



Publicly traded on the New York Stock Exchange under the symbol CHE, Chemed Corporation operates through two wholly owned subsidiaries, VITAS Healthcare Corporation and Roto-Rooter. VITAS is the nation's largest provider of end-of-life hospice care, and Roto-Rooter is North America's largest provider of plumbing and drain cleaning services. Founded in 1971, Chemed is headquartered in Cincinnati, Ohio.



VITAS focuses on noncurative hospice care that helps make terminally ill patients' final days as comfortable and pain free as possible. Through its teams of nurses, home health aides, doctors, 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. In 2018, VITAS cared for over 82,000 patients totaling approximately 6.5 million days of care throughout 14 states and the District of Columbia. Approximately 98% of days of care is delivered directly to the patient in their home. The remaining 2% of days of care is provided in dedicated inpatient units.



Founded in 1935, Roto-Rooter offers an ever-expanding variety of plumbing repair and maintenance, drain cleaning and water cleanup services to homeowners, businesses and municipalities. Roto-Rooter operates through more than 110 company-owned branches and independent contractors and approximately 400 franchisees. The total Roto-Rooter system offers services to approximately 90% of the U.S. population and approximately 40% of the Canadian population.

Roto-Rooter® is a registered trademark of Roto-Rooter Corporation. VITAS® is a registered trademark of VITAS Healthcare Corporation.

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, 2018, 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, 2018, 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, 2018, as stated in their report which appears on pages 2 and 3.

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, 2018 and 2017, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed 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.

/s/PricewaterhouseCoopersLLP

Cincinnati, Ohio February 27, 2019

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

Pricewaterhouse Coopers LLP

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)					
For the Years Ended December 31,		2018	2017		2016
Service revenues and sales (Note 2)	\$	1,782,648	\$ 1,666,724	\$	1,576,881
Cost of services provided and goods sold (excluding depreciation)		1,228,644	1,150,532		1,115,431
Selling, general and administrative expenses		270,209	276,652		243,572
Depreciation		38,464	35,488		34,279
Amortization		399	137		359
Other operating expenses (Note 20)		1,300	90,880		4,491
Total costs and expenses		1,539,016	 1,553,689		1,398,132
Income from operations		243,632	113,035		178,749
Interest expense		(4,990)	(4,272)		(3,715)
Other incomenet (Note 10)		958	 8,154		2,020
Income before income taxes		239,600	116,917		177,054
Income taxes (Note 11)		(34,056)	 (18,740)		(68,311)
Net Income	<u>\$</u>	205,544	\$ 98,177	\$	108,743
Earnings Per Share (Note 15)					
Net Income	\$	12.80	\$ 6.11	\$	6.64
Average number of shares outstanding		16,059	 16,057	_	16,383
Diluted Earnings Per Share (Note 15)					
Net Income	\$	12.23	\$ 5.86	\$	6.48
Average number of shares outstanding		16,803	16,742		16,789

CONSOLIDATED BALANCE SHEETS

(in thousands, except shares and per share data)			
December 31,	2018		2017
Assets			
Current assets			
Cash and cash equivalents (Note 9)	\$ 4,831	\$	11,121
Accounts receivable less allowances of \$15,175 for 2017	119,504		113,651
Inventories	5,705		5,334
Prepaid income taxes	10,646		29,848
Prepaid expenses	 19,154		16,092
Total current assets	159,840		176,046
Investments of deferred compensation plans held in trust (Notes 14 and 16)	65,624		62,067
Properties and equipment, at cost, less accumulated depreciation (Note 12)	162,033		143,034
Identifiable intangible assets less accumulated amortization of \$33,283 (2017 - \$32,887) (Note 6)	68,253		54,865
Goodwill	510,570		476,887
Other assets	 9,209		7,127
Total Assets	\$ 975,529	\$	920,026
Liabilities			
Current liabilities			
Accounts payable	\$ 50,150	\$	48,372
Current portion of long-term debt (Note 3)	-		10,000
Accrued insurance	46,095		46,968
Accrued compensation	63,329		62,933
Accrued legal	1,857		1,786
Other current liabilities	 30,239		23,463
Total current liabilities	191,670		193,522
Deferred income taxes (Note 11)	21,598		16,640
Long-term debt (Note 3)	89,200		91,200
Deferred compensation liabilities (Note 14)	64,616		61,800
Other liabilities	 17,111		16,510
Total Liabilities	 384,195		379,672
Commitments and contingencies (Notes 13 and 17)			
Stockholders' Equity			
Capital stock - authorized 80,000,000 shares \$1 par; issued 35,311,418 shares			
(2017 - 34,732,192 shares)	35,311		34,732
Paid-in capital	774,358		695,797
Retained earnings	1,225,617		1,038,955
Treasury stock - 19,438,358 shares (2017 - 18,694,047 shares), at cost	(1,446,296)	((1,231,332)
Deferred compensation payable in Company stock (Note 14)	 2,344	_	2,202
Total Stockholders' Equity	 591,334	_	540,354
Total Liabilities and Stockholders' Equity	\$ 975,529	\$	920,026

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)			
For the Years Ended December 31,	2018	2017	2016
Cash Flows from Operating Activities			
Net income	\$ 205,544	\$ 98,177	\$ 108,743
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	38,863	35,625	34,638
Stock option expense	12,611	10,485	8,330
Noncash portion of long-term incentive compensation	5,405	3,774	1,301
Provision/(benefit) for deferred income taxes (Note 11)	5,187	2,407	(6,707)
Noncash directors' compensation	766	766	541
Amortization of restricted stock awards	446	1,231	1,855
Amortization of debt issuance costs	441	516	519
Provision for uncollectible accounts receivable	-	17,306	16,319
Loss on sale of transportation equipment (Note 20)	-	5,266	-
Noncash early retirement expense (Note 20)	-	-	1,747
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:			
Decrease/(increase) in accounts receivable	(5,570)	1,072	(42,142)
Decrease/(increase) in inventories	(351)	421	559
Increase in prepaid expenses	(2,665)	(2,987)	(253)
Increase in accounts payable and other current liabilities	8,935	12,890	891
(Decrease)/increase in income taxes	18,898	(26,104)	13,886
Increase in other assets	(5,544)	(8,330)	(5,224)
Increase in other liabilities	3,451	8,561	7,105
Excess tax benefit on stock-based compensation	-	-	(7,195)
Other sources	721	1,419	480
Net cash provided by operating activities	287,138	162,495	135,393
Cash Flows from Investing Activities			
Capital expenditures	(52,872)	(64,300)	(39,772)
Business combinations, net of cash acquired (Note 7)	(53,177)	(4,725)	-
Other sources/(uses)	824	1,417	(90)
Net cash used by investing activities	(105,225)	(67,608)	(39,862)
Cash Flows from Financing Activities			
Proceeds from revolving line of credit	469,550	212,350	127,050
Payments on revolving line of credit	(406,550)	(211,150)	(102,050)
Purchases of treasury stock	(158,884)	(94,640)	(102,313)
Payments on other long-term debt	(75,000)	(8,750)	(7,500)
Proceeds from exercise of stock options (Note 4)	32,412	27,092	8,421
Capital stock surrendered to pay taxes on stock-based compensation	(27,548)	(14,223)	(8,772)
Dividends paid	(18,662)	(17,371)	(16,439)
Change in cash overdraft payable	(1,531)	6,700	(736)
Debt issuance costs	(1,052)	-	-
Excess tax benefit on stock-based compensation	-	-	7,195
Other sources/(uses)	(938)	916	196
Net cash used by financing activities	(188,203)	(99,076)	(94,948)
Increase/(decrease) in cash and cash equivalents	(6,290)	(4,189)	583
Cash and cash equivalents at beginning of year	11,121	15,310	14,727
Cash and cash equivalents at end of year	\$ 4,831	\$ 11,121	\$ 15,310

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except per share data)							Deferred	
						(Compensation	
					Treasury		Payable in	
	Capital	Paid-in		Retained	Stock-		Company	
	Stock	Capital	_	Earnings	at Cost		Stock	Total
Balance at December 31, 2015	\$ 33,985	\$ 603,006	\$	865,845	\$ (991,978)	\$	2,395	\$ 513,253
Net income	-	-		108,743	-		-	108,743
Dividends paid (\$1.00 per share)	-	-		(16,439)	-		-	(16,439)
Stock awards and exercise of stock options (Note 4)	285	36,453		-	(16,127)		-	20,611
Purchases of treasury stock (Note 19)	-	-		-	(102,313)		-	(102,313)
Other		244			 (118)		118	 244
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 19)	-	-		-	(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 19)	-	-		-	(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

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. Management has adopted the evaluation requirements of Accounting Standards Update "ASU No. 2014-15 – Presentation of Financial Statements – Going Concern".

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, 2018 and 2017, approximately 68% and 59%, respectively, of VITAS' total accounts receivable balance were due from Medicare and 26% and 32%, 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, 2018.

As further described in Note 18, we had agreements with a vendor to provide specified pharmacy services for VITAS and its hospice patients. In 2018 and 2017, respectively, purchases made from this vendor represent 99% and 85%, respectively, of all pharmacy services used by VITAS.

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, 2018, were:

Buildings and building improvements	32.8 yrs
Transportation equipment	10.5
Machinery and equipment	5.1
Computer software	4.6
Furniture and fixtures	4.8

GOODWILL AND INTANGIBLE ASSETS

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

				Roto-			
	Vitas		I	Rooter	Total		
Balance at December 31, 2016	\$	328,301	\$	144,065	\$	472,366	
Business combinations		-		4,396		4,396	
Foreign currency adjustments				125		125	
Balance at December 31, 2017	\$	328,301	\$	148,586	\$	476,887	
Business combinations		5,030		28,780		33,810	
Foreign currency adjustments		<u>-</u> _		(127)		(127)	
Balance at December 31, 2018	\$	333,331	\$	177,239	\$	510,570	

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, 2018, were:

Covenants not to compete	6.5 yrs
Reacquired franchise rights	7.9
Referral networks	10.0
Customer lists	12.0

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, 2018. 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.

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, 2018, was \$47.0 million (2017 - \$40.9 million; 2016 - \$37.2 million).

COMPUTATION OF EARNINGS PER SHARE

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 specific areas of financial reporting. 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 was effective for fiscal years beginning after December 15, 2016. We adopted the applicable provisions of ASU 2016-09 on a prospective basis. The impact of this ASU on our financial statements for the year ended December 31, 2018, was to decrease our income tax expense by \$22.9 million as the result of excess tax benefits on stock based compensation being recorded on the statements of income. This, combined with the required change in diluted share count, resulted in an increase to basic and diluted earnings per share of \$1.42 and \$1.27, respectively. The impact of this ASU on our financial statements for the year ended December 31, 2017, was to decrease our income tax expense by \$18.9 million as the result of excess tax benefits on stock based compensation being recorded on the statements of income. This, combined with the required change in diluted share count, resulted in an increase to basic and diluted earnings per share of \$1.18 and \$1.08, respectively.

OTHER CURRENT LIABILITIES

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

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.

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, 2018, 2017 and 2016, were net pretax debits/(credits) of (\$3,437,000), (\$1,800,000), and \$1,147,000 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.

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 four hours per day in fifteen minute increments at the continuous home care rate.

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

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

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

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

Care is provided to patients regardless of their ability to pay. Patients who meet our criteria for charity care are provided care without charge. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of providing charity care during the years ended December 31, 2018, 2017 and 2016, was \$8.2 million, \$7.7 million and \$7.0 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, 2018, 2017 and 2016.

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, 2018, all our programs except one are using the "streamlined" method.

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

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether revenues are likely to exceed the annual per-beneficiary Medicare cap. Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective actions, which include changes to the patient mix and increased patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate revenue recognized during the government fiscal year that will require repayment to the Federal government under the Medicare cap and record an adjustment to revenue of an amount equal to a ratable portion of our best estimate for the year.

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, CMS determined that the Medicare cap should be calculated "as if" sequestration did not occur. As a result of this decision, VITAS has received notification from our third-party intermediary that an additional \$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 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, 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.

During the year ended December 31, 2016, we recorded \$228,000 in Medicare cap revenue reduction related to one programs' projected 2015 measurement period liability.

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, 2018, is as follows (in thousands):

	N	Medicare	Me	edicaid	Con	nmercial	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
	\$	1,119,901	\$	61,891	\$	33,901	\$ 1,215,693
All other revenue - self-pay, respite care, etc. Subtotal Medicare cap adjustment Implicit price concessions Room and board, net Net revenue							\$ 7,831 1,223,524 (4,123) (11,785) (10,054) 1,197,562

Roto-Rooter

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

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

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

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

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

For both short-term core services and water restoration services, Roto-Rooter satisfies its performance obligation at a point in time. The services provided generally involve fixing plumbing, drainage or flood-related issues at the

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

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

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

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

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

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

Short-term core service jobs	\$ 421,790
Water restoration	101,784
Contractor revenue	50,093
Franchise fees	6,382
All other	 11,958
Subtotal	\$ 592,007
Implicit price concessions and credit memos	 (6,921)
Net revenue	\$ 585,086

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 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 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, 2018 and 2017, respectively, the interest rate is LIBOR plus 100 basis points.

The debt outstanding at December 31, 2018 and 2017 consists of the following (in thousands):

	December 31,					
		2018				
Revolver	\$	89,200 \$	26,200			
Term loan		<u>-</u>	75,000			
Total		89,200	101,200			
Current portion of term loan		<u>-</u>	(10,000)			
Long-term debt	\$	89,200 \$	91,200			

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):

2018	\$ 4,178
2017	3,626
2016	3,047

The 2018 Credit Agreement contains the following quarterly financial covenants:

Description	Requirement	Chemed
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	0.41 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00	7.61 to 1.00

We are in compliance with all debt covenants as of December 31, 2018. We have issued \$36.4 million in standby letters of credit as of December 31, 2018 for insurance purposes. Issued letters of credit reduce our available credit under the 2018 Credit Agreement. As of December 31, 2018, we have approximately \$324.4 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 in 2018, 2017, 2016 and 2015 have a contractual life of 5 years; those granted prior to 2014 have a contractual life of 10 years. Restricted stock awards granted in 2015 vest ratably annually over a three-year period. 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 2018, the CIC granted 2,295 unrestricted shares of stock to the Company's outside directors.

PERFORMANCE AWARDS

In February 2016, 2017 and 2018, 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 2016, 2017 and 2018, 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:

	2018 Awards		2017 Awards		2016 Awards	
TSR Awards						
Shares of stock granted		7,523		7,304		9,541
Per-share fair value	\$	341.20	\$	226.95	\$	150.74
Volatility		22.9%		21.8%		26.7%
Risk-free interest rate		2.34%		1.44%		0.89%
EPS Awards						
Shares of stock granted		7,523		7,304		9,541
Per-share fair value	\$	256.29	\$	172.60	\$	126.37
Common Assumptions						
Service period (years)		2.9		2.9		2.9
Three-year measurement period ends December 31,		2020		2019		2018

The following table summarizes total stock option, stock award and PSU activity during 2018:

	Stock Options				Stock A	wards	Performance Units (PSUs)		
		Weight	ed Average	Aggregate		Weighted	Number	Weighted	
	Number of	Exercise	Remaining Contractual	Intrinsic Value	Number of	Average Grant- Date	of Target	Average Grant- Date	
	Options	Price	Life (Years)	(thousands)	Awards	Price	Units	Price	
Outstanding at January 1, 2018	1,698,458 \$	3 141.62			9,706 \$	121.75	53,732 \$	5 151.09	
Granted	246,350	306.70			2,295	333.75	32,255	209.49	
Exercised/Vested	(539,104)	112.79			(12,001)	162.29	(37,827)	129.48	
Canceled/ Forfeited	(10,670)	153.31				-		-	
Outstanding at December 31, 2018	1,395,034	181.82	3.6	\$ 144,271	\$	-	48,160	8 207.17	
Vested and expected to vest									
at December 31, 2018	1,395,034 \$	181.82	3.6	\$ 144,271	- \$	-	83,250 *\$	3 202.10	
Exercisable at December 31, 2018	770,385	137.48	3.3	110,291	n.a.	n.a.	n.a.	n.a.	

^{*} Amount includes 32,134 share units which vested and were converted to shares of stock and distributed in the first quarter of 2019.

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,				
		2018	2017	_	2016	
Total compensation expense of stock-based compensation plans charged against income	\$	19,229	\$ 16,256	\$	13,773	
Total income tax benefit recognized in income for stock						
based compensation expense charged against income		4,788	5,690		5,062	
Total intrinsic value of stock options exercised		102,144	50,192		17,635	
Total intrinsic value of stock awards vested during the period		4,003	6,983		7,429	
Per-share weighted average grant-date fair value of						
stock awards granted		333.75	203.52		126.53	
The assumptions we used to value stock option grants are as t	follows:					
		2018	2017	_	2016	
Stock price on date of issuance		\$306.70	\$231.91		\$135.85	
Grant date fair value per share		\$67.16	\$46.27		\$22.74	
Number of options granted		246,350	330,550		505,775	
Expected term (years)		4.0	4.0		4.0	
Risk free rate of return		2.99%	1.86%		1.09%	
Volatility		22.42%	22.80%		21.10%	
Dividend yield		0.4%	0.5%		0.8%	
Forfeiture rate		-	-		-	

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

		Stock		Stock		
	_	Options	_	Awards	_	PSUs
Total unrecognized compensation at the end of the year	\$	27,556	\$	-	\$	5,925
Weighted average period over which unrecognized compensation to be recognized (years)		2.3		-		1.8
Actual income tax benefit realized	\$	24,075	\$	944	\$	2,086
Aggregate intrinsic value vested and expected to vest	\$	144,271	\$	-	\$	23,363

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 67% and 33%, respectively, in 2018 and 69% and 31%, respectively, in 2017 and 2016. The vast majority of our service revenues and sales from continuing operations are generated from business within the United States.

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,					
		2018		2017		2016
Revenues by Type of Service						
VITAS						
Routine homecare	\$	1,010,518	\$	935,913	\$	887,940
Continuous care		122,498		124,557		138,025
General inpatient		82,677		90,472		97,580
Other		7,831		-		-
Subtotal revenue		1,223,524	· ·	1,150,942		1,123,545
Room and board, net	\$	(10,054)	\$	-	\$	-
Implicit price concessions		(11,785)		-		
Medicare cap adjustment		(4,123)		(2,682)		(228)
Total segment		1,197,562	· ·	1,148,260		1,123,317
Roto-Rooter						
Short-term core service jobs		421,790		373,579		345,638
Water restoration		101,784		82,272		50,229
Contractor revenue		50,093		43,770		40,097
Franchise fees		6,382		6,130		5,090
Other		11,958		12,713		12,510
Implicit price concessions and credit memos		(6,921)		-		-
Total segment		585,086		518,464		453,564
Total service revenues and sales	\$	1,782,648	\$	1,666,724	\$	1,576,881
After-tax Segment Earnings/(Loss)		, ,		, ,		
VITAS	\$	138,846	\$	57,645	\$	84,961
Roto-Rooter		98,711		73,299		52,893
Total		237,557		130,944		137,854
Corporate		(32,013)		(32,767)		(29,111)
Net income	\$	205,544	\$	98,177	\$	108,743
Interest Income	<u>·</u>					
VITAS	\$	13,412	\$	12,044	\$	8,294
Roto-Rooter		7,000		5,635		3,653
Total		20,412		17,679		11,947
Intercompany eliminations		(19,741)		(17,252)		(11,564)
Total interest income	\$	671	\$	427	\$	383
Interest Expense	<u>·</u>					
VITAS	\$	175	\$	188	\$	211
Roto-Rooter	Ψ	319	Ψ	323	Ψ	332
Total		494		511		543
Corporate						
Total interest expense		4,496	<u> </u>	3,761	<u> </u>	3,172
Total micrest expense	<u>\$</u>	4,990	\$	4,272	<u>\$</u>	3,715
Income Tax Provision						
VITAS	•	40.04=	Φ.	16.426	Φ.	71.010
Roto-Rooter	\$	40,847	\$	16,436	\$	51,910
Total		28,850		32,782		32,719
		69,697		49,218		84,629
Corporate		(35,641)		(30,478)		(16,318)
Total income tax provision	<u>\$</u>	34,056	\$	18,740	\$	68,311
Identifiable Assets						
VITAS Poto Pootor	\$	553,949	\$	545,304	\$	542,142
Roto-Rooter Total		351,030		294,663		261,641
		904,979		839,967		803,783
Corporate Total identifiable assets		70,550	<u></u>	80,059		76,276
Total identifiable assets	\$	975,529	\$	920,026	\$	880,059

	For the Years Ended December 31,						
		2018		2017	2016		
Additions to Long-Lived Assets		_					
VITAS	\$	36,969	\$	23,469	\$	22,000	
Roto-Rooter		68,786		45,386		17,709	
Total		105,755		68,855		39,709	
Corporate		128		483		63	
Total additions to long-lived assets	\$	105,883	\$	69,338	\$	39,772	
Depreciation and Amortization	'	_	<u> </u>				
VITAS	\$	19,700	\$	18,630	\$	19,090	
Roto-Rooter		19,016		16,790		15,002	
Total		38,716		35,420		34,092	
Corporate		147		205		546	
Total depreciation and amortization	\$	38,863	\$	35,625	\$	34,638	

6. Intangible Assets

Amortization of definite-lived intangible assets for the years ended December 31, 2018, 2017, 2016, was \$399,000, \$137,000 and \$359,000 respectively. The following is a schedule by year of projected amortization expense for definite-lived intangible assets (in thousands):

2019	\$ 1,628
2020	1,624
2021	1,620
2022	1,611
2023	1,590
Thereafter	8,880

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

	Gross Asset		Accumulated Amortization				N	et Book Value
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	\$	101,536	\$	(33,283)	\$	68,253		
December 31, 2017								
Referral networks	\$	21,140	\$	(21,140)	\$	-		
Covenants not to compete		9,519		(9,291)		228		
Customer lists		1,217		(1,217)		-		
Reacquired franchise rights		1,298		(1,239)		59		
Subtotal - definite-lived intangibles		33,174		(32,887)		287		
VITAS trade name		51,300		-		51,300		
Roto-Rooter trade name		150		-		150		
Operating licenses		3,128				3,128		
Total	\$	87,752	\$	(32,887)	\$	54,865		

7. Business Combinations

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 purchase price of these acquisition was allocated as follows (in thousands):

Reacquired franchise rights	\$ 11,161
All other identifiable intangible assets	2,500
Goodwill	33,828
Other assets and liabilities - net	5,688
	\$ 53,177

There was no gain or loss as a result of the settlement of the preexisting relationship with the former franchisees at Roto-Rooter. Goodwill, substantially all of which is deductible for tax purposes, was determined based on the residual difference between the fair value of consideration transferred and the value assigned to all tangible and intangible assets. Among factors that contributed to the recognition of goodwill for both Roto-Rooter and VITAS were expected synergies associated with combining operations of the acquiree into our existing operating platforms.

During 2017, we completed two business combinations of former franchisees within the Roto-Rooter segment for \$4.7 million in cash to increase our market penetration. The purchase price of these acquisition was allocated as follows (in thousands):

Identifiable intangible assets	\$ 98
Goodwill	4,396
Other assets and liabilities - net	231
	\$ 4,725

We did not complete any business combinations during 2016.

The unaudited pro forma results of operations, assuming purchase business combinations completed in 2018 were completed on January 1, 2017, are presented below (in thousands, except per share data):

	For the Years Ended						
	<u></u>	December 31,					
		2018		2017			
Service revenues and sales	\$	1,811,532	\$	1,705,747			
Net income	\$	209,891	\$	103,920			
Earnings per share	\$	13.07	\$	6.47			
Diluted earnings per share	\$	12.49	\$	6.21			

The pro-forma revenue and net income amounts associated with the acquisitions are based on unaudited historical results of the acquiree. No material pro-forma adjustments were made to the acquiree's historical results.

8. Discontinued Operations

At December 31, 2018 and 2017, 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 2018 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):

2019	\$ 826
2020	300
Thereafter	 601
	\$ 1,727

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 accounts payable are cash overdrafts of \$13.8 million and \$15.3 million as of December 31, 2018 and 2017, 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,						
	2018 2			2017 2016			
Interest income	\$	671	\$	427 \$		383	
Market value gains related to deferred							
compensation trusts		287		8,430		2,061	
Other—net		<u>-</u>		(703)		(424)	
Total other income	\$	958	\$	8,154	\$	2,020	

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,					
		2018	2017		2016	
Current						
U.S. federal	\$	23,934	\$	11,724	\$	64,698
U.S. state and local		4,484		4,144		9,927
Foreign		452		465		393
Deferred						
U.S. federal, state and local		5,185		2,402		(6,712)
Foreign		1		5		5
Total	\$	34,056	\$	18,740	\$	68,311

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

	December 31,				
	2018			2017	
Accrued liabilities	\$	30,702	\$	30,419	
Stock compensation expense		5,894		6,282	
State net operating loss carryforwards		2,422		2,243	
Implicit price concessions		1,171		291	
Other		626		565	
Deferred income tax assets		40,815		39,800	
Amortization of intangible assets		(38,346)		(36,882)	
Accelerated tax depreciation		(19,685)		(14,057)	
Market valuation of investments		(1,068)		(2,277)	
State income taxes		(1,261)		(1,722)	
Currents assets		(1,861)		(1,255)	
Other		(192)		(247)	
Deferred income tax liabilities		(62,413)		(56,440)	
Net deferred income tax liabilities	\$	(21,598)	\$	(16,640)	

At December 31, 2018 and 2017, state net operating loss carryforwards were \$39.3 million and \$36.5 million, respectively. These net operating losses will expire, in varying amounts, between 2024 and 2038. 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):

	 2018	201/	 2016
Balance at January 1,	\$ 1,123	\$ 1,069	\$ 1,052
Unrecognized tax benefits due to positions taken in current year	453	268	218
Decrease due to expiration of statute of limitations	 (228)	 (214)	 (201)
Balance at December 31,	\$ 1,348	\$ 1,123	\$ 1,069

We file tax returns in the U.S. federal jurisdiction and various states. The years ended December 31, 2015, 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, 2013. 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, 2018 and 2017, we have approximately \$136,000 and \$134,000, 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,					1,
		2018		2017		2016
Income tax provision calculated using the statutory rate of 21%	\$	50,316	\$	40,921	\$	61,969
Stock compensation tax benefits		(22,862)		(18,932)		-
State and local income taxes, less federal income tax effect		7,150		4,600		6,044
Nondeductible expenses		2,280		1,041		881
Enactment of the tax reform act		-		(8,305)		-
Othernet		(2,828)		(585)		(583)
Income tax provision	\$	34,056	\$	18,740	\$	68,311
Effective tax rate		14.2 %		16.0 %		38.6 %

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

2018	\$ 9,749
2017	42,311
2016	60,905

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,				
		2017			
Land	\$	7,964	\$	7,108	
Buildings and building improvements		96,361		85,570	
Transportation equipment		51,559		47,243	
Machinery and equipment		111,183		99,234	
Computer software		49,928		47,840	
Furniture and fixtures		72,898		74,191	
Projects under development		20,510		11,882	
Total properties and equipment		410,403		373,068	
Less accumulated depreciation		(248,370)		(230,034)	
Net properties and equipment	\$	162,033	\$	143,034	

The net book value of computer software at December 31, 2018 and 2017, was \$6.6 million and \$7.3 million, respectively. Depreciation expense for computer software was \$5.4 million, \$4.4 million and \$4.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

13. Lease Arrangements

We have operating leases that cover our corporate office headquarters, various warehouse and office facilities, office equipment and transportation equipment. The remaining terms of these leases range from monthly to nine years, and in most cases we expect that these leases will be renewed or replaced by other leases in the normal course of business. We have no significant capital leases as of December 31, 2018 or 2017.

The following is a summary of future minimum rental payments and sublease rentals to be received under operating leases that have initial or remaining noncancelable terms in excess of one year at December 31, 2018 (in thousands):

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

Total rental expense incurred under operating leases for continuing operations follows (in thousands):

	For the Years Ended December 31,						
	2018		2017		2016		
Total rental expense	\$	41,685	\$	41,210	\$	40,034	

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,							
2018		2017		2016			
\$ 1	6,502 \$	22,0	25 \$	14,467			

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

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. 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, 2018, these trusts held 80,584 shares at historical average cost or \$2.3 million of our stock (2017 – 83,125 shares or \$2.2 million).

15. Earnings Per Share

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

		Net Income Earnings per							
For the Years Ended December 31,	Net Income		Shares	Earnings per Share					
2018									
Earnings	\$	205,544	16,059	\$	12.80				
Dilutive stock options		-	650						
Nonvested stock awards			94						
Diluted earnings	\$ <u></u>	205,544	16,803	\$	12.23				
2017									
Earnings	\$	98,177	16,057	\$	6.11				
Dilutive stock options		-	596						
Nonvested stock awards	_	<u>-</u>	89						
Diluted earnings	\$	98,177	16,742	\$	5.86				
2016									
Earnings	\$	108,743	16,383	\$	6.64				
Dilutive stock options		-	296						
Nonvested stock awards		-	110						
Diluted earnings	\$	108,743	16,789	\$	6.48				

During 2018, 246,000 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 2017, 328,000 stock options were also excluded. During 2016, 923,000 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, 2018 (in thousands):

			Fair Value Measure						
	Carry	ying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)		ctive Markets Other for Identical Observable			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		-	

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

			Fair Value Measure							
	Carrying Value		Quoted Prices in 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	\$	62,067	\$	62,067	\$	-	\$	-		
Long-term debt and current portion of long-term debt		101,200		-		101,200		_		

For cash and cash equivalents, accounts receivable and accounts payable, the carrying amount is a reasonable estimate of fair value because of the liquidity and short-term nature of these instruments. As further described in Footnote 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, as well as to lawsuits, including *qui tam* actions. The following sections describe the various ongoing material lawsuits and investigations of which the Company is currently aware. It is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or reasonably estimable.

Regulatory Matters and Litigation

The Company and certain current and former directors and officers are defendants in a case captioned *In re Chemed Corp. Shareholder Derivative Litigation*, No. 13 Civ. 1854 (LPS) (CJB) (D. Del.), which was consolidated on February 2, 2015.

On February 2, 2015, the Court appointed KBC Asset Management NV the sole lead plaintiff and its counsel, the sole lead and liaison counsel. On March 3, 2015, Lead Plaintiff KBC designated its Complaint as the operative complaint in the consolidated proceedings and defendants renewed a previously filed motion to dismiss those claims and allegations. The consolidated Complaint named fourteen individual defendants, together with the Company as nominal defendant. The Complaint alleges a claim for breach of fiduciary duty against the individual defendants for allegedly permitting the Company to submit false claims to the U.S. government. The Complaint seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees. On May 12, 2016, the Court issued a Memorandum Order granting Chemed's motion to dismiss, and dismissing Lead Plaintiff KBC's Complaint without prejudice to KBC's opportunity to file within 30 days of the date of the Court's Order (i.e., by June 13, 2016) an amended Complaint addressing the deficiencies in its duty of loyalty claim. Lead Plaintiff KBC did not file an amended Complaint within the time specified by the Court.

However, on June 13, 2016, counsel for Chemed shareholder Michael Kvint filed a letter with the Court requesting a two-week extension to file a motion to substitute Mr. Kvint as lead plaintiff, in place of Lead Plaintiff KBC and to file an amended Complaint. Alternatively, counsel for Mr. Kvint requested that any dismissal of the action be with prejudice to KBC only. On June 14, 2016, Chemed filed a reply letter with the Court, reserving its rights to oppose any motion filed by Mr. Kvint and, if warranted, to oppose any other actions taken by Mr. Kvint to proceed with the action (including by filing an untimely amended Complaint). On June 21, 2016, the Court entered an Oral Order providing Mr. Kvint until June 30, 2016, to file a Motion to Substitute and Motion for Leave to File an Amended Complaint. On that date, Mr. Kvint filed, under seal, a Motion to Substitute Plaintiff and File Amended Complaint, and attached a Proposed Amended Complaint. Mr. Kvint's motion was fully briefed by the parties. On April 25, 2017, Magistrate Judge Burke issued a Report and Recommendation recommending that the Court permit Mr. Kvint to intervene as Lead Plaintiff and grant leave

to amend the complaint to replead the duty of loyalty claim only. On May 16, 2017, Chief Judge Stark signed an Order adopting that Report and Recommendation. Plaintiff Kvint filed a Corrected Amended Complaint on May 30, 2017. On September 13, 2017, the Court entered an order dismissing with prejudice the claims against defendants Timothy S. O'Toole and Joel F. Gemunder and permitting Defendants to file a Motion to Dismiss the Corrected Amended Complaint. The matter has been fully briefed and argued. On February 26, 2019, Magistrate Judge Burke issued a Report and Recommendations recommending that Defendants' motion to dismiss the amended complaint be granted. Any objections to that Report are due March 12, 2019, and any responses thereto are due March 26, 2019. The Court will then decide whether to accept the Report and Recommendations. As the Company has previously disclosed, the legal fees and costs associated with defending against this lawsuit are presently being paid by insurance. For additional procedural history of this litigation, please refer to our prior quarterly and annual filings.

On October 30, 2017, the Company entered into a settlement agreement (the "Settlement Agreement") to resolve civil litigation under the False Claims Act brought by the United States Department of Justice ("DOJ") on behalf of the OIG and various relators concerning VITAS, filed in the U.S. District Court of the Western District of Missouri (the "2013 Action"). The Company denied any violation of law and agreed to settlement without admission of wrongdoing.

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

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

Under the Settlement Agreement, the Company paid \$75 million plus interest, plus certain attorney fees and expenses of qui tam relators. The Company made these payments during the fourth quarter of 2017. The Company previously recorded a \$90 million loss reserve (\$55.8 million after-tax) related to the Settlement Agreement, and associated costs in the second quarter of 2017. During the fourth quarter of 2017, approximately \$5.5 million (\$3.4 million after-tax) recorded as part of the \$90 million was reversed as relator attorney' fees were less than originally estimated.

The costs incurred related to U.S. v. VITAS and related regulatory matters, exclusive of the settlement, were \$5.2 million and \$5.3 million for 2017 and 2016, respectively.

Jordan Seper ("Seper"), a Registered Nurse at VITAS' Inland Empire program from May 12, 2014 to March 21, 2015, filed a lawsuit in San Francisco Superior Court on September 26, 2016. She alleged VITAS Healthcare Corp of CA ("VITAS CA") (1) failed to provide minimum wage for all hours worked; (2) failed to provide overtime for all hours worked; (3) failed to provide a second meal period; (4) failed to provide rest breaks; (5) failed to indemnify for necessary expenditures; (6) failed to timely pay wages due at time of separation; and (7) engaged in unfair business practices. Seper seeks a state-wide class action of current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of the lawsuit. She seeks court determination that this action may be maintained as a class action for the entire California class and subclasses, designation as class representative, declaratory relief, injunctive relief, damages (including wages for regular or overtime hours allegedly worked but not paid, premium payments for missed meal or rest periods, and unreimbursed expenses), all applicable penalties associated with each claim, pre- and post-judgment interest, and attorneys' fees and costs. Seper served VITAS CA with the lawsuit, *Jordan A. Seper on behalf of herself and others similarly situated v. VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corp of CA, a business entity unknown; and DOES 1 to 100, inclusive;* Los Angeles Superior Court Case Number BC 642857 on October 13, 2016 ("Jordan Seper case").

On November 14, 2016, the Parties filed a Stipulation to transfer the venue of the lawsuit from San Francisco to Los Angeles. The Los Angeles Superior Court Complex Division accepted transfer of the case on December 6, 2016, and stayed the case. On December 16, 2016, VITAS CA filed its Answer and served written discovery on Seper.

Jiwann Chhina ("Chhina"), hired by VITAS as a Home Health Aide on February 5, 2002, is currently a Licensed Vocational Nurse for VITAS' San Diego program. On September 27, 2016, Chhina filed a lawsuit in San Diego Superior Court, alleging (1) failure to pay minimum wage for all hours worked; (2) failure to provide overtime for all hours worked; (3) failure to pay wages for all hours at the regular rate; (4) failure to provide meal periods; (5) failure to provide rest breaks; (6) failure to provide complete and accurate wage statements; (7) failure to pay for all reimbursement expenses; (8) unfair business practices; and (9) violation of the California Private Attorneys General Act. Chhina seeks to pursue these claims in the form of a state-wide class action of current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of the lawsuit. He seeks court determination that this action may be maintained as a class action for the entire California class and subclasses, designation as class representative, declaratory relief, injunctive relief, damages (including wages for regular or overtime hours allegedly worked but not paid, premium payments for missed meal or rest period, and unreimbursed expenses), all applicable penalties associated with each claim. pre-judgment interest, and attorneys' fees and costs. Chhina served VITAS CA with the lawsuit, Jiwan Chhina v. VITAS Health Services of California, Inc., a California corporation; VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corporation of California, a Delaware corporation dba VITAS Healthcare Inc.; and DOES 1 to 100, inclusive; San Diego Superior Court Case Number 37-2015-00033978-CU-OE-CTL on November 3, 2016, ("Jiwann Chhina case"). On December 1, 2016, VITAS CA filed its Answer and served written discovery on Chhina.

On May 19, 2017, Chere Phillips (a Home Health Aide in Sacramento) and Lady Moore (a former Social Worker in Sacramento) filed a lawsuit against VITAS CA in Sacramento County Superior Court, alleging claims for (1) failure to pay all wages due; (2) failure to authorize and permit rest periods; (3) failure to provide off-duty meal periods; (4) failure to furnish accurate wage statements; (5) unreimbursed business expenses; (6) waiting time penalties; (7) violations of unfair competition law; and (8) violation of the Private Attorneys General Act. The case is captioned: *Chere Phillips and Lady Moore v. VITAS Healthcare Corporation of California*, Sacramento County Superior Court, Case No. 34-2017-0021-2755. Plaintiffs sought to pursue these claims in the form of a state-wide class action of current and former non-exempt employees employed with VITAS CA in California within the four years preceding the filing of the lawsuit. Plaintiffs served VITAS with the lawsuit on June 5, 2017. VITAS CA timely answered the Complaint generally denying the Plaintiffs' allegations. The Court has stayed all class discovery in this case pending resolution of mediation in the Jordan Seper and Jiwann Chhina cases.

There are currently three other lawsuits against VITAS pending in the superior courts of other California counties that contain claims and class periods that substantially overlap with Phillips' and Moore's claims: the Jordan Seper and Jiwann Chhina cases, and *Williams v. VITAS Healthcare Corporation of California*, filed on May 22, 2017 in Alameda County Superior Court, RG 17853886.

Jazzina Williams' (a Home Health Aide in Sacramento) lawsuit alleges claims for (1) failure to pay all wages due; (2) failure to authorize and permit rest periods; (3) failure to provide off-duty meal periods; (4) failure to furnish accurate wage statements; (5) unreimbursed business expenses; (6) waiting time penalties; and (7) violations of the Private Attorneys General Act ("PAGA"). Williams seeks to pursue these claims both individually and as a representative action under the PAGA on behalf of current and former California non-exempt employees. Plaintiff served VITAS with the lawsuit on May 31, 2017. VITAS CA timely answered the Complaint generally denying Plaintiff's allegations. Williams is pursing discovery of her individual claim and has agreed to a stay of class discovery pending possible resolution through ongoing mediation in the Jordan Seper and Jiwann Chhina cases. Defendant filed and served each of Plaintiffs Williams, Phillips, and Moore with a Notice of Related Cases on July 19, 2017.

The *Jordan Seper* and *Jiwann Chhina* cases have been consolidated in Los Angeles County Superior court; *Chhina* was dismissed as a separate action and joined with *Seper* through the filing of an amended complaint in *Seper* in which *Chhina* is also identified as a named plaintiff, on August 28, 2018.

Alfred Lax ("Lax"), a current employee of Roto-Rooter Services Company ("RRSC"), was hired in the RRSC's Menlo Park branch in 2007. On November 30, 2018, Lax filed a class action lawsuit in Santa Clara County Superior Court alleging (1) failure to provide or compensate for required rest breaks; (2) failure to properly pay for all hours worked; (3) failure to provide accurate wage statements; (4) failure to reimburse for work-related expenses; and (5) unfair business practices. Lax has stated these claims as a representative of a class defined as all service technicians employed by RRSC in California during the four years preceding the filing of the complaint. He seeks a determination that the action may proceed and be

maintained as a class action and for compensatory and statutory damages (premium payments for missed rest periods, uncompensated rest periods, wages for time allegedly not paid such as travel time, repair time, and vehicle maintenance time, and unreimbursed expenses), penalties and restitutions, pre- and post-judgement interest and attorneys' fees and costs. The lawsuit, *Alfred Lax, on behalf of himself and all others similarly situated v. Roto-Rooter Services Company, and Does I through 50 inclusive;* Santa Clara County Superior Court Case Number 18CV338652, was received by RRSC on December 11, 2018 and RRSC timely filed its answer denying the claims.

The Company is not able to reasonably estimate the probability of loss or range of loss for any of these lawsuits at this time.

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

18. Concentration of Risk

During the year VITAS had pharmacy services agreements ("Agreements") with one service provider to provide specified pharmacy services for VITAS and its hospice patients. VITAS made purchases from this provider of \$31.4 million, \$32.7 million and \$35.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. For the years ended December 31, 2018, 2017 and 2016, respectively, purchases from this vendor represent approximately 99%, 85% and 90%, respectively of all pharmacy services used by VITAS. VITAS' accounts payable for pharmacy services was \$2.6 million at December 31, 2018. At December 31, 2017, VITAS' accounts payable for pharmacy services was \$2.0 million.

19. Capital Stock Transactions

We repurchased the following capital stock:

	 For the Years Ended December 31,						
	 2018		2017		2016		
Total cost of repurchased shares (in thousands):	\$ 158,884	\$	94,640	\$	102,313		
Shares repurchased	561,146		500,000		780,134		
Weighted average price per share	\$ 283.14	\$	189.28	\$	131.15		

In March 2018, the Board of Directors authorized an additional \$150.0 million for stock repurchase under the February 2011 repurchase program. We currently have \$46.6 million of authorization remaining under this share purchase plan.

20. Other Operating Expenses

	December 31,						
	2018		2017	2016			
Litigation settlement	\$	796	\$	84,476 \$	-		
Loss on disposal of property and equipment		504		5,266	-		
Program closure expenses		-		1,138	-		
Retirement expenses	<u></u>			<u>-</u>	4,491		
Total other operating expenses	\$	1,300	\$	90,880 \$	4,491		

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.

During 2016, the Company recorded early retirement related costs and accelerated stock-based compensation expense of approximately \$4.5 million related to the early retirement of VITAS' former Chief Executive Officer. The costs were calculated in accordance with the terms of this employment agreement.

21. Recent Accounting Statements

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 plan to elect the new transition method approved by the FASB on July 30, 2018, which allows companies to apply the provisions of the new leasing standard as of January 1, 2019, without adjusting comparative periods presented by recognizing a cumulative-effect adjustment to the opening balance of retained earnings. We do not expect the cumulative-effect adjustment to be material.

We have contracted with a software vendor for the technology to support compliance with the ASU. We currently have all real estate and equipment leases identified and populated into the software. We are in the process of completing testing of the data in the software for completeness and accuracy. We have implemented controls over the implementation and are also in the process of developing and testing controls once the new standard takes effect.

While we continue to evaluate the effect of the standard on our consolidated financial statements, the adoption of the ASU will result in the recognition of a right of use asset and related liability in the range of approximately \$100 million to \$120 million. This estimate is developed based partially on our anticipated utilization of the allowable practical expedients, as follows:

- We will utilize the "package" of practical expedients related to the ASU's adoption. As such, we will not reassess our historical conclusions related to capital versus operating lease classification, the existence of
 embedded leases in service contracts and indirect initial costs for existing leases.
- We will combine the lease and non-lease components of our building/space leases for purposes of calculating our right of use asset and related lease liability. We do not have material non-lease components in our existing equipment leases.
- We will not capitalize leases with less than a 12-month expiration without a purchase option that is reasonably certain to be exercised.

While we intend to utilize the practical expedients as outlined above, we continue to analyze their impact and the final conclusions may change upon adoption. Any change to the practical expedients could cause a significant change to the estimated right-of-use asset and associated lease liability. The remaining practical expedients are either not applicable or are not anticipated to have a significant impact. We do not anticipate a material impact to overall net income or cash flows as a result of the adoption of the ASU.

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

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

In August 2018, the FASB issued Accounting Standards Update "ASU No. 2018-15" to provide guidance on implementation costs incurred in a cloud computing arrangement that is a service contract. This ASU aligns the accounting for such costs with the guidance on capitalizing costs associated with developing or obtaining internal use software. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods thereafter. Early adoption is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

UNAUDITED SUMMARIES OF QUARTERLY RESULTS

(in thousands, except per share and footnote data)

		First	Second		l Third		Fourth			Total
For the Year Ended December 31, 2018		Quarter		Quarter		Quarter		Quarter		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	\$	144,453	\$	554,004
Income/(loss) 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—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/(loss) (a)	\$	44,996	\$	54,971	\$	51,249	\$	54,328	\$	205,544
Earnings/(Loss) Per Share (a)										
Net income/(loss)	\$	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/(Loss) Per Share (a)										
Net income/(loss)	\$	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):

			Second Quarter		Third Ouarter		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 expenses	 				(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 expenses	-		-		(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

UNAUDITED SUMMARIES OF QUARTERLY RESULTS

(in thousands, except per share and footnote data)

Excess tax benefits on stock compensation

Total

		First		Second		Third		Fourth		Total
For the Year Ended December 31, 2017		Quarter		Quarter		Quarter		Quarter		Year
Total service revenues and sales	\$	405,864	\$	415,059	\$	417,444	\$	428,357	\$	1,666,724
Gross profit (excluding depreciation)	\$	120,724	\$	129,207	\$	129,397	\$	136,864	\$	516,192
Income from operations	\$	41,454	\$	(38,948)	\$	53,997	\$	56,532	\$	113,035
Interest expense		(995)		(1,121)		(1,048)		(1,108)		(4,272)
Other income/(expense)—net		2,463		1,653		1,323	_	2,715		8,154
Income before income taxes		42,922		(38,416)		54,272		58,139		116,917
Income taxes		(13,078)		16,760		(18,835)		(3,587)		(18,740)
Net income (a)	\$	29,844	\$	(21,656)	\$	35,437	\$	54,552	\$	98,177
Earnings Per Share (a)										
Net income	\$	1.84	\$	(1.35)	\$	2.22	\$	3.40	\$	6.11
Average number of shares outstanding	_	16,219	_	16,010	_	15,976	_	16,026	_	16,057
Diluted Earnings Per Share (a)										
Net income	\$	1.78	\$	(1.35)	\$_	2.13	\$	3.25	\$	5.86
Average number of shares outstanding		16,801	_	16,010	_	16,676	_	16,776	_	16,742
(a) The following amounts are included in income during the respective	quarter (i	n thousands	s):							
		First		Second		Third		Fourth		Total
		Quarter	_	Quarter	_	Quarter		Quarter		Year
Pretax (cost)/benefit:										
Stock option expense	\$	(3,001)	\$	(3,054)	\$	(1,683)	\$	(2,747)	\$	(10,485)
Long-term incentive compensation		(961)		(956)		(1,104)		(1,973)		(4,994)
Loss on sale of transportation equipment		-		-		-		(5,266)		(5,266)
Expenses related to litigation settlements		-		(90,213)		-		5,524		(84,689)
Program closure expenses		(873)		(636)		371		-		(1,138)
Medicare cap sequestration adjustment		-		(105)		-		(342)		(447)
Expenses related to the Office										
of Inspector General investigation	_	(2,150)	_	(2,093)	_	(935)	_	(16)	_	(5,194)
Total	\$	(6,985)	\$	(97,057)	\$	(3,351)	\$	(4,820)	\$	(112,213)
After-tax (cost)/benefit:										
Stock option expense	\$	(1,897)	\$	(1,931)	\$	(1,064)	\$	(2,000)	\$	(6,892)
Long-term incentive compensation		(608)		(604)		(699)		(1,332)		(3,243)
Loss on sale of transportation equipment										
Loss on sale of transportation equipment		-		-		-		(3,314)		(3,314)
Expenses related to litigation settlements		-		(55,929)		-		(3,314) 3,425		(52,504)
Expenses related to litigation settlements Program closure expenses		-		(385)		223		3,425		(52,504) (675)
Expenses related to litigation settlements Program closure expenses Medicare cap sequestration adjustment		-				- 223 -		` ' '		(52,504)
Expenses related to litigation settlements Program closure expenses Medicare cap sequestration adjustment Expenses related to the Office		(513)		(385) (65)		-		3,425		(52,504) (675) (276)
Expenses related to litigation settlements Program closure expenses Medicare cap sequestration adjustment		-		(385)		223 - (578)		3,425		(52,504) (675)

3,695

2,643

(651) \$ (57,563) \$ (335) \$

1,783

10,811

15,672 \$

18,932

SELECTED FINANCIAL DATA

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

	2018	2017	2016	2015	2014
Summary of Operations					
Continuing operations (a)					
Service revenues and sales	\$ 1,782,648	\$ 1,666,724	\$ 1,576,881	\$ 1,543,388	\$ 1,456,282
Gross profit (excluding depreciation)	554,004	516,192	461,450	455,778	421,609
Depreciation	38,464	35,488	34,279	32,369	29,881
Amortization	399	137	359	1,130	720
Income from operations	243,632	113,035	178,749	184,458	168,419
Net income	205,544	98,177	108,743	110,274	99,317
Earnings per share					
Net income	\$ 12.80	\$ 6.11	\$ 6.64	\$ 6.54	\$ 5.79
Average number of shares outstanding	16,059	16,057	16,383	16,870	17,165
Diluted earnings per share					
Net income	\$ 12.23	\$ 5.86	\$ 6.48	\$ 6.33	\$ 5.57
Average number of shares outstanding	16,803	16,742	16,789	17,422	17,840
Cash dividends per share	\$ 1.16	\$ 1.08	\$ 1.00	\$ 0.92	\$ 0.84
Financial PositionYear-End					
Cash and cash equivalents	\$ 4,831	\$ 11,121	\$ 15,310	\$ 14,727	\$ 14,132
Working capital/(deficit)	(31,830)	(17,476)	(1,932)	(20,528)	(990)
Current ratio	0.83	0.91	0.99	0.88	0.99
Properties and equipment, at cost less					
accumulated depreciation	\$ 162,033	\$ 143,034	\$ 121,302	\$ 117,370	\$ 105,336
Total assets	975,529	920,026	880,059	852,325	859,932
Long-term debt	89,200	91,200	100,000	83,750	141,250
Stockholders' equity	591,334	540,354	524,099	513,253	451,356
Other Statistics					
Capital expenditures	\$ 52,872	\$ 64,300	\$ 39,772	\$ 44,135	\$ 43,571
Number of employees	15,707	14,813	14,613	14,406	14,190

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

		2018	2017	2016	2015	2014
After-tax benefit/(cost):						
Excess tax benefits on stock compensation	\$	22,862	\$ 18,932	\$ -	\$ -	\$ -
Stock option expense		(10,118)	(6,892)	(5,266)	(3,439)	(3,022)
Long-term incentive compensation		(5,307)	(3,243)	(1,221)	(4,752)	(1,625)
Medicare cap sequestration adjustment		(1,114)	(276)	(141)	-	-
Litigation settlements		(594)	(52,504)	(28)	(3)	(74)
Acquisition expense		(559)	-	-	(104)	(15)
Program closure expenses		-	(675)	-	-	-
Impact of tax reform		-	8,302	-	-	_
Loss on sale of transportation equipment		-	(3,314)	-	-	-
Expenses incurred in connection with the Office of Inspector	r					
General investigation		-	(3,207)	(3,248)	(3,072)	(1,328)
Early retirement expenses		-	-	(2,840)	-	-
Noncash impact of change in accounting for convertible deb	t	-	-	-	-	(2,143)
Expenses of securities litigation		_	<u>-</u>	 <u>-</u>	(23)	(207)
Total	\$	5,170	\$ (42,877)	\$ (12,744)	\$ (11,393)	\$ (8,414)
					 _	

CHEMED CORPORATION AND SUBSIDIARY COMPANIES UNAUDITED CONSOLIDATING STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

(in thousands) (unaudited)

							Chemed
		VITAS	Roto-Rooter	C	orporate	Co	onsolidated
2018							
Service revenues and sales	<u>\$</u>	1,197,562	\$ 585,086	\$		\$	1,782,648
Cost of services provided and goods sold		929,306	299,338		-		1,228,644
Selling, general and administrative expenses		80,969	145,683		43,557		270,209
Depreciation		19,688	18,629		147		38,464
Amortization		12	387		-		399
Other operating expenses		1,130	170				1,300
Total costs and expenses	_	1,031,105	464,207		43,704		1,539,016
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)
	\$	138,846	\$ 98,711	\$	(32,013)	\$	205,544
Net income/(loss) (a) The following amounts are included in income from continuing	-	n thousands) VITAS	: Roto-Rooter	C(orporate		Chemed onsolidated
. ,	-	n thousands)	:				Chemed
(a) The following amounts are included in income from continuing	-	ŕ		Co	orporate		
(a) The following amounts are included in income from continuing Pretax benefit/(cost):	g operations (i	VITAS	Roto-Rooter			<u>C</u>	onsolidated
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense	-	VITAS			(12,611)		onsolidated (12,611)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation	g operations (i	VITAS -	Roto-Rooter			<u>C</u>	(12,611) (6,618)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment	g operations (i	VITAS - (1,496)	Roto-Rooter		(12,611)	<u>C</u>	(12,611) (6,618) (1,496)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements	g operations (i	VITAS - (1,496) (796)	Roto-Rooter \$		(12,611)	<u>C</u>	(12,611) (6,618) (1,496) (796)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses	g operations (i	VITAS - (1,496) (796) (209)	Roto-Rooter \$ (548)	\$	(12,611) (6,618)	<u>Co</u> \$	(12,611) (6,618) (1,496) (796) (757)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements	g operations (i	VITAS - (1,496) (796)	Roto-Rooter \$ (548)		(12,611)	<u>C</u>	(12,611) (6,618) (1,496) (796)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses	g operations (i	VITAS - (1,496) (796) (209)	Roto-Rooter \$ (548)	\$	(12,611) (6,618)	\$ \$	(12,611) (6,618) (1,496) (796) (757)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses	g operations (i	VITAS - (1,496) (796) (209)	Roto-Rooter \$ (548)	\$ \$	(12,611) (6,618)	\$ \$	(12,611) (6,618) (1,496) (796) (757) (22,278)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses	g operations (i	VITAS - (1,496) (796) (209) (2,501)	Roto-Rooter \$ (548) \$ (548)	\$ \$	(12,611) (6,618) - - (19,229)	\$ \$	(12,611) (6,618) (1,496) (796) (757) (22,278)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses Total	g operations (i	VITAS - (1,496) (796) (209) (2,501) VITAS	Roto-Rooter \$ (548) \$ (548)	\$ \$	(12,611) (6,618) - - (19,229)	\$ \$	(12,611) (6,618) (1,496) (796) (757) (22,278)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses Total After-tax benefit/(cost):	g operations (i	VITAS - (1,496) (796) (209) (2,501) VITAS	Roto-Rooter \$ -	\$ <u>\$</u>	(12,611) (6,618) - - (19,229)	\$ \$	(12,611) (6,618) (1,496) (796) (757) (22,278) Chemed
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses Total After-tax benefit/(cost): Excess tax benefits on stock compensation	g operations (i	VITAS - (1,496) (796) (209) (2,501) VITAS	Roto-Rooter \$ -	\$ <u>\$</u>	(12,611) (6,618) - - (19,229) orporate 22,862	\$ \$	(12,611) (6,618) (1,496) (796) (757) (22,278) Chemed onsolidated
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses Total After-tax benefit/(cost): Excess tax benefits on stock compensation Stock option expense	g operations (i	VITAS - (1,496) (796) (209) (2,501) VITAS	Roto-Rooter \$ -	\$ <u>\$</u>	(12,611) (6,618) - - (19,229) orporate 22,862 (10,118)	\$ \$	(12,611) (6,618) (1,496) (796) (757) (22,278) Chemed onsolidated
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses Total After-tax benefit/(cost): Excess tax benefits on stock compensation Stock option expense Long-term incentive compensation	g operations (i	VITAS (1,496) (796) (209) (2,501) VITAS	Roto-Rooter \$ -	\$ <u>\$</u>	(12,611) (6,618) - - (19,229) orporate 22,862 (10,118)	\$ \$	(12,611) (6,618) (1,496) (796) (757) (22,278) Chemed onsolidated 22,862 (10,118) (5,307)
(a) The following amounts are included in income from continuing Pretax benefit/(cost): Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment Litigation settlements Acquisition expenses Total After-tax benefit/(cost): Excess tax benefits on stock compensation Stock option expense Long-term incentive compensation Medicare cap sequestration adjustment	g operations (i	VITAS (1,496) (796) (209) (2,501) VITAS - (1,114)	Roto-Rooter \$ -	\$ <u>\$</u>	(12,611) (6,618) - - (19,229) orporate 22,862 (10,118)	\$ \$	(12,611) (6,618) (1,496) (796) (757) (22,278) Chemed onsolidated 22,862 (10,118) (5,307) (1,114)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES UNAUDITED CONSOLIDATING STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2017

(in thousands) (unaudited)

		VITAS	Roto-Rooter	(Corporate		Chemed onsolidated
2017		VIIII	Roto Rootei		corporate		nsondated
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		1,085,521	417,508		50,660		1,553,689
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)	\$	57,645	\$ 73,299	\$	(32,767)	\$	98,177
(a) The following amounts are included in income from continuing operation	ns (in tho	VITAS	Roto-Rooter	(Corporate		Chemed onsolidated
Pretax benefit/(cost):					(10.10.5)		
Stock option expense	\$	-	\$ -	\$	(10,485)	\$	(10,485)
Loss on sale of transportation equipment		-	-		(5,266)		(5,266)
Long-term incentive compensation		-	-		(4,994)		(4,994)
Program closure expenses		(1,138)	-		-		(1,138)
Medicare cap sequestration adjustment		(447)	-		-		(447)
Expenses related to litigation settlements		(84,476)	(213)		-		(84,689)
Expenses incurred in connection with the Office of Inspector							
General investigation		(5,194)					(5,194)
Total	\$	(91,255)	\$ (213)	\$	(20,745)	\$	(112,213)
							Chemed
	_	VITAS	Roto-Rooter	(Corporate	Co	nsolidated
After-tax benefit/(cost):							
Stock option expense	\$	-	\$ -	\$	(6,892)	\$	(6,892)
Loss on sale of transportation equipment		-	-		(3,314)		(3,314)
Excess tax benefits on stock compensation		-	-		18,932		18,932
Long-term incentive compensation		-	-		(3,243)		(3,243)
Impact of tax reform		11,057	7,761		(10,516)		8,302
Program closure expenses		(675)	-		-		(675)
Medicare cap sequestration adjustment		(276)	-		-		(276)
Expenses related to litigation settlements		(52,375)	(129)		-		(52,504)
Expenses incurred in connection with the Office of Inspector							
General investigation		(3,207)					(3,207)
Total	\$	(45,476)	\$ 7,632	\$	(5,033)	\$	(42,877)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES UNAUDITED CONSOLIDATING STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

(in thousands) (unaudited)

(iii thoc	isanas) (unau	arca)				Chemed
		VITAS	Roto-Rooter	Corporate	C	onsolidated
2016						
Service revenues and sales	\$	1,123,317	\$ 453,564	\$	- \$	1,576,881
Cost of services provided and goods sold		878,092	237,339		-	1,115,431
Selling, general and administrative expenses		92,550	118,812	32,210)	243,572
Depreciation		19,035	14,698	546)	34,279
Amortization		55	304		-	359
Other operating expenses		4,491	<u> </u>			4,491
Total costs and expenses		994,223	371,153	32,756	<u> </u>	1,398,132
Income/(loss) from operations		129,094	82,411	(32,756)	178,749
Interest expense		(211)	(332)	(3,172)	(3,715)
Intercompany interest income/(expense)		7,969	3,595	(11,564)	-
Other income/(expense)—net		19	(62)	2,063		2,020
Income/(loss) before income taxes		136,871	85,612	(45,429)	177,054
Income taxes		(51,910)	(32,719)	16,318		(68,311)
Net income/(loss)	\$	84,961	\$ 52,893	\$ (29,111		108,743
(a) The following amounts are included in income from continuing open	rations (in the	ousands):				
	`	,				Chemed
		VITAS	Roto-Rooter	Corporate	C	onsolidated
Pretax benefit/(cost):						
Stock option expense	\$	-	\$ -	\$ (8,330		(8,330)
Long-term incentive compensation		-	-	(1,930)	(1,930)
Early retirement expenses		(4,491)	-		-	(4,491)
Medicare cap sequestration adjustment		(228)	-		-	(228)
Expenses related to litigation settlements		-	(45)		-	(45)
Expenses incurred in connection with the Office of Inspector						
General investigation		(5,260)				(5,260)
Total	\$	(9,979)	\$ (45)	\$ (10,260) \$	(20,284)
						Chemed
After toy hamost ((aget))		VITAS	Roto-Rooter	Corporate		onsolidated
After-tax benefit/(cost):	¢.		\$ -	\$ (5,266	, 6	(5.000
Stock option expense	\$	-	Ф -			(5,266)
Long-term incentive compensation		(0.040)	-	(1,221)	(1,221)
Early retirement expenses		(2,840)	-		-	(2,840)
Medicare cap sequestration adjustment		(141)	-		-	(141)
Expenses related to litigation settlements		-	(28)		-	(28)
Expenses incurred in connection with the Office of Inspector						
General investigation	-	(3,248)			<u> </u>	(3,248)
Total	\$	(6,229)	\$ (28)	\$ (6,487	<u>\$</u>	(12,744)

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 ("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, 2018, 2017 and 2016 (in thousands except percentages and per share amounts):

	 2018	_	2017		2016
Consolidated service revenues and sales	\$ 1,782,648	\$	1,666,724	\$	1,576,881
Consolidated net income	\$ 205,544	\$	98,177	\$	108,743
Diluted EPS	\$ 12.23	\$	5.86	\$	6.48
Adjusted net income	\$ 200,374	\$	141,054	\$	121,487
Adjusted diluted EPS	\$ 11.93	\$	8.43	\$	7.24
Adjusted EBITDA	\$ 305,506	\$	268,459	\$	236,979
Adjusted EBITDA as a % of revenue	17.1	%	16.1	%	15.0 %

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization ("EBITDA") and Adjusted EBITDA are not measures derived in accordance with GAAP. We 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.

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.

2017 versus 2016

The increase in consolidated service revenues and sales from 2016 to 2017 was a result of a 14.3% increase at Roto-Rooter and a 2.2% increase at VITAS. Of Roto-Rooter's total revenue increase, \$32.0 million is related to water restoration and \$22.2 million is related to plumbing. The increase in service revenues at VITAS was a result of Medicare reimbursement rates increasing approximately 1.3%, a 3.2% increase in days of care offset by acuity mix shift which negatively impacted revenue when compared to the prior year. Adjusted EBITDA as a percent of revenue increased 110 basis points when compared to the prior year. Net income for 2017 includes \$52.4 million of after-tax expense (\$84.5 million pre-tax) for the Settlement Agreement and Spottiswood Agreement. See Commitments and Contingencies section for details.

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.

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 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.

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.

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

Full-year 2019 revenue growth for VITAS, prior to Medicare Cap, is estimated to be in the range of 5.5% to 6.0%. Admissions are estimated to expand approximately 3.0% to 4.0% and Average Daily Census in 2019 are estimated to expand approximately 4.0% to 5.0% and full-year Adjusted EBITDA margin, prior to Medicare Cap, is estimated to be 15.9%. We are currently estimating \$10.0 million for Medicare Cap billing limitations in the 2019 calendar year.

Roto-Rooter is forecasted to achieve full-year 2019 revenue growth of 9.0% to 10.0%. This revenue estimate is based upon increased job pricing of approximately 2.0% and continued growth in core plumbing and drain cleaning services as well as continued but slowing revenue growth from water restoration services. Adjusted EBITDA margin for 2019 is estimated at 23.7%.

Based upon the above, full-year 2019 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 \$12.65 to \$12.85. This 2019 guidance assumes an effective corporate tax rate of 25.2%. This compares to Chemed's 2018 reported adjusted earnings per diluted share of \$11.93.

LIQUIDITY AND CAPITAL RESOURCES

Significant factors affecting our cash flows during 2018 and financial position at December 31, 2018, include the following:

- Our operations generated cash of \$287.1 million.
- We repurchased \$158.9 million of our stock.
- We spent \$53.2 million on business combinations.
- We spent \$52.9 million on capital expenditures.
- We paid \$18.7 million in dividends.
- On a net basis, we repaid \$12.0 million of long-term debt.

The ratio of total debt to total capital was 13.1% at December 31, 2018, compared with 15.7% at December 31, 2017. Our current ratio was 0.83 and 0.91 at December 31, 2018 and 2017, respectively. The decrease in the current ratio is primarily a result of the decrease in prepaid income taxes.

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, 2018 and 2017, respectively, the interest rate is LIBOR plus 100 basis points. We are in compliance with all financial debt covenants as of December 31, 2018, as follows:

Description	Requirement	Chemed
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	0.41 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated		
Fixed Charges	> 1.50 to 1.00	7.61 to 1.00

We forecast to be in compliance with all debt covenants through fiscal 2019.

We have issued \$36.4 million in standby letters of credit as of December 31, 2018, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2018, we have approximately \$324.4 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 2018, 2017 and 2016 are summarized as follows (in millions):

		ber 31,			
		2018	2017		2016
Net cash provided by operating activities	\$	287.1	\$ 162.5	\$	135.4
Capital expenditures		(52.9)	 (64.3)		(39.8)
Operating cash after capital expenditures		234.2	98.2		95.6
Purchase of treasury stock in the open market		(158.9)	(94.6)		(102.3)
Business combinations		(53.2)	(4.7)		-
Proceeds from exercise of stock options		32.4	27.1		8.4
Capital stock surrendered to pay taxes on					
on stock-based compensation		(27.5)	(14.2)		(8.8)
Dividends paid		(18.7)	(17.4)		(16.4)
Net increase/(decrease) in long-term debt		(12.0)	(7.6)		17.5
Increase/(decrease) in cash overdraft payable		(1.5)	6.7		(0.7)
Othernet	<u></u>	(1.1)	 2.3		7.3
Increase/(decrease) in cash and cash equivalents	\$	(6.3)	\$ (4.2)	\$	0.6

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.

2017 versus 2016

The change in net cash provided by operating activities is mainly the result of a \$43.2 million increase in cash flows related to accounts receivable and a \$12.0 million increase in accounts payable and other current liabilities offset by a \$40.0 million decrease in cash flows related to income tax payments and a \$10.6 million decrease in net income. The decrease in net income is the result mainly of a \$84.5 million charge for the Settlement and Spottiswood Agreements offset by income increase from normal operations. 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 2017, we repurchased 500,000 shares of Chemed capital stock at a weighted average price of \$189.28 per share. In 2016, we repurchased approximately 780,134 shares of Chemed stock at a weighted average price of \$131.15 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.

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, 2018. 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, 2018, 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, as well as to lawsuits, including *qui tam* actions. The following sections describe the various ongoing material lawsuits and investigations of which the Company is currently aware. It is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or reasonably estimable.

The Company and certain current and former directors and officers are defendants in a case captioned *In re Chemed Corp. Shareholder Derivative Litigation*, No. 13 Civ. 1854 (LPS) (CJB) (D. Del.), which was consolidated on February 2, 2015.

On February 2, 2015, the Court appointed KBC Asset Management NV the sole lead plaintiff and its counsel, the sole lead and liaison counsel. On March 3, 2015, Lead Plaintiff KBC designated its Complaint as the operative complaint in the consolidated proceedings and defendants renewed a previously filed motion to dismiss those claims and allegations. The consolidated Complaint named fourteen individual defendants, together with the Company as nominal defendant. The Complaint alleges a claim for breach of fiduciary duty against the individual defendants for allegedly permitting the Company to submit false claims to the U.S. government. The Complaint seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees. On May 12, 2016, the Court issued a Memorandum Order granting Chemed's motion to dismiss, and dismissing Lead Plaintiff KBC's Complaint without prejudice to KBC's opportunity to file within 30 days of the date of the Court's Order (i.e., by June 13, 2016) an amended Complaint addressing the deficiencies in its duty of loyalty claim. Lead Plaintiff KBC did not file an amended Complaint within the time specified by the Court.

However, on June 13, 2016, counsel for Chemed shareholder Michael Kvint filed a letter with the Court requesting a two-week extension to file a motion to substitute Mr. Kvint as lead plaintiff, in place of Lead Plaintiff KBC and to file an amended Complaint. Alternatively, counsel for Mr. Kvint requested that any dismissal of the action be with prejudice to KBC only. On June 14, 2016, Chemed filed a reply letter with the Court, reserving its rights to oppose any motion filed by Mr. Kvint and, if warranted, to oppose any other actions taken by Mr. Kvint to proceed with the action (including by filing an untimely amended Complaint). On June 21, 2016, the Court entered an Oral Order providing Mr. Kvint until June 30, 2016, to file a Motion to Substitute and Motion for Leave to File an Amended Complaint. On that date, Mr. Kvint filed, under seal, a Motion to Substitute Plaintiff and File Amended Complaint, and attached a Proposed Amended Complaint. Mr. Kvint's motion was fully briefed by the parties. On April 25, 2017, Magistrate Judge Burke issued a Report and Recommendation recommending that the Court permit Mr. Kvint to intervene as Lead Plaintiff and grant leave to amend the complaint to replead the duty of loyalty claim only. On May 16, 2017, Chief Judge Stark signed an Order adopting that Report and Recommendation. Plaintiff Kvint filed a Corrected Amended Complaint on May 30, 2017. On September 13, 2017, the Court entered an order dismissing

with prejudice the claims against defendants Timothy S. O'Toole and Joel F. Gemunder and permitting Defendants to file a Motion to Dismiss the Corrected Amended Complaint. The matter has been fully briefed and argued. On February 26, 2019, Magistrate Judge Burke issued a Report and Recommendations recommending that Defendants' motion to dismiss the amended complaint be granted. Any objections to that Report are due March 12, 2019, and any responses thereto are due March 26, 2019. The Court will then decide whether to accept the Report and Recommendations. As the Company has previously disclosed, the legal fees and costs associated with defending against this lawsuit are presently being paid by insurance. For additional procedural history of this litigation, please refer to our prior quarterly and annual filings.

On October 30, 2017, the Company entered into a settlement agreement (the "Settlement Agreement") to resolve civil litigation under the False Claims Act brought by the United States Department of Justice ("DOJ") on behalf of the OIG and various relators concerning VITAS, filed in the U.S. District Court of the Western District of Missouri (the "2013 Action"). The Company denied any violation of law and agreed to settlement without admission of wrongdoing.

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

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

Under the Settlement Agreement, the Company paid \$75 million plus interest, plus certain attorney fees and expenses of qui tam relators. The Company made these payments during the fourth quarter of 2017. The Company previously recorded a \$90 million loss reserve (\$55.8 million after-tax) related to the Settlement Agreement, and associated costs in the second quarter of 2017. During the fourth quarter of 2017, approximately \$5.5 million (\$3.4 million after-tax) recorded as part of the \$90 million was reversed as relator attorney' fees were less than originally estimated.

The costs incurred related to U.S. v. VITAS and related regulatory matters, exclusive of the settlement were \$5.2 million and \$5.3 million for 2017, and 2016 respectively.

Jordan Seper ("Seper"), a Registered Nurse at VITAS' Inland Empire program from May 12, 2014, to March 21, 2015, filed a lawsuit in San Francisco Superior Court on September 26, 2016. She alleged VITAS Healthcare Corp of CA ("VITAS CA") (1) failed to provide minimum wage for all hours worked; (2) failed to provide overtime for all hours worked; (3) failed to provide a second meal period; (4) failed to provide rest breaks; (5) failed to indemnify for necessary expenditures; (6) failed to timely pay wages due at time of separation; and (7) engaged in unfair business practices. Seper seeks a state-wide class action of current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of the lawsuit. She seeks court determination that this action may be maintained as a class action for the entire California class and subclasses, designation as class representative, declaratory relief, injunctive relief, damages (including wages for regular or overtime hours allegedly worked but not paid, premium payments for missed meal or rest periods, and unreimbursed expenses), all applicable penalties associated with each claim, pre and post-judgment interest, and attorneys' fees and costs. Seper served VITAS CA with the lawsuit, *Jordan A. Seper on behalf of herself and others similarly situated v. VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corp of CA, a business entity unknown; and DOES 1 to 100, inclusive;* Los Angeles Superior Court Case Number BC 642857 on October 13, 2016 ("Jordan Seper case").

On November 14, 2016, the Parties filed a Stipulation to transfer the venue of the lawsuit from San Francisco to Los Angeles. The Los Angeles Superior Court Complex Division accepted transfer of the case on December 6, 2016, and stayed the case. On December 16, 2016, VITAS CA filed its Answer and served written discovery on Seper.

Jiwann Chhina ("Chhina"), hired by VITAS as a Home Health Aide on February 5, 2002, is currently a Licensed Vocational Nurse for VITAS' San Diego program. On September 27, 2016, Chhina filed a lawsuit in San Diego Superior Court, alleging (1) failure to pay minimum wage for all hours worked: (2) failure to provide overtime for all hours worked: (3) failure to pay wages for all hours at the regular rate; (4) failure to provide meal periods; (5) failure to provide rest breaks; (6) failure to provide complete and accurate wage statements; (7) failure to pay for all reimbursement expenses; (8) unfair business practices; and (9) violation of the California Private Attorneys General Act. Chhina seeks to pursue these claims in the form of a state-wide class action of current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of the lawsuit. He seeks court determination that this action may be maintained as a class action for the entire California class and subclasses, designation as class representative, declaratory relief, injunctive relief, damages (including wages for regular or overtime hours allegedly worked but not paid, premium payments for missed meal or rest period, and unreimbursed expenses), all applicable penalties associated with each claim, pre-judgment interest, and attorneys' fees and costs. Chhina served VITAS CA with the lawsuit, Jiwan Chhina v. VITAS Health Services of California, Inc., a California corporation; VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corporation of California, a Delaware corporation dba VITAS Healthcare Inc.; and DOES 1 to 100, inclusive; San Diego Superior Court Case Number 37-2015-00033978-CU-OE-CTL on November 3, 2016 ("Jiwann Chhina case"). On December 1, 2016, VITAS CA filed its Answer and served written discovery on Chhina.

On May 19, 2017, Chere Phillips (a Home Health Aide in Sacramento) and Lady Moore (a former Social Worker in Sacramento) filed a lawsuit against VITAS CA in Sacramento County Superior Court, alleging claims for (1) failure to pay all wages due; (2) failure to authorize and permit rest periods; (3) failure to provide off-duty meal periods; (4) failure to furnish accurate wage statements; (5) unreimbursed business expenses; (6) waiting time penalties; (7) violations of unfair competition law; and (8) violation of the Private Attorneys General Act. The case is captioned: *Chere Phillips and Lady Moore v. VITAS Healthcare Corporation of California*, Sacramento County Superior Court, Case No. 34-2017-0021-2755. Plaintiffs sought to pursue these claims in the form of a state-wide class action of current and former non-exempt employees employed with VITAS CA in California within the four years preceding the filing of the lawsuit. Plaintiffs served VITAS with the lawsuit on June 5, 2017. VITAS CA timely answered the Complaint generally denying the Plaintiffs' allegations. The Court has stayed all class discovery in this case pending resolution of mediation in the Jordan Seper and Jiwann Chhina cases.

There are currently three other lawsuits against VITAS pending in the superior courts of other California counties that contain claims and class periods that substantially overlap with Phillips' and Moore's claims: the Jordan Seper and Jiwann Chhina cases, and *Williams v. VITAS Healthcare Corporation of California*, filed on May 22, 2017, in Alameda County Superior Court, RG 17853886.

Jazzina Williams' (a Home Health Aide in Sacramento) lawsuit alleges claims for (1) failure to pay all wages due; (2) failure to authorize and permit rest periods; (3) failure to provide off-duty meal periods; (4) failure to furnish accurate wage statements; (5) unreimbursed business expenses; (6) waiting time penalties; and (7) violations of the Private Attorneys General Act ("PAGA"). Williams seeks to pursue these claims both individually and as a representative action under the PAGA on behalf of current and former California non-exempt employees. Plaintiff served VITAS with the lawsuit on May 31, 2017. VITAS CA timely answered the Complaint generally denying Plaintiff's allegations. Williams is pursing discovery of her individual claim and has agreed to a stay of class discovery pending possible resolution through ongoing mediation in the Jordan Seper and Jiwann Chhina cases. Defendant filed and served each of Plaintiffs Williams, Phillips, and Moore with a Notice of Related Cases on July 19, 2017.

The *Jordan Seper* and *Jiwann Chhina* cases have been consolidated in Los Angeles County Superior court; *Chhina* was dismissed as a separate action and joined with *Seper* through the filing of an amended complaint in *Seper* in which *Chhina* is also identified as a named plaintiff, on August 28, 2018.

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

Clara County Superior Court Case Number 18CV338652, was received by RRSC on December 11, 2018, and RRSC timely filed its answer denying the claims.

The Company is not able to reasonably estimate the probability of loss or range of loss for any of these lawsuits at this time.

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

CONTRACTUAL OBLIGATIONS

The table below summarizes our debt and contractual obligations as of December 31, 2018 (in thousands):

		Less than			After
	 Total	 1 year	 1-3 Years	4 -5 Years	 5 Years
Long-term debt obligations (a)	\$ 89,200	\$ -	\$ -	\$ 89,200	\$ -
Interest on long-term debt	13,929	3,095	6,190	4,644	-
Operating lease obligations	103,616	26,791	43,821	22,030	10,974
Purchase obligations (b)	50,150	50,150	-	-	-
Other long-term obligations (c)	 77,704	 	 9,816	3,272	 64,616
Total contractual cash obligations	\$ 334,599	\$ 80,036	\$ 59,827	\$ 119,146	\$ 75,590

- (a) Represents the face value of the obligation.
- (b) Purchase obligations consist of accounts payable at December 31, 2018.
- (c) Other long-term obligations comprise largely excess benefit obligations.

RESULTS OF OPERATIONS

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):

	Favorable/(Unfavorable)		
	Amount	Percent	
Service revenues and sales			
VITAS	\$ 49,302	4	
Roto-Rooter	66,622	13	
Total	115,924	7	
Cost of services provided and goods sold	(78,112	(7)	
Selling, general and administrative expenses	6,443	2	
Depreciation	(2,976)	(8)	
Amortization	(262)	(191)	
Other operating expenses	89,580	99	
Income from operations	130,597	116	
Interest expense	(718)	(17)	
Other income - net	(7,196	(88)	
Income before income taxes	122,683	105	
Income taxes	(15,316)	<u>)</u> (82)	
Net income	\$ 107,367	109	

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

		2018		
Routine homecare	\$	1,010,518	\$	935,913
Continuous care		122,498		124,557
Inpatient care		82,677		90,472
Other		7,831		-
Medicare cap adjustment		(4,123)		(2,682)
Implicit price concessions		(11,785)		-
Room and board, net		(10,054)		<u>-</u>
Net revenue	\$	1,197,562	\$	1,148,260

Days of care changed as follows:

	Days of	Days of Care	
	2018	2018 2017	
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	6,476,139	6,040,780	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	
Short-term core service jobs	\$	421,790	\$	373,579
Water restoration		101,784		82,272
Contractor revenue		50,093		43,770
Franchise Fees		6,382		6,130
All other		11,958		12,713
Implicit price concessions and credit memos		(6,921)		<u>-</u>
	\$	585,086	\$	518,464

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 23.3% as a result of a 16.3% increase in the number of jobs performed and a 7.0% 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 22.4% 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	\$	263,304	\$	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	\$	270,209	\$	276,652

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 2.0% 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):

	2018			2017		
Litigation settlements	\$	796	\$	84,476		
Loss on disposal of property and equipment		504		5,266		
Program closure expenses		-		1,138		
Total other operating expenses	\$	1,300	\$	90,880		

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):

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

Our effective tax rate reconciliation is as follows:

	 2018	 2017	
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)	
Othernet	 (2,828)	(585)	
Income tax provision	\$ 34,056	\$ 18,740	
Effective tax rate	 14.2 %	16.0 %	

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

	2018			2017
VITAS		_	·	_
Medicare cap sequestration adjustment	\$	(1,114)	\$	(276)
Expenses related to litigation settlements		(594)		(52,375)
Acquisition expenses		(156)		-
Impact of tax reform		-		11,057
Costs associated with the OIG investigation		-		(3,207)
Program closure expenses		-		(675)
Roto-Rooter				
Acquisition expenses		(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	\$	5,170	\$	(42,877)

2018 Versus 2017 - Segment Results

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

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

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).

2017 Versus 2016 – Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to income for 2017 versus 2016 (in thousands, except percentages):

	Favorable/(Unfavorable)		
		Amount	Percent
Service revenues and sales			
VITAS	\$	24,943	2
Roto-Rooter		64,900	14
Total		89,843	6
Cost of services provided and goods sold		(35,101)	(3)
Selling, general and administrative expenses		(33,080)	(14)
Depreciation		(1,209)	(4)
Amortization		222	62
Other operating expenses		(86,389)	(1,924)
Income from operations		(65,714)	(37)
Interest expense		(557)	(15)
Other income - net		6,134	304
Income before income taxes		(60,137)	(34)
Income taxes		49,571	73
Net income	\$	(10,566)	(10)

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

	2017			2016		
Routine homecare	\$	935,913	\$	887,940		
Continuous care		124,557		138,025		
Inpatient care		90,472		97,580		
Medicare cap adjustment		(2,682)		(228)		
Net revenue	\$	1,148,260	\$	1,123,317		

Net Medicare reimbursement rates increased 1.3% in 2017 as compared to 2016.

Days of care change as follows:

	Of Ca	Days of Care		
	2017	2016	Percent	
Routine homecare	5,743,414	5,518,002	4	
Continuous care	171,395	188,657	(9)	
General inpatient	125,971	146,516	(14)	
Total days of care	6,040,780	5,853,175	3	

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

	 2017		
Short-term core service jobs	\$ 373,579	\$	345,638
Water restoration	82,272		50,229
Contractor revenue	43,770		40,097
Franchise Fees	6,130		5,090
All other	12,713		12,510
	\$ 518,464	\$	453,564

Short-term core service jobs increased 9.0% due to price and service mix shift offset by a 0.9% decrease in job count. Water restoration increased 63.8% as a result of continued expansion of this service offering. There was an increase in water restoration jobs of 30.8% between years.

The consolidated gross margin excluding depreciation was 31.0% in 2017 versus 29.3% in 2016. On a segment basis, VITAS' gross margin excluding depreciation was 22.8% in 2017 and 21.8% in 2016. The increase in VITAS' gross margin is the result of mix shift to higher margin care, labor and ancillary cost management. Roto-Rooter's gross margin excluding depreciation was 49.0% in 2017 and 47.7% in 2016. The increase in Roto-Rooter gross margin is the result mainly of higher revenues, particularly in water restoration, with relatively low increases in branch level fixed costs.

Selling, general and administrative expenses ("SG&A") for 2017 and 2016 comprise (in thousands):

	2017			2016		
SG&A expenses before long-term incentive						
compensation, OIG expenses and the impact						
of market gains of deferred compensation plans	\$	258,034	\$	234,321		
Long-term incentive compensation		4,994		1,930		
Expenses related to OIG investigation		5,194		5,260		
Impact of market value gains on liabilities						
held in deferred compensation trusts		8,430		2,061		
Total SG&A expenses	\$	276,652	\$	243,572		

SG&A expenses before long-term incentive compensation, OIG expenses and the impact of market gains of deferred compensation plans increased \$23.7 million (10.1%) from 2016 to 2017. This increase was mainly a result of the increase in variable expenses caused by increased revenue, increased advertising expense at Roto-Rooter and normal inflationary increases in 2017.

Other operating expense was \$90.9 million in 2017. This was due to an \$84.5 million litigation settlement, \$5.3 million related to the loss on the sale of transportation equipment and \$1.1 million related to the closure of the programs in one state at Vitas. This is compared to a \$4.5 million payment of early retirement expenses during 2016.

Other income-net for 2017 and 2016 comprise (in thousands):

		2016		
Market value gains on assets held in deferred				
compensation trusts	\$	8,430	\$	2,061
Loss on disposal of property and equipment		(707)		(424)
Interest income		427		383
Other		4		-
Total other income	\$	8,154	\$	2,020

Our effective tax rate reconciliation is as follows:

	-	2017	2016		
Income tax provision calculated using the statutory rate of 35%	\$	40,921	\$	61,969	
State and local income taxes, less federal income tax effect		4,600		6,044	
Nondeductible expenses		1,041		881	
Stock compensation tax benefits		(18,932)		-	
Enactment of the tax reform act		(8,305)		-	
Othernet		(585)		(583)	
Income tax provision	\$	18,740	\$	68,311	
Effective tax rate		16.0 %		38.6 %	

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

	2017			2016
VITAS				
Expenses related to litigation settlements	\$	(52,375)	\$	-
Impact of tax reform		11,057		(3,248)
Costs associated with the OIG investigation		(3,207)		-
Program closure expenses		(675)		-
Medicare cap sequestration adjustment		(276)		(141)
Early retirement expenses		-		(2,840)
Roto-Rooter				
Impact of tax reform		7,761		-
Expenses related to litigation settlements		(129)		(28)
Corporate				
Excess tax benefits on stock compensation		18,932		-
Impact of tax reform		(10,516)		-
Stock option expense		(6,892)		(5,266)
Loss on sale of transportation equipment		(3,314)		-
Long-term incentive compensation		(3,243)		(1,221)
Total	\$	(42,877)	\$	(12,744)

2017 Versus 2016 - Segment Results

Net income/(loss) for 2017 versus 2016 (in thousands):

	 2017		
VITAS	\$ 57,645	\$	84,961
Roto-Rooter	73,299		52,893
Corporate	 (32,767)		(29,111)
	\$ 98,177	\$	108,743

VITAS' after-tax earnings were negatively impacted in 2017 compared to 2016 by a \$52.4 million after-tax litigation settlement as well as \$675,000 after-tax related to the closure of programs in one state offset by a \$11.1 million dollar decrease in tax provision related to tax reform. After-tax earnings as a percent of revenue in 2017 were 5.0% as compared to 7.6% in 2016.

Roto-Rooter's after-tax earnings were positively impacted in 2017 compared to 2016 by a \$32.0 million revenue increase in Roto-Rooter's water restoration line of business and a \$22.2 million revenue increase in Roto-Rooter's plumbing line of business as well as a \$7.8 million dollar decrease in tax provision related to tax reform. After-tax earnings as a percent of revenue at Roto-Rooter in 2017 were 14.1% as compared to 11.7% in 2016.

After-tax Corporate expenses for 2017 increased 12.6% when compared to 2016 due to increased long-term incentive compensation expense, the loss on the sale of transportation equipment and increase cash bonus expense in 2017 as well as a \$10.5 million decrease in tax benefit related to tax reform offset by \$18.9 million increase due to excess tax benefits on stock compensation which are recorded to the tax provision starting in 2017 in accordance with ASU 2016-09.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

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

VITAS

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

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

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

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

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

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

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

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

Care is provided to patients regardless of their ability to pay. Patients who meet our criteria for charity care are provided care without charge. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of providing charity care during the years ended December 31, 2018, 2017 and 2016, was \$8.2 million, \$7.7 million and \$7.0 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, 2018, 2017, and 2016.

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, 2018, all our programs except one are using the "streamlined" method.

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

Medicare beneficiaries is calculated based on the ratio of days the beneficiary received hospice services during the measurement period to the total number of days the beneficiary received hospice services.

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether revenues are likely to exceed the annual per-beneficiary Medicare cap. Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective actions, which include changes to the patient mix and increased patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate revenue recognized during the government fiscal year that will require repayment to the Federal government under the Medicare cap and record an adjustment to revenue of an amount equal to a ratable portion of our best estimate for the year.

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, CMS determined that the Medicare cap should be calculated "as if" sequestration did not occur. As a result of this decision, VITAS has received notification from our third-party intermediary that an additional \$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 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.

During the year ended December 31, 2016, we recorded \$228,000 in Medicare cap revenue reduction related to one programs' projected 2015 measurement period liability.

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, 2018, is as follows (in thousands):

	N	Medicare	Мє	edicaid	Con	nmercial		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
	\$	1,119,901	\$	61,891	\$	33,901	\$	1,215,693
All other revenue - self-pay, respite care, etc. Subtotal								7,831 1,223,524
Medicare cap adjustment							Ф	(4,123)
Implicit price concessions								(11,785)
Room and board, net								(10,054)
Net revenue							\$	1,197,562

Roto-Rooter

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

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

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

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

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

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

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

Independent contractors pay Roto-Rooter a standard fee calculated as a percentage of their weekly labor sales. The primary value for the independent contractors under these arrangements is the right to use Roto-Rooter's registered trademarks. Roto-Rooter recognizes revenue from independent contractors over-time (weekly) as the independent contractor's labor sales are completed. Payment from independent contractors is also received on a weekly basis. The use of Roto-Rooter's registered trademarks and advertising provides immediate value to the independent contractor as a result of Roto-Rooter's nationally

recognized brand. Therefore, over-time recognition provides the most faithful depiction of the transfer of services as the customer simultaneously receives and consumes the benefits provided. There is no significant variable consideration related to these arrangements.

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

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

The composition of disaggregated revenue for the year ended 31, 2018, is as follows (in thousands):

Short-term core service jobs	\$ 421,790
Water restoration	101,784
Contractor revenue	50,093
Franchise fees	6,382
All other	 11,958
Subtotal	\$ 592,007
Implicit price concessions and credit memos	 (6,921)
Net revenue	\$ 585,086

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):

		Impact for the year ended December 31, 2013						
	ASC 605			ljustment	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		

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, 2018, 2017 and 2016, were net pretax debits/(credits) of (\$3,437,000), (\$1,800,000), and \$1,147,000 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, 2018 by \$3.3 million or 7.0%. 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, 2018.

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, 2018. 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.

2018	Jnaudited Consolidating Sum		VITAS		Roto-Rooter		Corporate		Chemed Consolidated
Net income/(loss)		\$	138,846	\$	98,711	s	(32,013)	s	205,544
Add/(deduct):		Ψ	100,010	Ψ	70,711	Ψ	(02,010)	Ψ	200,011
Interest exp	aansa		175		319		4,496		4,990
Income taxe			40,847		28,850		(35,641)		34,056
Depreciatio			19,688		18,629		147		38,464
Amortizatio			12,000		387		14/		399
EBITI						-	(63.011)		
	DA		199,568		146,896		(63,011)		283,453
Add/(deduct):			(12.922)		((000)		10.740		
•	iny interest/(expense)		(12,832)		(6,908)		19,740		1 10
	ap sequestration adjustment		1,496		-		-		1,490
Litigation s			796		- (02)		-		790
Interest inc			(580)		(92)		1		(671
Acquisition	•		209		548		-		757
Stock option	-		-		-		12,611		12,611
Stock awar	-		107		100		239		446
	incentive compensation		-		-		6,618		6,618
Adjus	ted EBITDA	\$	188,764	\$	140,544	\$	(23,802)	\$	305,506
2017		,	VITAS		Roto-Rooter		Corporate		Chemed Consolidated
							•		
Net income/(loss) Add/(deduct):		\$	57,645	\$	73,299	\$	(32,767)	\$	98,177
Interest expe	ense		188		323		3,761		4,272
Income taxe			16,436		32,782		(30,478)		18,740
Depreciation			18,616		16,667		205		35,488
Amortization			14		123		203		137
EBITI			92,899		123,194	_	(59,279)		156,814
)A		92,099		123,194		(39,279)		130,614
Add/(deduct):	: 4 4//		(11.656)		(5.506)		17.252		
	ny interest/(expense)		(11,656)		(5,596)		17,252		(427
Interest inco			(388)		(39)		5.266		(427
	of transportation equipment		- 104		-		5,266		5,266
	lated to OIG investigation		5,194		-		-		5,194
	sure expenses		1,138		-		-		1,138
	p sequestration adjustment		447		-		-		447
Litigation se			84,476		213		-		84,689
	cost adjustment		-		(1,371)		-		(1,371
Stock option			-		-		10,485		10,485
Stock award			291		269		670		1,230
	ncentive compensation				-		4,994		4,994
Adjust	ed EBITDA	\$	172,401	\$	116,670	\$	(20,612)	\$	268,459
2016			VITAS		Roto-Rooter		Corporate		Chemed Consolidated
Net income/(loss)		\$	84,961	\$	52,893	\$	(29,111)	\$	108,743
Add/(deduct):		4	51,501	Ψ	52,075	Ψ	(27,111)	Ψ	100,743
Interest expe	ense		211		332		3,172		3,715
Income taxe			51,910		32,719		(16,318)		68,311
Depreciation			19,035		14,698		546		34,279
Amortization			55		304		540		359
EBITI			156,172	_	100,946	_	(41,711)	-	215,407
Add/(deduct):)A		130,172		100,740		(41,/11)		213,407
` /	ny interest/(expense)		(7,969)		(3,595)		11,564		
Interest inco			(325)		(58)		11,504		(383
	lated to OIG investigation		5,260		(38)		-		5,260
Retirement			4,491		-		-		4,491
	p sequestration adjustment		228		-		-		4,491
					- 4 c		-		
	lated to litigation settlements		1,149		45		-		1,194
	cost adjustment		-		(1,333)		0.000		(1,333
Stock option	1		-		-		8,330		8,330
Stock award			387		307		1,161		1,855
	ncentive compensation lated to securities litigation		-		-		1,930		1,930
LADOUGUS	ed EBITDA	\$	159,393	\$	96,312	\$	(18,726)		236,979

CHEMED CORPORATION AND SUBSIDIARY COMPANIES RECONCILIATION OF ADJUSTED NET INCOME

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

	For the Years Ended December 31,								
	2018			2017	2016				
Net income as reported	\$	205,544	\$	98,177	\$	108,743			
Add/(deduct) pre-tax cost of:									
Stock option expense		12,611		10,485		8,330			
Long-term incentive compensation		6,618		4,994		1,930			
Medicare cap sequestration adjustment		1,496		447		228			
Litigation settlements		796		84,476		-			
Acquisition expenses		757		-		-			
Loss on sale of transportation equipment		-		5,266		-			
Expenses related to OIG investigation		-		5,194		5,260			
Program closure expenses		-		1,138		-			
Early retirement expenses		-		-		4,491			
Net expenses related to litigation settlements		-		213		45			
Add/(deduct) tax impacts:									
Tax impact of the above pre-tax adjustments (1)		(4,586)		(42,102)		(7,540)			
Impact of tax reform		-		(8,302)		-			
Excess tax benefits on stock compensation		(22,862)		(18,932)					
Adjusted net income	\$	200,374	\$	141,054	\$	121,487			
Diluted Earnings Per Share As Reported									
Net income	\$	12.23	\$	5.86	\$	6.48			
Average number of shares outstanding		16,803		16,742		16,789			
Adjusted Diluted Earnings Per Share									
Net income	\$	11.93	\$	8.43	\$	7.24			
Average number of shares outstanding		16,803		16,742		16,789			

⁽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)

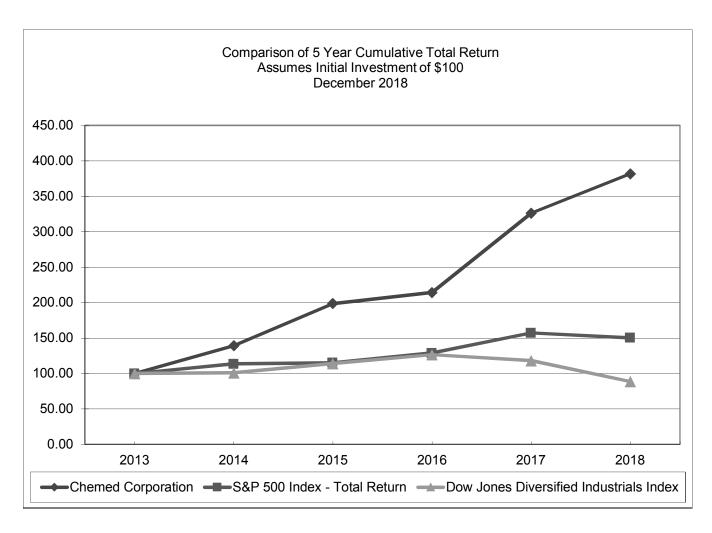
	Thre	ee Months Ende	ed Dec	ember 31,		Year Ended De	ecemb	er 31,
PERATING STATISTICS		2018		2017		2018		2017
Net revenue (\$000)								
Homecare	\$	261,972	\$	242,554	\$	1,010,518	\$	935,91
Inpatient		20,874		22,033		82,677		90,47
Continuous care		30,834		30,131		122,498		124,55
Other		1,986				7,831		
Subtotal	\$	315,666	\$	294,718	\$	1,223,524	\$	1,150,94
Room and board, net		(2,191)		-		(10,054)		
Contractual allowances		(3,036)		-		(11,785)		
Medicare cap allowance		(3,454)		(2,435)		(4,123)		(2,68
Total	\$	306,985	\$	292,283	\$	1,197,562	\$	1,148,2
Net revenue as a percent of total before Medicare cap allowance								
Homecare		83.0%		82.3%		82.6%		8
Inpatient		6.6		7.5		6.8		
Continuous care		9.8		10.2		10.0		10
Other		0.6				0.6		•
Subtotal		100.0		100.0		100.0		100
Room and board, net				100.0		(0.8)		100
		(0.7)		-		` ,		
Contractual allowances		(1.0)		-		(1.1)		(0
Medicare cap allowance		(1.1)		(0.8)		(0.2)	-	(0
Total		97.2%		99.2%		<u>97.9</u> %		9
Average daily census (days)								
Homecare		14,062		12,861		13,652		12,5
Nursing home		3,297		3,265		3,298		3,1
Routine homecare		17,359		16,126		16,950		15,7
Inpatient		326		342		327		3
Continuous care		464		452		465		4
Total		18,149		16,920		17,742		16,5
Total Admissions		16,579		16,575		68,119		66,4
Total Discharges		16,623		16,553		66,868		65,6
Average length of stay (days)		92.6		91.4		89.9		8
Median length of stay (days)		17.0		16.0		17.0		1
ADC by major diagnosis								_
Cerebro		35.8%		36.1%		36.3%		3
Neurological		18.6		18.5		19.0		1
Cardio		16.3		16.4		16.4		1
Cancer		13.7		14.1		13.7		1
Respiratory		8.0		8.0		8.2		
Other		7.6		6.9	-	6.4	-	
Total		100.0%		100.0%		100.0%		10
Admissions by major diagnosis								_
Cerebro		20.9%		22.3%		21.8%		2
Neurological		11.5		10.7		11.4		1
Cancer		31.1		30.0		30.2		3
Cardio		14.6		14.9		15.4		1
Respiratory		10.1		10.7		10.9		1
Other		11.8		11.4		10.3		1
Total		100.0%		100.0%		100.0%		10
Direct patient care margins								
Routine homecare		53.9%		53.9%		53.0%		5
Inpatient		3.9		8.5		4.7		
Continuous care		18.4		16.8		17.7		1
Homecare margin drivers (dollars per patient day)	œ.		¢.		_			
Labor costs	\$	56.82	\$	55.65	\$	57.59	\$	56
Combined drug, home medical equipment and medical supplies cost		13.58	\$	14.30	\$	14.06	\$	14
Inpatient margin drivers (dollars per patient day) - Labor costs	\$	379.17	\$	355.96	\$	376.53	\$	366
Continuous care margin drivers (dollars per patient day) - Labor costs	\$	571.18	\$	583.45	\$	575.36	\$	584
Bad debt expense as a percent of revenues Accounts receivable		1.0%		1.1%		1.0%		
Days of revenue outstanding- excluding unapplied Medicare payments		35.0		33.7		N.A.		N
Days of revenue outstanding- including unapplied Medicare payments		24.6		25.0		N.A.		N

<u>SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 REGARDING</u> 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.

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, 2013, to December 31, 2018, assuming dividend reinvestment, and (B) the difference between the Company's share price at December 31, 2013 and December 31, 2018; by (ii) the share price at December 31, 2013) 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	2013	2014	2015	2016	2017	2018
Chemed Corporation	100.00	139.13	198.60	214.24	326.34	381.85
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
Dow Jones Diversified Industrials	100.00	101.05	114.02	126.52	118.18	88.53

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Corporate Officers and Directors

Corporate Officers

Kevin J. McNamara

President and Chief Executive Officer

David P. Williams

Executive Vice President and Chief Financial Officer

Spencer S. Lee

Executive Vice President

Nicholas M. Westfall

Executive Vice President

Naomi C. Dallob

Vice President and Chief Legal Officer

Michael D. Witzeman

Vice President and Controller

Lisa A. Reinhard

Vice President and Chief Administrative Officer

Thomas C. Hutton

Vice President

Thomas J. Reilly

Vice President

Gregory A. Zarick

Vice President

Directors

Kevin J. McNamara

President and Chief Executive Officer, Chemed Corporation

Joel F. Gemunder (3)

Former President and Chief Executive Officer, Omnicare, Inc. (retired)

Patrick P. Grace (1*, 3*)

President and Chief Executive Officer, Grace Institute Foundation

Thomas C. Hutton

Vice President, Chemed Corporation

Walter L. Krebs (2)

Former Senior Vice President – Finance, Chief Financial Officer and Treasurer, Service America Systems, Inc. (retired)

Andrea R. Lindell (2)

Dean, School of Nursing, Vice-Provost, College of Health Sciences, Walden University

Thomas P. Rice (1)

General Manager and Partner, Columbia Investments LLC (investment company) **Donald E. Saunders** (1)

Former Professor, Farmer School of Business, Miami University (Ohio) (retired)

George J. Walsh III (2*, 3)

Partner, Thompson Hine LLP (law firm, New York, New York); Chairman of the Board of Directors, Chemed Corporation

Frank E. Wood (2)

President and Chief Executive Officer, SecretWorks, LLC (venture capital)

- 1) Audit Committee
- 2) Compensation/Incentive Committee
- 3) Nominating Committee
- * Committee Chairman

Corporate Information

Corporate Headquarters

Chemed Corporation 255 East Fifth Street Suite 2600 Cincinnati, Ohio 45202-4726 513-762-6690 www.chemed.com

Transfer Agent & Registrar

Individuals of record needing address changes, account balances, account consolidations, replacement of lost certificates or lost checks, dividend reinvestment plan statements or cost-basis data, 1099s, or assistance with other administrative matters relating to their Chemed Capital Stock should direct their inquiries to:

Equiniti Trust Company, Shareowner Services

P.O. Box 64854

St. Paul, Minnesota 55164-0854 Telephone: 800-468-9716 (toll-free) Website: www.shareowneronline.com

All questions relating to the administration of Chemed stock must be handled by Equiniti Trust Company.

Dividend Reinvestment Plan for Holders of 25 or More Shares

The Chemed Automatic Dividend Reinvestment Plan is available to shareholders of record owning a minimum of 25 shares of Chemed Capital Stock. A plan brochure, including fee schedule, and enrollment information are available from the Dividend Reinvestment Agent, Equiniti Trust Company, at the address listed above.

Corporate Inquiries

Annual reports, press releases, corporate governance guidelines, Board committee charters, Policies on Business Ethics, the Annual Report on Form 10-K, and other printed materials may be obtained from Chemed Investor Relations without charge by writing or by calling 800-2CHEMED or 800-224-3633. Printed materials may also be viewed and downloaded from Chemed's Web site at www.chemed.com.

Independent Accountants

PricewaterhouseCoopers LLP Cincinnati, Ohio 45202

Annual Meeting

The Annual Meeting of Shareholders of Chemed Corporation, will be held on Monday, May 20, 2019, at 11 a.m. in the Lower Level Conference Center of The Queen City Club, 331 East Fourth Street, Cincinnati, Ohio.

Number of Shareholders

The approximate number of shareholders of record of Chemed Capital Stock was 1,612 on December 31, 2018. (This number does not include shareholders with shares held under beneficial ownership or within clearinghouse positions of brokerage firms and banks.)

Stock Exchange Listings

Chemed Capital Stock is listed on the New York Stock Exchange under the ticker symbol CHE.

Capital Stock & Dividend Data

The high and low closing prices for Chemed Capital Stock and dividends per share paid by quarter follow:

	Clo	Closing			
	High	Low	Paid		
2018					
First Quarter	\$281.47	\$246.98	\$ 0.28		
Second Quarter	333.26	268.07	0.28		
Third Quarter	329.56	305.43	0.30		
Fourth Quarter	324.23	266.56	0.30		
2017					
First Quarter	\$186.79	\$162.11	\$ 0.26		
Second Quarter	211.35	181.60	0.26		
Third Quarter	206.31	187.48	0.28		
Fourth Quarter	247.53	199.69	0.28		

CHEMED CORPORATION

255 East Fifth Street Suite 2600 Cincinnati, Ohio 45202-4726

VISIT OUR WEBSITES:



www.chemed.com



www.vitas.com



www.rotorooter.com