Company (Iowa, 100% by Roto-Rooter Group, Inc.)

Roto-Rooter Services Company of Arizona, Inc. (Delaware, 75% owned by Roto-Rooter Services Company)

RR Plumbing Services Corporation (New York, 49% by Roto-Rooter Services Company; included within the consolidated financial statements as a consolidated subsidiary)

VITAS Healthcare Corporation (Delaware, 100% by Comfort Care Holdings Co.)

VITAS Hospice Services, L.L.C. (Delaware, 100% by VITAS Healthcare Corporation)

VITAS Healthcare Corporation of California (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Illinois (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Florida (Florida, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Ohio (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Atlantic (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare of Texas, L.P. (Texas, 99% by VITAS Holding Corporation, the limited partner, 1% by VITAS Hospice Services, L.L.C., the general partner)

VITAS Healthcare Corporation Midwest (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Georgia (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS HME Solutions, Inc. (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Holdings Corporation (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS RT, Inc. (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Solutions, Inc. (Delaware, 100% by VITAS Hospice Services, L.L.C.)

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-145555) and Form S-8 (Nos. 333-167733, 333-205669 and 333-225130) of Chemed Corporation of our report dated February 26, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the 2019 Annual Report to Stockholders, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 26, 2020 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Cincinnati, Ohio
February 26, 2020

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 17, 2020

/s/ Joel F. Gemunder
Joel F. Gemunder

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 21, 2020

/s/ Patrick P. Grace
Patrick P. Grace

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 21, 2020

/s/ Thomas C. Hutton
Thomas C. Hutton

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 20, 2020

/s/ Thomas P. Rice
Thomas P. Rice

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 20, 2020

/s/ Donald E. Saunders
Donald E. Saunders

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 20, 2020

/s/ George J. Walsh III
George J. Walsh III

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 17, 2020

/s/ Frank E. Wood
Frank E. Wood

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 17, 2020

/s/ Walter L. Krebs
Walter L. Krebs

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 17, 2020

/s/ Andrea R. Lindell
Andrea R. Lindell

CERTIFICATION PURSUANT TO RULES 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934

I, Kevin J. McNamara, certify that:

1. I have reviewed this annual report on Form 10-K of Chemed Corporation (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flow of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by other within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors or persons performing the equivalent function:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: February 26, 2020

/s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

CERTIFICATION PURSUANT TO RULES 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934

I, David P. Williams, certify that:

1. I have reviewed this annual report on Form 10-K of Chemed Corporation (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flow of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by other within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors or persons performing the equivalent function:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: February 26, 2020

/s/ David P. Williams
David P. Williams
(Executive Vice President and Chief Financial Officer)

CERTIFICATION PURSUANT TO RULES 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934

I, Michael D. Witzeman, certify that:

1. I have reviewed this annual report on Form 10-K of Chemed Corporation (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flow of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by other within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors or persons performing the equivalent function:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: February 26, 2020

/s/ Michael D. Witzeman
Michael D. Witzeman
(Vice President and Controller)

**CERTIFICATION BY KEVIN J. MCNAMARA
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as President and Chief Executive Officer of Chemed Corporation ("Company"), does hereby certify that:

- 1) The Company's Annual Report on Form 10-K for the year ending December 31, 2019 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 26, 2020

/s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

**CERTIFICATION DAVID P. WILLIAMS
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Executive Vice President and Chief Financial Officer of Chemed Corporation (“Company”), does hereby certify that:

- 1) The Company’s Annual Report on Form 10-K for the year ending December 31, 2019 (“Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 26, 2020

/s/ David P. Williams
David P. Williams
(Executive Vice President and Chief Financial Officer)

**CERTIFICATION MICHAEL D. WITZEMAN
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Vice President and Controller of Chemed Corporation ("Company"), does hereby certify that:

- 1) The Company's Annual Report on Form 10-K for the year ending December 31, 2019 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 26, 2020

/s/ Michael D. Witzeman
Michael D. Witzeman
(Vice President and Controller)