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CHEMED CORP
Form 10-Q
November 01, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period
Ended September 30, 2016

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

Commission File Number: 1-8351

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

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

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

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

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

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

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

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

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

Class	Amount	Date
Capital Stock \$1 Par Value	16,223,927 Shares	September 30, 2016

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CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

UNAUDITED CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$21,285	\$14,727
Accounts receivable less allowances of \$14,340 (2015 - \$13,244)	86,006	106,262
Inventories	6,101	6,314
Prepaid income taxes	5,069	10,653
Prepaid expenses	14,498	12,852
Total current assets	132,959	150,808
Investments of deferred compensation plans	55,158	49,481
Properties and equipment, at cost, less accumulated depreciation of \$208,674 (2015 - \$201,094)	119,994	117,370
Identifiable intangible assets less accumulated amortization of \$33,141 (2015 - \$32,866)	55,067	55,111
Goodwill	472,418	472,322
Other assets	6,880	7,233
Total Assets	\$842,476	\$852,325
LIABILITIES		
Current liabilities		
Accounts payable	\$42,844	\$43,695
Current portion of long-term debt	8,125	7,500
Accrued insurance	46,233	43,972
Accrued compensation	48,391	52,817
Accrued legal	1,495	1,233
Other current liabilities	20,369	22,119
Total current liabilities	167,457	171,336
Deferred income taxes	15,586	21,041
Long-term debt	102,500	83,750
Deferred compensation liabilities	54,455	49,467
Other liabilities	15,276	13,478
Total Liabilities	355,274	339,072
Commitments and contingencies (Note 11)		
STOCKHOLDERS' EQUITY		
Capital stock - authorized 80,000,000 shares \$1 par; issued 34,173,782 shares (2015 - 33,985,316 shares)	34,174	33,985
Paid-in capital	625,961	603,006
Retained earnings	930,184	865,845
Treasury stock - 18,049,933 shares (2015 - 17,187,540)	(1,105,620)	(991,978)
Deferred compensation payable in Company stock	2,503	2,395
Total Stockholders' Equity	487,202	513,253
Total Liabilities and Stockholders' Equity	\$842,476	\$852,325

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service revenues and sales	\$392,607	\$386,226	\$1,173,405	\$1,144,799
Cost of services provided and goods sold (excluding depreciation)	281,658	272,089	836,348	811,637
Selling, general and administrative expenses	59,373	55,788	181,046	173,267
Depreciation	8,614	8,075	25,619	24,189
Amortization	91	146	274	407
Other operating expenses	-	-	4,491	-
Total costs and expenses	349,736	336,098	1,047,778	1,009,500
Income from operations	42,871	50,128	125,627	135,299
Interest expense	(1,018)	(908)	(2,831)	(2,846)
Other income/(expense) - net	1,640	(2,355)	1,933	(1,256)
Income before income taxes	43,493	46,865	124,729	131,197
Income taxes	(16,664)	(18,032)	(48,175)	(50,852)
Net income	\$26,829	\$28,833	\$76,554	\$80,345
Earnings Per Share				
Net income	\$1.66	\$1.71	\$4.66	\$4.76
Average number of shares outstanding	16,166	16,865	16,443	16,887
Diluted Earnings Per Share				
Net income	\$1.62	\$1.65	\$4.54	\$4.61
Average number of shares outstanding	16,559	17,422	16,851	17,430
Cash Dividends Per Share				
	\$0.26	\$0.24	\$0.74	\$0.68

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$76,554	\$80,345
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,893	24,596
Provision for uncollectible accounts receivable	12,132	11,100
Stock option expense	6,259	3,600
Benefit for deferred income taxes	(5,530)	(2,694)
Noncash early retirement expense	1,747	-
Amortization of restricted stock awards	1,415	1,488
Noncash long-term incentive compensation	837	3,755
Noncash directors' compensation	541	540
Amortization of debt issuance costs	390	392
Changes in operating assets and liabilities:		
Decrease/(increase) in accounts receivable	8,061	(10,110)
Decrease/(increase) in inventories	213	(373)
Decrease/(increase) in prepaid expenses	(1,646)	68
Increase/(decrease) in accounts payable and other current liabilities	(5,471)	5,416
Increase in income taxes	8,587	3,049
Increase in other assets	(5,694)	(605)
Increase in other liabilities	6,835	524
Excess tax benefit on share-based compensation	(2,974)	(8,474)
Other sources	204	467
Net cash provided by operating activities	128,353	113,084
Cash Flows from Investing Activities		
Capital expenditures	(29,708)	(30,194)
Business combinations, net of cash acquired	-	(6,614)
Other sources/(uses)	(114)	396
Net cash used by investing activities	(29,822)	(36,412)
Cash Flows from Financing Activities		
Proceeds from revolving line of credit	110,200	103,200
Purchases of treasury stock	(102,313)	(36,682)
Payments on revolving line of credit	(85,200)	(108,200)
Dividends paid	(12,215)	(11,542)
Capital stock surrendered to pay taxes on stock-based compensation	(7,051)	(11,226)
Payments on other long-term debt	(5,625)	(4,375)
Proceeds from exercise of stock options	4,625	11,193
Excess tax benefit on share-based compensation	2,974	8,474
Increase/(decrease) in cash overdrafts payable	2,092	(1,745)
Other sources/(uses)	540	(1,451)
Net cash used by financing activities	(91,973)	(52,354)
Increase in Cash and Cash Equivalents	6,558	24,318

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Cash and cash equivalents at beginning of year	14,727	14,132
Cash and cash equivalents at end of period	\$21,285	\$38,450

See accompanying notes to unaudited consolidated financial statements.

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CHEMED CORPORATION AND SUBSIDIARY COMPANIES

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2015 balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP.

However, in our opinion, the financial statements presented herein contain all adjustments, consisting only of normal recurring adjustments, necessary to state fairly our financial position, results of operations and cash flows. These financial statements are prepared on the same basis as and should be read in conjunction with the audited Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2015.

TAXES ON INCOME

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

CLASSIFICATION ADJUSTMENTS

During the three and nine months ended September 30, 2016, we classified \$441,000 and \$1.4 million respectively of non-cash restricted stock award amortization in selling, general and administrative expenses. We also recorded a classification adjustment of \$592,000 and \$1.5 million to decrease amortization and increase selling, general and administrative expenses in our Consolidated Statement of Income for the three and nine months ended September 30, 2015 respectively related to non-cash restricted stock award amortization. This classification adjustment does not impact income from operations, income before income taxes, net income, and earnings per share, net cash provided by operating activities or our Consolidated Balance Sheet. We believe the impact of the classification adjustments are immaterial to our consolidated financial statements for all periods presented.

2. Revenue Recognition

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

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

Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record the amount as a reduction to patient revenue.

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, CMS determined that the Medicare cap should be calculated “as if” sequestration did not occur. As a result of this decision, VITAS has received notification from our third party intermediary that an additional \$2.1 million is owed for Medicare cap in three programs arising during the 2013, 2014 and 2015 measurement periods. The amounts were automatically deducted from our semi-monthly PIP payments. We do not believe that CMS is authorized under the sequestration authority or the statutory methodology for establishing the Medicare cap to demand the \$2.1 million under their “as if” methodology. We have not recorded a reserve as of September 30, 2016 for \$1.9 million of the potential exposure. We have appealed CMS’s methodology change with the appropriate regulatory appeal board.

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During the three and nine months September 30, 2016, we recorded \$228,000 in Medicare cap liability related to one program's projected 2015 measurement period liability. This liability was related to the CMS's methodology change described above.

During the first nine months ended September 30, 2015, we recorded \$165,000 Medicare cap reversal of amounts recorded in the fourth quarter of 2014 for one program's projected 2015 measurement period liability. The fourth quarter of 2014 was part of the 2015 Medicare cap year.

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

	September 30,	
	2016	2015
Beginning balance January 1,	\$1,165	\$6,112
2015 measurement period	228	(165)
Payments	(1,158)	(4,782)
Ending balance September 30,	\$235	\$1,165

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

Three months ended		Nine months ended	
September 30,		September 30,	
2016	2015	2016	2015
\$ 1,711	\$1,929	\$5,231	\$5,788

3. Segments

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
<u>Service Revenues and Sales</u>				
VITAS	\$282,865	\$285,008	\$839,131	\$831,081
Roto-Rooter	109,742	101,218	334,274	313,718
Total	\$392,607	\$386,226	\$1,173,405	\$1,144,799
<u>After-tax Earnings</u>				
VITAS	\$20,903	\$25,723	\$58,538	\$66,839
Roto-Rooter	12,855	10,961	39,216	35,122
Total	33,758	36,684	97,754	101,961
Corporate	(6,929)	(7,851)	(21,200)	(21,616)
Net income	\$26,829	\$28,833	\$76,554	\$80,345

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

4. Earnings per Share

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

For the Three Months Ended September 30,	Net Income		Earnings per Share
	Income	Shares	
2016			
Earnings	\$26,829	16,166	\$ 1.66
Dilutive stock options	-	294	
Nonvested stock awards	-	99	
Diluted earnings	\$26,829	16,559	\$ 1.62
2015			
Earnings	\$28,833	16,865	\$ 1.71
Dilutive stock options	-	399	
Nonvested stock awards	-	158	
Diluted earnings	\$28,833	17,422	\$ 1.65

For the Nine Months Ended September 30,	Net Income		Earnings per Share
	Income	Shares	
2016			
Earnings	\$76,554	16,443	\$ 4.66
Dilutive stock options	-	296	
Nonvested stock awards	-	112	
Diluted earnings	\$76,554	16,851	\$ 4.54
2015			
Earnings	\$80,345	16,887	\$ 4.76
Dilutive stock options	-	391	
Nonvested stock awards	-	152	
Diluted earnings	\$80,345	17,430	\$ 4.61

For the three and nine-month periods ended September 30, 2016, 418,000 stock options were excluded from the computation of diluted earnings per share because they would have been anti-dilutive. For the three and nine-months ended September 30, 2015, no stock options were excluded from the computation of diluted earnings per share because they would have been anti-dilutive.

5. Long-Term Debt

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

The debt outstanding as of September 30, 2016 consists of the following:

Revolver	\$25,000
Term loan	85,625
Total	110,625
Current portion of long-term debt	(8,125)
Long-term debt	\$102,500

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Scheduled principal payments of the term loan are as follows:

2016	\$1,875
2017	8,750
2018	10,000
2019	65,000
	\$85,625

The 2014 Credit Agreement contains the following quarterly financial covenants:

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

We are in compliance with all debt covenants as of September 30, 2016. We have issued \$37.4 million in standby letters of credit as of September 30, 2016 mainly for insurance purposes. Issued letters of credit reduce our available credit under the 2014 Credit Agreement. As of September 30, 2016, we have approximately \$287.6 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility.

6. Other Operating Expenses

During the nine-months ended September 30, 2016, the Company recorded early retirement related costs and accelerated stock-based compensation expense of approximately \$4.5 million pretax and \$2.8 million after-tax related to the early retirement of VITAS' former Chief Executive Officer. The accrual was calculated in accordance with the terms of his employment agreement.

7. Other Income/(Expense) – Net

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Market value adjustment on assets held in deferred compensation trust	\$1,656	\$(2,328)	\$1,857	\$(880)
Loss on disposal of property and equipment	(134)	(116)	(224)	(131)
Interest income - net	119	77	301	207
Other - net	(1)	12	(1)	(452)
Total other income/(expense) - net	\$1,640	\$(2,355)	\$1,933	\$(1,256)

8. Stock-Based Compensation Plans

On February 19, 2016, the Compensation/Incentive Committee of the Board of Directors ("CIC") granted 9,541 Performance Stock Units ("PSUs") contingent upon the achievement of certain total shareholders return ("TSR") targets as compared to the TSR of a group of peer companies for the three-year period ending December 31, 2018, the date at

which such awards vest. The cumulative compensation cost of the TSR-based PSU award to be recorded over the three year service period is \$1.4 million.

On February 19, 2016, the CIC also granted 9,541 PSUs contingent upon the achievement of certain earnings per share (“EPS”) targets for the three-year period ending December 31, 2018. At the end of each reporting period, the Company estimates the number of shares that it believes will ultimately be earned and records that expense over the service period of the award. We currently estimate the cumulative compensation cost of the EPS-based PSUs to be recorded over the three year service period is \$557,000.

9. Independent Contractor Operations

The Roto-Rooter segment sublicenses with 69 independent contractors to operate certain plumbing repair, excavation, water restoration and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of September 30, 2016 totaling \$1.6 million (December 31, 2015 - \$1.8 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from 0% to 7% per annum and the remaining terms of the loans range from 2.5 months to 5.4 years at September 30, 2016. We recorded the following from our independent contractors (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues	\$9,823	\$9,119	\$29,451	\$28,110
Pretax profits	5,835	5,435	18,015	16,653

10. Retirement Plans

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

Three months ended September 30,		Nine months ended September 30,	
2016	2015	2016	2015
\$ 4,423	\$ 458	\$ 10,809	\$ 7,636

11. Legal and Regulatory Matters

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

Regulatory Matters and Litigation

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, *United States v. VITAS*

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

For additional procedural history of this litigation, please refer to our prior quarterly and annual filings. The net costs incurred related to U.S. v. Vitas and related regulatory matters were \$599,000 and \$1.2 million for the quarters ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, the net costs were \$4.1 million and \$3.8 million respectively.

In November 2013, two shareholder derivative lawsuits were filed against the Company's current and former directors, as well as certain of its officers, both of which are covered by the Company's commercial insurance. On November 6, 2013, KBC Asset Management NV filed suit in the United States District Court for the District of Delaware, KBC Asset Management NV, derivatively on behalf of Chemed Corp. v. McNamara, et al., No. 13 Civ. 1854 (LPS) (D. Del.). On November 14, 2013, Mildred A. North filed suit in the United States District Court for the Southern District of Ohio, North, derivatively on behalf of Chemed Corp. v. Kevin McNamara, et al., No. 13 Civ. 833 (MRB) (S.D. Ohio). Those proceedings were subsequently consolidated in the District of Delaware under the caption In re Chemed Corp. Shareholder and Derivative Litigation, No. 13 Civ. 1854 (LPS) (CJB) (D. Del.), by Order of the United States District Court for the District of Delaware dated February 2, 2015. Also on February 2, 2015, the Court appointed Plaintiff KBC the sole lead plaintiff and its counsel, the sole lead and liaison counsel.

On March 3, 2015, Lead Plaintiff KBC designated its Complaint as the operative complaint in the consolidated proceedings. The consolidated Complaint named Kevin McNamara, Joel Gemunder, Patrick Grace, Thomas Hutton, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, Arthur Tucker, Jr., George Walsh III, Frank Wood, Timothy O'Toole, David Williams and Ernest Mrozek as individual defendants, together with the Company as nominal defendant. The Complaint alleges a claim for breach of fiduciary duty against the individual defendants, and seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees. Also on March 3, 2015, defendants renewed their previously-filed motion to dismiss those claims and allegations, which motion the court referred to Magistrate Judge Burke.

On December 23, 2015, Magistrate Judge Burke issued a Report and Recommendation recommending that (1) defendants' motion to dismiss be granted; (2) plaintiff be given 14 days from the date of affirmance by the district court to file an amended complaint addressing deficiencies with regard to their duty of loyalty claim; and (3) failure to do so should give rise to dismissal with prejudice. On January 11, 2016, Lead Plaintiff KBC filed Objections to the Report and Recommendation. Defendants' responses to those Objections were filed on January 28, 2016. On May 12, 2016, the court issued a Memorandum Order (1) overruling Lead Plaintiff KBC's Objections to the Report and Recommendation; (2) adopting the Report and Recommendation; (3) granting Chemed's motion to dismiss; and (4) dismissing Lead Plaintiff KBC's Complaint, without prejudice to KBC's opportunity to file within 30 days of the date of the court's Order an amended Complaint addressing the deficiencies in its duty of loyalty claim. Lead Plaintiff KBC did not file an amended Complaint within the time specified by the court—i.e., on or before June 13, 2016.

However, on that date (June 13, 2016), counsel for Chemed shareholder Michael Kvint filed a letter with the court requesting a two-week extension (1) to file a motion to substitute Mr. Kvint as Lead Plaintiff, in place of Lead Plaintiff KBC; and (2) in that capacity, to file an amended Complaint. Alternatively, counsel for Mr. Kvint requested that any dismissal of the action be with prejudice to KBC only. On June 14, 2016, Chemed filed a reply letter with the court, reserving its rights to oppose any motion filed by Mr. Kvint and, if warranted, to oppose any other actions taken by Mr. Kvint to proceed with the action (including by filing an untimely amended Complaint). On June 21, 2016, the court entered an Oral Order providing Mr. Kvint until June 30, 2016 to file a Motion to Substitute and Motion for Leave to File an Amended Complaint. On that date, Mr. Kvint filed, under seal, a Motion To Substitute Plaintiff and File Amended Complaint, and attached a Proposed Amended Complaint. Chemed filed an Answering Brief in Opposition to Mr. Kvint's motion on July 18, 2016. Mr. Kvint filed a Reply Brief in Support of his motion on July 27, 2016. On August 2, 2016, Chemed filed a Request for Oral Argument. The parties await a response from the Court.

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

12. Concentration of Risk

During the quarter VITAS had pharmacy services agreements with two service providers to provide specified pharmacy services for VITAS and its hospice patients. VITAS made purchases from two of these providers of \$9.5 million and \$26.9 million for the three and nine month periods ended September 30, 2016, respectively. Vitas made purchases from one of these providers of \$9.5 and \$28.3 million for the three and nine month periods ended September 15, 2015, respectively. Purchases from these providers were approximately 90% of all pharmacy services used by VITAS.

13. Cash Overdrafts and Cash Equivalents

Included in accounts payable at September 30, 2016 is cash overdrafts payable of \$11.4 million (December 31, 2015 - \$9.3 million).

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. We had \$52,000 in cash equivalents as of September 30, 2016. There was \$76,000 in cash equivalents as of December 31, 2015. The weighted average rate of return for our cash equivalents was 0.48% at September 30, 2016 and 0.20% at December 31, 2015.

14. Financial Instruments

FASB's authoritative guidance on fair value measurements defines a hierarchy which prioritizes the inputs in fair value measurements. Level 1 measurements are measurements using quoted prices in active markets for identical assets or liabilities. Level 2 measurements use significant other observable inputs. Level 3 measurements are measurements using significant unobservable inputs which require a company to develop its own assumptions. In recording the fair value of assets and liabilities, companies must use the most reliable measurement available. For cash and cash equivalents, accounts receivable and accounts payable, the carrying amount is a reasonable estimate of fair value because of the liquidity and short-term nature of these instruments.

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of September 30, 2016 (in thousands):

	Carrying Value	Fair Value Measure		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	\$55,158	\$55,158	\$ -	\$ -
Long-term debt	110,625	-	110,625	-

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

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

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

15. Capital Stock Repurchase Plan Transactions

We repurchased the following capital stock for the three and nine months ended September 30, 2016 and 2015:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Total cost of repurchased shares (in thousands):	\$- \$18,230		\$102,313	\$47,992
Shares repurchased	- 135,765		780,134	385,765
Weighted average price per share	\$- \$134.28		\$131.15	\$124.41

In March 2016, the Board of Directors authorized an additional \$100.0 million for stock repurchase under Chemed's existing share repurchase program. We currently have \$50.2 million of authorization remaining under this share repurchase plan.

16. Recent Accounting Statements

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

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

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

In March 2016, the FASB issued Accounting Standards Update "ASU No. 2016-09 - Compensation – Stock Compensation" which is part of the FASB's Simplification Initiative. The object of this initiative is to identify, evaluate, and improve areas of GAAP. The areas of simplification in this initiative involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016. The impact of this ASU on our financial statements in 2017 and later years could be material, dependent upon the volatility of our stock price. This price volatility could materially increase or decrease the amount of the income tax benefit related to stock compensation recognized in the income statement and the classification of such benefit in the statement of cash flows. Adoption of this statement will not materially impact

our statement of financial position.

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

17. Goodwill

Shown below is movement in Goodwill (in thousands):

	Vitas	Roto-Rooter	Total
Balance at December 31, 2014	\$328,301	\$ 138,421	\$466,722
Business combinations	-	5,944	5,944
Foreign currency adjustments	-	(344) (344)
Balance at December 31, 2015	\$328,301	\$ 144,021	\$472,322
Foreign currency adjustments	-	96	96
Balance at September 30, 2016	\$328,301	\$ 144,117	\$472,418

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Service revenues and sales	\$392,607	\$386,226	\$1,173,405	\$1,144,799
Net income	\$26,829	\$28,833	\$76,554	\$80,345
Diluted EPS	\$1.62	\$1.65	\$4.54	\$4.61
Adjusted net income	\$28,643	\$30,934	\$86,625	\$87,481
Adjusted diluted EPS	\$1.73	\$1.78	\$5.14	\$5.02
Adjusted EBITDA	\$57,387	\$59,410	\$170,391	\$169,948
Adjusted EBITDA as a % of revenue	14.6	% 15.4	% 14.5	% 14.8

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization ("EBITDA") and Adjusted EBITDA are not measures derived in accordance with GAAP. We provide non-GAAP measures to help readers evaluate our operating results and to compare our operating performance with that of similar companies that have different capital structures. Our non-GAAP measures should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. A reconciliation of our non-GAAP measures is presented on pages 27-29.

For the three months ended September 30, 2016, the increase in consolidated service revenues and sales was driven by an 8.4% increase at Roto-Rooter and a 0.8% decrease at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines. The decrease in service revenues at VITAS was primarily a result of Medicare reimbursement rates increasing 0.6%, a 3.0% increase in days of care, offset by acuity mix shift which negatively impacted revenue 1.7% and changes in Medicare hospice reimbursement which negatively impacted revenue 2.1%. Consolidated net income decreased 7.0% mainly due to decreased revenue and gross profit margin at VITAS. Diluted EPS decreased 1.5% as a result of the decrease in net income offset by a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue decreased 0.8% when compared to the prior year quarter mainly as a result of the decrease in net income. See page 30 for additional VITAS operating metrics.

For the nine months ended September 30, 2016, the increase in consolidated service revenues and sales was driven by a 6.6% increase at Roto-Rooter and a 1.0% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines. The increase in service revenues at VITAS was primarily a result of Medicare reimbursement rates increasing 0.6%, a 4.7% increase in days of care, offset by acuity mix shift which negatively impacted revenue 1.8% and changes in Medicare hospice reimbursement which negatively impacted revenue 2.1%. Consolidated net income decreased 4.7% mainly due to other operating expenses related to the early retirement of VITAS' Chief Executive Officer. Diluted EPS decreased 1.8% as a result of the decrease in net income offset by a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue decreased 0.3% when compared to the prior year. See page 30 for additional VITAS operating metrics.

On January 1, 2016, CMS implemented a refinement to the Medicare hospice reimbursement per diem. This rebasing eliminated the single tier per diem for routine home care (RHC) and replaced it with a two-tiered rate, with a higher rate for the first 60 days of a hospice patient's care, and a lower rate for days 61 and after. In addition, CMS added a Service Intensity Add-on (SIA) payment which provides for reimbursement of care provided by a registered nurse or social worker for RHC patients within seven days prior to death. The reimbursement for continuous care, inpatient care and respite care are not impacted by this rebasing.

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

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

For the three and nine months ended September 30, 2016, VITAS had a 25/75 RHC Days-of-Care ratio and generated approximately \$1.3 million and \$3.3 million in SIA payments, respectively. This resulted in 2.0% less revenue than under the previous Medicare reimbursement methodology.

VITAS expects its full-year 2016 revenue growth, prior to Medicare cap, to be in the range of 1.0% to 2.0%. Average Daily Census in 2016 is estimated to expand approximately 4.5% to 5.0%. Adjusted EBITDA margin, prior to Medicare cap, is estimated to be 14.0% to 14.5%. This guidance includes \$1.25 million for Medicare cap billing limitations. Roto-Rooter expects full-year 2016 revenue growth of 5.0% to 5.5%. The revenue estimate is based upon increased job pricing of approximately 1.0% and continued growth in water restoration services. Adjusted EBITDA margin for 2016 is estimated in the range of 21.0% to 21.3%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

Financial Condition

Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2015 to September 30, 2016 include the following:

A \$20.3 million decrease in accounts receivable due mainly to timing of Medicare and Medicaid payments.

A \$5.6 million decrease in prepaid income taxes due to timing of payments.

A \$5.7 million increase in investments of deferred compensation plans related to participant contributions and market valuation gains.

A \$2.3 million increase in accrued insurance due to timing of insurance payments.

A \$4.4 million decrease in accrued compensation due to timing of payments of incentive compensation.

A \$5.5 million decrease in deferred income taxes due to changes in various temporary differences including accrued expenses.

A \$5.0 million increase in deferred compensation liabilities related to market valuation gains, participant contributions reduced by payouts to participants.

A \$19.4 million increase in long-term debt due to borrowings on our revolving line of credit.

Net cash provided by operating activities increased \$15.3 million mainly as a result of a decrease in accounts receivable due to the timing of payments. Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued \$37.4 million in standby letters of credit as of September 30, 2016, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of September 30, 2016, we have approximately \$287.6 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

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

Commitments and Contingencies

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. We are in compliance with all financial and other debt covenants as of September 30, 2016 and anticipate remaining in compliance throughout the foreseeable future.

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

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

For additional procedural history of this litigation, please refer to our prior quarterly and annual filings. The net costs incurred related to *U.S. v. Vitas* and related regulatory matters were \$599,000 and \$1.2 million for the quarters ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, the net costs were \$4.1 million and \$3.8 million respectively.

In November 2013, two shareholder derivative lawsuits were filed against the Company's current and former directors, as well as certain of its officers, both of which are covered by the Company's commercial insurance. On November 6, 2013, KBC Asset Management NV filed suit in the United States District Court for the District of Delaware, *KBC Asset Management NV, derivatively on behalf of Chemed Corp. v. McNamara, et al.*, No. 13 Civ. 1854 (LPS) (D. Del.). On November 14, 2013, Mildred A. North filed suit in the United States District Court for the Southern District of Ohio, *North, derivatively on behalf of Chemed Corp. v. Kevin McNamara, et al.*, No. 13 Civ. 833 (MRB) (S.D. Ohio). Those proceedings were subsequently consolidated in the District of Delaware under the caption *In re Chemed Corp. Shareholder and Derivative Litigation*, No. 13 Civ. 1854 (LPS) (CJB) (D. Del.), by Order of the United States District Court for the District of Delaware dated February 2, 2015. Also on February 2, 2015, the Court appointed Plaintiff KBC the sole lead plaintiff and its counsel, the sole lead and liaison counsel.

On March 3, 2015, Lead Plaintiff KBC designated its Complaint as the operative complaint in the consolidated proceedings. The consolidated Complaint named Kevin McNamara, Joel Gemunder, Patrick Grace, Thomas Hutton, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, Arthur Tucker, Jr., George Walsh III, Frank Wood, Timothy O'Toole, David Williams and Ernest Mrozek as individual defendants, together with the Company as nominal defendant. The Complaint alleges a claim for breach of fiduciary duty against the individual defendants, and seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees. Also on March 3, 2015, defendants renewed their previously-filed motion to dismiss those claims and allegations, which motion the court referred to Magistrate Judge Burke.

On December 23, 2015, Magistrate Judge Burke issued a Report and Recommendation recommending that (1) defendants' motion to dismiss be granted; (2) plaintiff be given 14 days from the date of affirmance by the district court to file an amended complaint addressing deficiencies with regard to their duty of loyalty claim; and (3) failure to do so should give rise to dismissal with prejudice. On January 11, 2016, Lead Plaintiff KBC filed Objections to the Report and Recommendation. Defendants' responses to those Objections were filed on January 28, 2016. On May 12, 2016, the court issued a Memorandum Order (1) overruling Lead Plaintiff KBC's Objections to the Report and Recommendation; (2) adopting the Report and Recommendation; (3) granting Chemed's motion to dismiss; and (4) dismissing Lead Plaintiff KBC's Complaint, without prejudice to KBC's opportunity to file within 30 days of the date of the court's Order an amended Complaint addressing the deficiencies in its duty of loyalty claim. Lead Plaintiff KBC did not file an amended Complaint within the time specified by the court—i.e., on or before June 13, 2016.

However, on that date (June 13, 2016), counsel for Chemed shareholder Michael Kvint filed a letter with the court requesting a two-week extension (1) to file a motion to substitute Mr. Kvint as Lead Plaintiff, in place of Lead Plaintiff KBC; and (2) in that capacity, to file an amended Complaint. Alternatively, counsel for Mr. Kvint requested that any dismissal of the action be with prejudice to KBC only. On June 14, 2016, Chemed filed a reply letter with the court, reserving its rights to oppose any motion filed by Mr. Kvint and, if warranted, to oppose any other actions taken by Mr. Kvint to proceed with the action (including by filing an untimely amended Complaint). On June 21, 2016, the court entered an Oral Order providing Mr. Kvint until June 30, 2016 to file a Motion to Substitute and Motion for Leave to File an Amended Complaint. On that date, Mr. Kvint filed, under seal, a Motion to Substitute Plaintiff and File Amended Complaint, and attached a Proposed Amended Complaint. Chemed filed an Answering Brief in Opposition to Mr. Kvint's motion on July 18, 2016. Mr. Kvint filed a Reply Brief in Support of his motion on July 27, 2016. On August 2, 2016, Chemed filed a Request for Oral Argument. The parties await a response from the Court.

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

Results of Operations

Three months ended September 30, 2016 versus 2015 - Consolidated Results

Our service revenues and sales for the third quarter of 2016 increased 1.7% versus services and sales revenues for the third quarter of 2015. Of this increase, a \$2.1 million decrease was attributable to VITAS and \$8.5 million increase was attributable to Roto-Rooter. The following chart shows the components of those changes (in thousands):

	Increase/(Decrease)	
	Amount	Percent
VITAS		
Routine homecare	\$ 2,396	1.1
Continuous care	(3,890)	(10.3)
General inpatient	(421)	(1.7)
Medicare cap	(228)	-
Roto-Rooter		
Plumbing	2,916	6.5
Drain cleaning	1,389	4.1
Water restoration	3,773	46.3
Contractor operations	704	7.7
Other	(258)	(5.0)
Total	\$ 6,381	1.7

The decrease in VITAS' revenues for the third quarter of 2016 versus the third quarter of 2015 was a primarily a result of Medicare reimbursement rates increasing approximately 0.6%, a 3.0% increase in days of care offset by acuity mix shift which negatively impacted revenue 1.7% and changes in Medicare hospice reimbursement which negatively impacted revenue 2.1%.

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

	Days of Care		Increase/(Decrease)
	2016	2015	Percent
Routine homecare	1,407,623	1,357,688	3.7
Continuous care	46,582	51,652	(9.8)

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General inpatient	36,241	37,121	(2.4)
Total days of care	1,490,446	1,446,461	3.0	

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

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The increase in plumbing revenues for the third quarter of 2016 versus 2015 is attributable to a 0.1% increase in job count and a 6.4% increase in a combination of price and service mix shift. Drain cleaning revenues for the third quarter of 2016 versus 2015 reflect a 1.0% decrease in the number of jobs performed combined with an increase in price and service mix shift of 5.1%. Water restoration for the third quarter of 2016 versus 2015 increased 46.3% as a result of continued expansion of this service offering into all Roto-Rooter locations. Contractor operations increased 7.7% and Other Roto-Rooter revenue decreased 5.0%.

The consolidated gross margin was 28.3% in the third quarter of 2016 as compared with 29.6% in the third quarter of 2015. On a segment basis, VITAS' gross margin was 20.7% in the third quarter of 2016 as compared with 23.3%, in the third quarter of 2015. The decline in VITAS gross margin is mainly the result of lower revenues in the high acuity service-lines. There are generally higher fixed costs associated with high-acuity care. The Roto-Rooter segment's gross margin was 47.8% for the third quarter of 2016 compared with 47.1% in the third quarter of 2015.

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

	Three months ended September 30,	
	2016	2015
SG&A expenses before market value adjustments of deferred compensation plans, long-term incentive compensation, and OIG investigation expenses	\$56,475	\$55,601
Long-term incentive compensation	643	1,364
Expenses related to OIG investigation	599	1,151
Impact of market value adjustments related to assets held in deferred compensation trusts	1,656	(2,328)
Total SG&A expenses	\$59,373	\$55,788

SG&A expenses before long-term incentive compensation, expenses related to OIG investigation and the impact of market value adjustments related to assets held in deferred compensation trusts for the third quarter of 2016 were up 1.6% when compared to the third quarter of 2015.

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

	Three months ended September 30,	
	2016	2015
Market value adjustment on assets held in deferred compensation trusts	\$1,656	\$(2,328)
Loss on disposal of property and equipment	(134)	(116)
Interest income - net	119	