

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

FORM 10-K
ANNUAL REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
 For the fiscal year ended December 31, 2017
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from _____ to _____
Commission File Number: 1-8351

CHEMED CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

45202-4726
(Zip Code)

(513) 762-6690

(Registrant's Telephone number, including area code)

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

Title of Each Class

Name of each exchange on which registered

Capital Stock – Par Value \$1 Per Share

New York Stock Exchange

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, if definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See definition of "accelerated filer, large accelerated filer, smaller reporting company and emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check One): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price of said stock on the New York Stock Exchange – Composite Transaction Listing on June 30, 2017 (\$204.53 per share), was \$3,199,077,660

At February 15, 2018, 16,161,250 shares of Chemed Capital Stock (par value \$1 per share) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

| Document | Where Incorporated |
|--|---------------------------|
| 2017 Annual Report to Stockholders (specified portions) | Parts I, II, and IV |
| Proxy Statement for Annual Meeting to be held May 21, 2018 | Part III |

CHEMED CORPORATION
2017 FORM 10-K ANNUAL REPORT

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Item 1. Business

General

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

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

During 2017, Chemed conducted its business operations in two segments: the VITAS segment (VITAS) and the Roto-Rooter segment (Roto-Rooter). VITAS provides hospice and palliative care services to its patients through a network of physicians, registered nurses, home health aides, social workers, clergy and volunteers. Roto-Rooter provides plumbing, drain cleaning, water restoration and other related services to residential and commercial customers.

Forward Looking Statements

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

Financial Information about Industry Segments

The required segment and geographic data for the Company's continuing operations (as described below) for three years ended December 31, 2015, 2016 and 2017 are shown in Note 5 of the Notes to Consolidated Financial Statements on pages 62-64 of the 2017 Annual Report to Stockholders and are incorporated herein by reference.

Description of Business by Segment

The information called for by this item is included within Note 5 of the Notes to Consolidated Financial Statements appearing on pages 62-64 of the 2017 Annual Report to Stockholders is incorporated herein by reference.

Product and Market Development

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

Patents, Service Marks and Licenses

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

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

Seasonality

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

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

Customer Concentration

Roto-Rooter's business has a large and diverse customer base. Approximately 92% of VITAS' revenue is from the United States government through the Medicare program. The loss of a portion or all of our Medicare revenue would have a material adverse effect on the Company.

Competition

Roto-Rooter

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

VITAS

Hospice care in the United States is competitive. Plans of care for hospice services are not proprietary. As a result, VITAS competes and differentiates itself primarily on the basis of its ability to deliver quality, responsive services within the requirements of Medicare's hospice conditions of participation. VITAS is one of the nation's largest providers of hospice services in an industry dominated primarily by small, non-profit, community-based hospices. Approximately 30% of all hospices are not-for-profit. Because the hospice care industry is highly fragmented, VITAS competes with a large number of organizations.

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

Research and Development

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

Government Regulations

Roto-Rooter

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

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

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

The Medicare COP for hospice programs include the following:

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

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

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

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

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

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

Informed Consent. The hospice must obtain the informed consent of the hospice patient, or the patient's legal representative, that specifies the type of care services that may be provided as hospice care.

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

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

Interdisciplinary Team. A hospice must designate an interdisciplinary team to provide or supervise hospice care services. The interdisciplinary team develops and updates plans of care, and establishes policies governing the day-to-day provision of hospice services. The team must include at least a physician, registered nurse, social worker and spiritual or other counselor. A registered nurse must be designated to coordinate the plan of care.

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

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

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

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

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

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

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

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

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

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

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

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

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

Overview of Government Payments – Medicare

Medicare Eligibility Criteria. To receive Medicare payment for hospice services, the hospice medical director and, if the patient has one, the patient's attending physician, must certify and describe in a brief narrative that the patient has a life expectancy of six months or less if the illness runs its normal course. This determination is made based on the physician's clinical judgment. Due to the uncertainty of such prognoses, however, it is likely and expected that some percentage of hospice patients will not die within six months of entering a hospice program. The Medicare program (among other third-party payers) recognizes that terminal illnesses often do not follow an entirely predictable course, and therefore the hospice benefit remains available to beneficiaries so long as the hospice physician or the patient's attending physician continues to certify that the patient's life expectancy remains six months or less and the patient or patient's legal guardian, continues to maintain the hospice election. Specifically, the Medicare hospice benefit provides for two initial 90-day benefit periods followed by an unlimited number of 60-day periods. In order to qualify for hospice care, a Medicare beneficiary must elect hospice care and waive any right to other Medicare benefits related to his or her terminal illness. A Medicare beneficiary may revoke his or her election of the Medicare hospice benefit at any time and resume receiving regular Medicare benefits. The patient may elect the hospice benefit again at a later date so long as he or she remains eligible. The Medicare program, however, has reaffirmed that Medicare hospice beneficiaries are not limited to six months of coverage and that there is no limit on how long a Medicare beneficiary can continue to receive hospice benefits and services, provided that the beneficiary continues to meet the eligibility criteria under the Medicare hospice program.

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

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

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

Routine Home Care. The routine home care rate is paid for each day that a patient is in a hospice program and is not receiving one of the other categories of hospice care. In 2016 the routine home care rate does not vary based upon the volume or intensity of services provided by the hospice program. Effective January 1, 2016 the routine home care rate changed to reflect a two-tiered rate, with a higher rate for the first 60 days of a hospice patient's care and a lower rate for days 61 and after. In addition 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 care rate.

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

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

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

Medicare Payment for Physician Services. Payment for direct patient care physician services delivered by hospice physicians is billed separately by the hospice to the Medicare Administrative Contractors and paid at the lesser of the actual charge or the Medicare allowable charge for these services. This payment is in addition to the per diem rates VITAS receives for hospice care. Payment for hospice physicians' administrative and general supervisory activities is included in the daily rates discussed above. Payments for attending physician professional services (other than services furnished by hospice physicians) are not paid to the hospice, but rather are paid directly to the attending physician by the Medicare Administrative Contractors. For fiscal 2017, approximately 2% of VITAS' net revenue was attributable to physician services.

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

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

Second, Medicare payments to a hospice are also subject to a separate cap based on overall average payments per admission. Any payments exceeding this overall hospice cap must be refunded by the hospice. This cap was set at \$28,404.99 per admission for the twelve-month period ended on October 31, 2017, and is adjusted annually to account for inflation. VITAS' hospices may be subject to future payment reductions or recoupments as the result of this cap.

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

Overview of Government Payments – Medicaid

Medicaid Coverage and Reimbursements. State Medicaid programs are another source of VITAS' net patient revenue. Medicaid is a state-administered program financed by state funds and federal funds to provide medical assistance to the indigent and certain other eligible persons. For those states that elect to provide a hospice benefit, the Medicaid program is required to pay the hospice at rates at least equal to the rates provided under Medicare and calculated using the same methodology. States maintain flexibility to establish their own hospice election procedures and to limit the number and duration of benefit periods for which they will pay for hospice services. Reimbursement from state Medicaid programs in 2017 accounted for 5% of VITAS' revenues.

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

Adjustments to Medicare and Medicaid Payment Rates. Payment rates under the Medicare and Medicaid programs are adjusted annually for inflation based upon the Hospital Market Basket Index and the Consumer Price Index; however, the adjustments have historically been less than actual inflation. These base rates are further modified by the Hospice Wage Index to reflect local differences in wages according to the revised wage index. Effective April 1, 2013, the Federal government implemented a 2% reimbursement cut for all Medicare programs, including hospice. It is possible that there will be further modifications to the rate structure under which the Medicare or Medicaid programs pay for hospice care services. Any future reductions in the rate of increase or an actual decrease in Medicare and Medicaid payments may have an adverse impact on VITAS' net patient service revenue and profitability. On July 31, 2015, CMS published the final full year 2016 hospice wage index providing guidance to hospice providers regarding changes to hospice reimbursement for full year 2016. Effective January 1, 2016 the routine home care rate changed to reflect a two-tiered rate, with a higher rate for the first 60 days of a hospice patient's care, and a lower rate for days 61 and after. In addition, the full year 2016 wage rule provides reimbursement of a Service Intensity Add-on payment. This Service Intensity Add-on payment also went into effect on January 1, 2016, and applies to direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient's life while on the routine home care level of care.

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

Other Healthcare Regulations

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

Violations of the Anti-Kickback Law carry potentially severe penalties including imprisonment of up to five years, criminal fines of up to \$25,000 per act, civil money penalties of up to \$50,000 per act, and additional damages of up to three times the amounts claimed or remuneration offered or paid. Federal law also authorizes exclusion from the Medicare and Medicaid programs for violations of the Anti-Kickback Law.

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

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

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

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

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

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

From time to time, various federal and state agencies, such as HHS and the OIG, issue a variety of pronouncements, including fraud alerts, the OIG’s Annual Work Plan and other reports, identifying practices that may be subject to heightened governmental scrutiny. The Company cannot predict what, if any, changes may be implemented in coverage, reimbursement, or enforcement policies as a result of these OIG reviews and recommendations.

On October 30, 2017, the Company entered into a Settlement Agreement (the “Settlement Agreement”), to resolve the civil litigation brought by the United States Department of Justice (“DOJ”) on behalf of the OIG and the relators under a lawsuit concerning hospice operations of VITAS, filed in the U.S. District Court for the Western District of Missouri, *United States v. VITAS Hospice Services, LLC, et al.*, No. 4:13-cv-00449-BCW (the “2013 Action”). The court dismissed the 2013 Action on February 2, 2018. The litigation involved patient eligibility for the Routine Home Care and Continuous Home Care levels of hospice services, provided by VITAS from July 24, 2002 through May 2, 2013.

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.

An Illinois qui tam action brought by one relator in the 2013 Action, Laura Spottiswood, has also been resolved upon VITAS's agreement to pay \$500,000 to the State of Illinois. That case is captioned State of Illinois ex rel. Spottiswood v. Chemed Corporation, et al. No. 14 L 2786, filed in the Circuit Court of Cook County, IL ("Spottiswood Settlement"). This resolution is subject to execution of a final agreement.

The Company previously recorded a \$90 million loss reserve (\$55.8 million after-tax) related to the Settlement Agreement, Spottiswood Settlement, and associated costs in the second quarter of 2017. As of December 31, 2017, an accrual of \$1.1 million remains on the consolidated balance sheet relating to the amount due to the State of Illinois and unpaid legal and administrative fees. 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's fees were less than originally estimated.

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

The Settlement Agreement and Spottiswood Settlement will also resolve allegations made against the Company by various qui tam relators, who will be required to dismiss their claims with prejudice.

The Settlement Agreement and Spottiswood Settlement both reflect the Company's disagreement with the United States' and State of Illinois' claims and contain no admissions of facts or liability on the part of the Company or any of its subsidiaries.

The costs incurred related to U.S. v. Vitas and related regulatory matters, exclusive of the settlement were \$5.2 million, \$5.3 million and \$5.0 million for 2017, 2016 and 2015 respectively.

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

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

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

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

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

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

- Denial of payment;
- Civil monetary penalties of \$15,000 per referral or \$1,000,000 for “circumvention schemes;”
- Assessments equal to 200% of the dollar value of each such service provided; and
- Exclusion from the Medicare and Medicaid programs.

Hospice care itself is not specifically listed as a designated health service; however, certain services that VITAS provides, or in the future may provide, are among the services identified as designated health services for purposes of the self-referral laws. The Company cannot assure that future regulatory changes will not result in hospice services becoming subject to the Stark Law’s ownership, investment or compensation prohibitions in the future.

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

Civil Monetary Penalties. The Civil Monetary Penalties Statute provides that civil penalties ranging between \$10,000 and \$50,000 per claim or act may be imposed on any person or entity that knowingly submits improperly filed claims for federal health benefits or that offers or makes payment to induce a beneficiary or provider to reduce or limit the use of health care services or to use a particular provider or supplier. Civil monetary penalties may be imposed for violations of the anti-kickback statute and for the failure to return known overpayments, among other things.

Prohibition on Employing or Contracting with Excluded Providers. The Social Security Act and federal regulations state that individuals or entities that have been convicted of a criminal offense related to the delivery of an item or service under Medicare or Medicaid programs or that have been convicted, under state and federal law, of a criminal offense relating to neglect or abuse of residents in connection with the delivery of a healthcare item or service cannot participate in any federal health care programs, including Medicare and Medicaid. Additionally, individuals and entities convicted of fraud, that have had their licenses revoked or suspended, or that have failed to provide services of adequate quality also may be excluded from the Medicare and Medicaid programs. Federal regulations prohibit Medicare providers, including hospice programs, from submitting claims for items or services or their related costs if an excluded provider furnished those items or services. The OIG maintains a list of excluded persons and entities. Nonetheless, it is possible that VITAS might unknowingly bill for services provided by an excluded person or entity with whom it contracts. The penalty for contracting with an excluded provider may range from civil monetary penalties of \$50,000 and damages of up to three times the amount of payment that was inappropriately received.

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

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

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

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

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

Environmental Matters

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

At December 31, 2017, the Company's accrual for its estimated liability for potential environmental cleanup and related costs arising from the 1991 sale of DuBois Chemicals Inc. ("DuBois") amounted to \$1.7 million. Of this balance, \$901,000 is included in other liabilities and \$826,000 is included in other current liabilities. The Company is contingently liable for additional DuBois-related environmental cleanup and related costs up to a maximum of \$14.9 million. On the basis of a continuing evaluation of the Company's potential liability, and in consultation with the Company's environmental attorney, management believes that it is not probable this additional liability will be paid. Accordingly, no provision for this contingent liability has been recorded. Although it is not presently possible to reliably project the timing of payments related to the Company's potential liability for environmental costs, management believes that any adjustments to its recorded liability will not materially adversely affect its financial position or results of operations.

The Company, to the best of its knowledge, is currently in compliance in all material respects with the environmental laws and regulations affecting its operations. Such environmental laws, regulations and enforcement proceedings have not required the Company to make material increases in or modifications to its capital expenditures and they have not had a material adverse effect on sales or net income. Capital expenditures for the purpose of complying with environmental laws and regulations during 2018 and 2019 with respect to continuing operations are not expected to be material in amount; there can be no assurance, however, that presently unforeseen legislative enforcement actions will not require additional expenditures.

Employees

On December 31, 2017, Chemed Corporation had a total of 14,813 employees.

Available Information

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

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

Item 1A. Risk Factors

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

GENERAL

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

The Company has debt service obligations that may restrict our operating flexibility. We cannot assure you that our cash flow from operations will be sufficient to service our debt, which may require us to borrow additional funds, or restructure or otherwise refinance our debt. In addition, the Company has the ability to expand its debt and borrowing capacity subject to various restrictions and covenants defined by its creditors. The interest rate the Company pays will fluctuate from time to time based upon a number of factors including current LIBOR rates and Company operating performance. Significant changes in these factors could result in a material change in the Company's interest expense.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ROTO-ROOTER

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

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

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

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

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

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

Competition for skilled employees, particularly licensed plumbers, is intense, and the process of locating and recruiting skilled employees with the combination of qualifications and attributes required to adequately perform plumbing duties can be difficult and lengthy. We cannot assure you that Roto-Rooter will be successful in attracting, retaining or training highly skilled personnel. Roto-Rooter’s business could be disrupted and its growth and profitability negatively impacted if it is unable to attract and retain skilled employees.

Cybersecurity

In the normal course of business, our information technology systems hold sensitive customer information including names, addresses and partial credit card information. Additionally, we utilize those same systems to perform our day-to-day activities, such as receiving customer calls, dispatching technicians to jobs and maintaining an accurate record of all transactions. We have not experienced any known attacks on our information technology systems that compromised customer data or the Company’s proprietary data. We maintain our information technology systems with safeguard protection against cyber-attacks including intrusion detection and protection services, firewalls and virus detection software. Additionally, on a quarterly basis, we test our information technology systems by using cyber-scanning software and other methods to learn how a successful attack may be made. We remedy any issues encountered during these tests. We have developed and tested a response plan in the event of a successful attack and we maintain commercial insurance related to a cyber-attack. However, these safeguards do not ensure that a significant cyber-attack could not occur. A successful attack on our information technology systems could have significant consequences to the business including liability for compromised customer information and business interruption.

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

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

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

VITAS

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

In excess of 95% of VITAS' net patient service revenue consists of payments from the Medicare and Medicaid programs. Such payments are made primarily on a "per diem" basis, subject to annual reimbursement caps. Because VITAS receives a per diem fee to provide eligible services to all patients, VITAS' profitability is largely dependent upon its ability to manage the costs of providing hospice services to patients. Increases in operating costs, such as labor and supply costs that are subject to inflation, without a compensating increase in Medicare and Medicaid rates, could have a material adverse effect on VITAS' business in the future. Medicare and Medicaid currently adjust the various hospice payment rates annually based primarily on the increase or decrease of the hospital wage index basket, regionally adjusted. However, the increases may be less than actual inflation. VITAS' profitability could be negatively impacted if this adjustment were eliminated or reduced, or if VITAS' costs of providing hospice services increased more than the annual adjustment. In addition, cost pressures resulting from shorter patient lengths of stay and the use of more expensive forms of palliative care, including drugs and drug delivery systems, could negatively impact VITAS' profitability. Many payors are increasing pressure to control health care costs. In addition, both public and private payors are increasing pressure to decrease, or limit increases in, reimbursement rates for health care services. VITAS' levels of revenue and profitability will be subject to the effect of possible reductions in coverage or payment rates by third-party payors, including payment rates from Medicare and Medicaid.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Regulation and Provision of Continuous Home Care. VITAS provides continuous home care to patients requiring such care. Continuous home care is provided to allow the patient to remain in their home, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24-hour day, which begins and ends at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed practical nurse.

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

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

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

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

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

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

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

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

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

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

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

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

Approximately 40% of VITAS' workforce is licensed nurses. VITAS depends on qualified nurses to provide quality, responsive hospice services to its patients. The current nationwide shortage of qualified nurses impacts some of the markets in which VITAS provides hospice services. In response to this shortage, VITAS has adjusted its wages and benefits to recruit and retain nurses and to engage contract nurses. VITAS' inability to attract and retain qualified nurses could adversely affect its ability to provide quality, responsive hospice services to its patients and its ability to increase or maintain patient census in those markets. Increases in the wages and benefits required to attract and retain qualified nurses or an increase in reliance on contract nurses could negatively impact profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

Cybersecurity

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

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

VITAS' success is highly dependent on its brand reputation

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's corporate offices and the headquarters for Roto-Rooter are located in Cincinnati, Ohio. Roto-Rooter has manufacturing and distribution center facilities in West Des Moines, Iowa and has 124 leased and owned office and service facilities in 27 states. VITAS, headquartered in Miami, operates 44 programs from 154 leased and owned facilities and 28 inpatient units in 19 states and the District of Columbia.

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

Item 3. Legal Proceedings

The 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 on or before September 29, 2017, with Plaintiff's Answering Brief to be filed on or before December 1, 2017, and Defendants' Reply Brief to be filed on or before December 29, 2017. The matter has been fully briefed. 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 the Settlement Agreement, to resolve the civil litigation brought by the DOJ on behalf of the OIG and the relators under the 2013 Action. The court dismissed the 2013 Action on February 2, 2018. The litigation involved patient eligibility for the Routine Home Care and Continuous Home Care levels of hospice services, provided by VITAS from July 24, 2002 through May 2, 2013.

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

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 Spottiswood Settlement, has also been resolved upon VITAS's agreement to pay \$500,000 to the State of Illinois. This resolution is subject to execution of a final agreement.

The Company previously recorded a \$90 million loss reserve (\$55.8 million after-tax) related to the Settlement Agreement, Spottiswood Settlement, and associated costs in the second quarter of 2017. As of December 31, 2017, an accrual of \$1.1 million remains on the consolidated balance sheet relating to the amount due to the State of Illinois and unpaid legal and administrative fees. 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's fees were less than originally estimated.

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

The Settlement Agreement and Spottiswood Settlement will also resolve allegations made against the Company by various qui tam relators, who will be required to dismiss their claims with prejudice.

The Settlement Agreement and Spottiswood Settlement both reflect the Company's disagreement with the United States' and State of Illinois' claims and contain no admissions of facts or liability on the part of the Company or any of its subsidiaries.

The costs incurred related to U.S. v. Vitas and related regulatory matters, exclusive of the settlement, were \$5.2 million, \$5.3 million and \$5.0 million for 2017, 2016, and 2015 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. Williams seeks to pursue these claims in the form of a state-wide class action of current and former 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 pursuing discovery of her individual claim and has agreed to a stay of class discovery pending mediation in the Jordan Seper and Jiwann Chhina cases. This stay will be reviewed at a case management conference on February 27, 2018. Defendant filed and served each of Plaintiffs Williams, Phillips, and Moore with a Notice of Related Cases on July 19, 2017.

Defendant understands that the *Jordan Seper* and *Jiwann Chhina* cases will be effectively consolidated in Los Angeles County Superior court; *Chhina* will be 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.

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.

Item 4. Mine Safety Disclosures

None

Executive Officers of the Company

| <u>Name</u> | <u>Age</u> | <u>Office</u> | <u>First Elected</u> |
|----------------------|------------|--|----------------------|
| Kevin J. McNamara | 64 | President and Chief Executive Officer | August 2, 1994 (1) |
| Dave Williams | 57 | Executive Vice President and Chief Financial Officer | March 5, 2004 (2) |
| Spencer S. Lee | 62 | Executive Vice President | May 15, 2000 (3) |
| Nicholas M. Westfall | 39 | Executive Vice President | June 16, 2016 (4) |
| Naomi C. Dallob | 64 | Vice President and Chief Legal Officer | May 4, 1987 (5) |

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

Each executive officer holds office until the annual election at the next annual organizational meeting of the Board of Directors of the Company which is scheduled to be held on May 21, 2018.

PART II

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

The Company's Capital Stock (par value \$1 per share) is traded on the New York Stock Exchange under the symbol CHE. The range of the high and low sale prices on the New York Stock Exchange and dividends paid per share for each quarter of 2016 and 2017 are set forth below.

| | Closing | | Dividends Paid Per Share |
|----------------|-----------|--------|-----------------------------|
| | High | Low | |
| 2016 | | | |
| First Quarter | \$ 148.71 | 126.48 | \$ 0.24 |
| Second Quarter | 140.09 | 126.08 | 0.24 |
| Third Quarter | 150.01 | 131.20 | 0.26 |
| Fourth Quarter | 161.01 | 133.29 | 0.26 |
| 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 |

Future dividends are dependent upon the Company's earnings and financial condition, compliance with certain debt covenants and other factors not presently determinable.

As of February 15, 2018, there were approximately 1,693 stockholders of record of the Company's Capital Stock. This number only includes stockholders of record and does not include stockholders with shares beneficially held in nominee name or within clearinghouse positions of brokers, banks or other institutions.

During 2017, the number of shares of Capital Stock repurchased by the Company, the weighted average price paid for each share, the cumulative shares repurchased under each program and the dollar amounts remaining under each program were as follows:

Company Purchase of Shares of Capital Stock

| | Total Number of Shares Repurchased | Weighted Average Price Paid Per Share | Cumulative Shares Repurchased Under the Program | Dollar Amount Remaining Under The Program |
|--|---|--|--|--|
| <i>February 2011 Program</i> | | | | |
| January 1 through January 31, 2017 | - | \$ - | 7,315,718 | \$ 50,173,009 |
| February 1 through February 28, 2017 | 104,358 | 178.39 | 7,420,076 | 31,556,555 |
| March 1 through March 31, 2017 | 195,642 | 182.20 | 7,615,718 | \$ 95,910,768 |
| First Quarter Total | 300,000 | \$ 180.87 | | |
| April 1 through April 30, 2017 | - | \$ - | 7,615,718 | \$ 95,910,768 |
| May 1 through May 31, 2017 | 150,000 | 205.34 | 7,765,718 | 65,109,586 |
| June 1 through June 30, 2017 | - | - | 7,765,718 | \$ 65,109,586 |
| Second Quarter Total | 150,000 | \$ 205.34 | | |
| July 1 through July 31, 2017 | - | \$ - | 7,765,718 | \$ 65,109,586 |
| August 1 through August 31, 2017 | 47,726 | 191.53 | 7,813,444 | 55,968,634 |
| September 1 through September 30, 2017 | 2,274 | 191.42 | 7,815,718 | \$ 55,533,344 |
| Third Quarter Total | 50,000 | \$ 191.52 | | |
| October 1 through October 31, 2017 | - | \$ - | 7,815,718 | \$ 55,533,344 |
| November 1 through November 30, 2017 | - | - | 7,815,718 | 55,533,344 |
| December 1 through December 31, 2017 | - | - | 7,815,718 | \$ 55,533,344 |
| Fourth Quarter Total | - | \$ - | | |

On March 10, 2017, our Board of Directors authorized an additional \$100 million under February 2011 Repurchase Program.

As of December 31, 2017, the number of stock options and performance share units outstanding under the Company's equity compensation plans, the weighted average exercise price of outstanding options, and the number of securities remaining available for issuance were as follows:

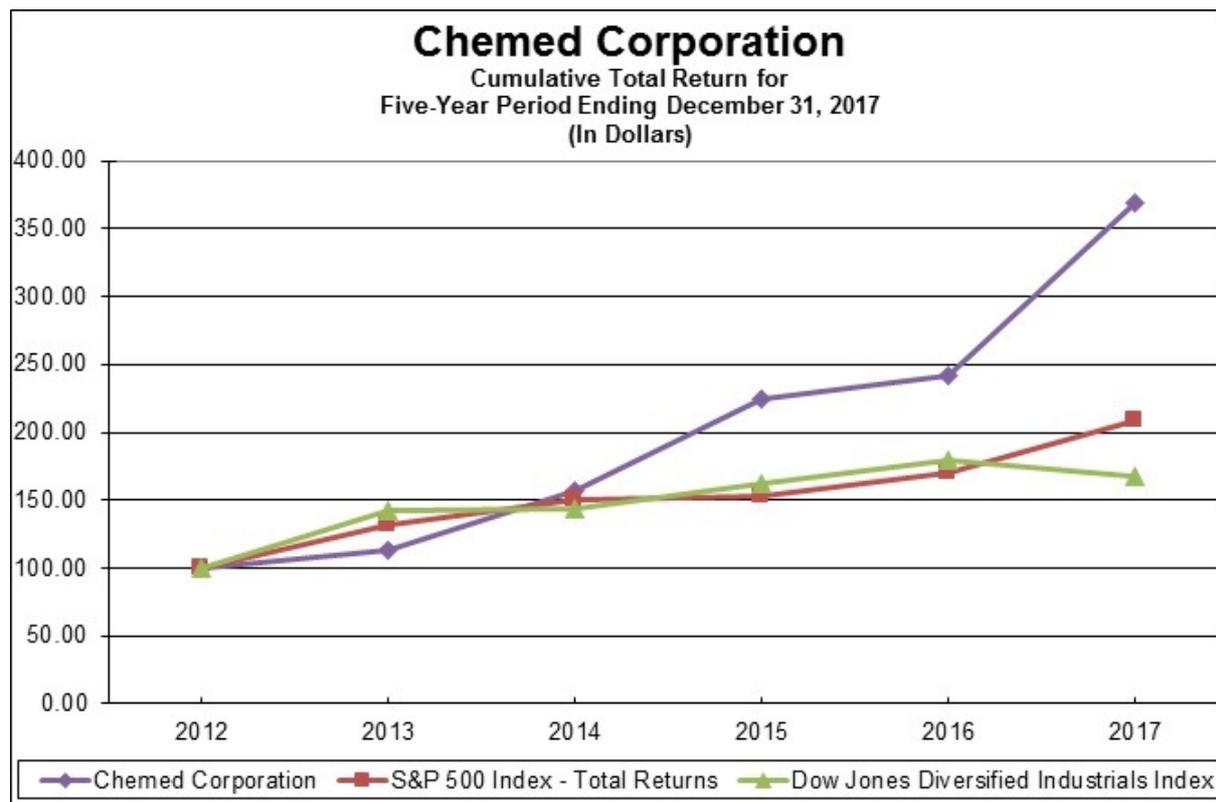
EQUITY COMPENSATION PLAN INFORMATION

| Plan Category | Number of securities to be issued upon exercise of outstanding warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column) |
|--|--|---|---|
| Equity compensation plans approved by stockholders (1) | 1,753,042 | \$ 137.21 | 572,722 |

(1) Amount includes 54,584 shares allocated to certain employees which vest upon attainment of specified earnings per share targets and specified total shareholder return targets.

Comparative Stock Performance

The graph below compares the yearly percentage change in the Company's cumulative total stockholder return on Capital Stock (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the period December 31, 2012, to December 31, 2017, assuming dividend reinvestment, and (B) the difference between the Company's share price at December 31, 2012 and December 31, 2017; by (ii) the share price at December 31, 2012) 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|--------|--------|--------|--------|--------|--------|
| Chemed Corporation | 100.00 | 112.87 | 157.04 | 224.17 | 241.82 | 368.35 |
| S&P 500 | 100.00 | 132.39 | 150.51 | 152.59 | 170.84 | 208.14 |
| Dow Jones Diversified Industrials | 100.00 | 142.13 | 143.62 | 162.07 | 179.82 | 167.97 |

Item 6. Selected Financial Data

The information called for by this Item for the five years ended December 31, 2017 is set forth on page 78 of the 2017 Annual Report to Stockholders and is incorporated herein by reference.

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

The information called for by this Item is set forth on pages 82 through 99 of the 2017 Annual Report to Stockholders and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk exposure relates to interest rate risk exposure through its variable interest term note and line of credit. For each \$10 million dollars borrowed under the credit facility, an increase or decrease of 100 basis points (1% point), increases or decreases the Company's annual interest expense by \$100,000.

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

The market value of the Company's long-term debt at December 31, 2017 is approximately \$101.2 million which equals the carrying value as all outstanding debt is at a variable interest rate.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 26, 2018, appearing on pages 44 through 75 of the 2017 Annual Report to Stockholders, along with the Supplementary Data (Unaudited Summary of Quarterly Results) appearing on pages 76-77, are incorporated herein by reference.

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

None.

Item 9A. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

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

Management's Report on Internal Control Over Financial Reporting

Refer to Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm on pages 44 through 46 of the Company's 2017 Annual Report to Stockholders, which are incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the Company's fiscal quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The directors of the Company are:

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

The additional information required under this Item is set forth in the Company's 2018 Proxy Statement and in Part I hereof under the caption "Executive Officers of the Registrant" and is incorporated herein by reference.

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

Item 11. Executive Compensation

Information required under this Item is set forth in the Company's 2018 Proxy Statement, which is incorporated herein by reference.

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

Information required under this Item is set forth in the Company's 2018 Proxy Statement, which is incorporated herein by reference.

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

Information required under this Item is set forth in the Company's 2018 Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Audit Fees

PricewaterhouseCoopers LLP charged the Company \$2,052,000 for 2016 and \$2,085,000 for 2017. These fees were for professional services rendered for the integrated audit of the Company's annual financial statements and of its internal control over financial reporting, review of the financial statements included in the Company's Forms 10-Q and review of documents filed with the SEC.

Audit-Related Fees

PricewaterhouseCoopers LLP charged the Company \$136,000 and \$137,000 for 2016 and 2017, respectively, for audit-related services. These services were related primarily to the audit of one of VITAS' Florida subsidiaries.

Tax Fees

No such services were rendered in 2016 or 2017.

All Other Fees

No such other services were rendered in 2016 or 2017.

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

Item 15
Exhibits

Exhibits and Financial Statement Schedule

- 3.1 Certificate of Incorporation of Chemed Corporation.*
- 3.2 Certificate of Amendment to Certificate of Incorporation.*
- 3.3 By-Laws of Chemed Corporation, as amended February 17, 2017
- 10.1 2006 Stock Incentive Plan, as amended August 11, 2006.*,**
- 10.2 2010 Stock Incentive Plan.*,**
- 10.3 2015 Stock Incentive Plan**
- 10.4 Employment Agreement with David P. Williams dated December 1, 2006.*,**
- 10.5 First Amendment to Employment Agreement with David P. Williams dated July 9, 2009.*,**
- 10.6 Employment Agreement with Timothy S. O'Toole dated May 6, 2007.*,**
- 10.7 First Amendment to Employment Agreement with Timothy S. O'Toole dated July 9, 2009.*,**
- 10.8 Consulting Agreement with Timothy S. O'Toole dated June 16, 2016.
- 10.9 Employment Agreement with Kevin J. McNamara dated May 3, 2008.*,**
- 10.10 First Amendment to Employment Agreement with Kevin J. McNamara dated July 9, 2009.*,**
- 10.11 Excess Benefits Plan, as restated and amended, effective June 1, 2001.*,**
- 10.12 Amendment No. 1 to Excess Benefits Plan, effective July 1, 2001.*,**
- 10.13 Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003.*,**
- 10.14 Non-Employee Directors' Deferred Compensation Plan.*,**
- 10.15 Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999.*,**
- 10.16 First Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective September 6, 2000.*,**
- 10.17 Second Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 2001.*,**
- 10.18 Third Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective December 12, 2001.*,**
- 10.19 Directors Emeriti Plan.*,**
- 10.20 Chemed Corporation Change in Control Severance Plan, as amended July 9, 2009.*,**
- 10.21 Chemed Corporation Senior Executive Severance Policy, as amended July 9, 2009.*,**

- 10.22 Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998.*,**
- 10.23 Roto-Rooter Deferred Compensation Plan No. 2.*,**
- 10.24 Form of Performance-Based Restricted Stock Units Award*,**
- 10.25 Form of Restricted Stock Award.*,**
- 10.26 Form of Stock Option Grant, pre-2013.*,**
- 10.27 Form of Stock Option Grant, 2013.*,**
- 10.28 Form of Stock Option Grant, 2015.*,**
- 10.29 Third Amended and Restated Credit Agreement by and among Chemed Corporation, JP Morgan Chase Bank NA, and other lenders as of June 30, 2014, exhibits and schedules thereto.*
- 10.30 Settlement Agreement, effective October 30, 2017 by and among the United States of America, acting through the United States Department of Justice and on behalf of the Office of the Inspector General of the Department of Health and Human Services, VITAS Hospice Services, L.L.C., VITAS Healthcare Corporation, VITAS Healthcare Corporation of California, VITAS Healthcare Corporation of Illinois, VITAS Healthcare Corporation of Florida, Vitas Healthcare Corporation of Ohio, VITAS Healthcare Corporation of Atlantic, VITAS Healthcare of Texas, L.P., VITAS Healthcare Corporation Midwest, VITAS Healthcare Corporation of Georgia, Chemed Corporation, and the various Relators named therein.
- 10.31 Corporate Integrity Agreement, effective October 30, 2017 between the Office of Inspector General of the Department of Health and Human Services and VITAS Hospice Services, L.L.C., VITAS Healthcare Corporation, VITAS Healthcare Corporation of California, VITAS Healthcare Corporation of Illinois, VITAS Healthcare Corporation of Florida, VITAS Healthcare Corporation of Ohio, VITAS Healthcare Corporation of Atlantic, VITAS Healthcare of Texas, L.P., VITAS Healthcare Corporation Midwest and VITAS Healthcare Corporation of Georgia.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 13 2017 Annual Report to Stockholders.
- 14 Policies on Business Ethics of Chemed Corporation
- 21 Subsidiaries of Chemed Corporation.
- 23 Consent of Independent Registered Public Accounting Firm.
- 24 Powers of Attorney.
- 31.1 Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.
- 31.2 Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.
- 31.3 Certification by Michael D. Witzeman pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.
- 32.1 Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3 Certification by Michael D. Witzeman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

| | |
|---------|--|
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Extension Schema* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase* |

*This exhibit is being filed by means of incorporation by reference (see Index to Exhibits on page E-1). Each other exhibit is being filed with this Annual Report on Form 10-K.

**Management contract or compensatory plan or arrangement.

Financial Statement Schedule
See Index to Financial Statements and Financial Statement Schedule on page S-1.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

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

February 26, 2018

CHEMED CORPORATION

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

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

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|-------------------|
| <u>/s/ Kevin J. McNamara</u> Kevin J. McNamara | President and Chief Executive Officer and a Director (Principal Executive Officer) | February 26, 2018 |
| <u>/s/ David P. Williams</u> David P. Williams | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | |
| <u>/s/ Michael D. Witzeman</u> Michael D. Witzeman | Vice President and Controller (Principal Accounting Officer) | |
| Joel F. Gemunder* Patrick P. Grace* Thomas C. Hutton* Walter L. Krebs* Andrea R. Lindell* | Thomas P. Rice* Donald E. Saunders* George J Walsh III* Frank E. Wood* | - -Directors |

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

February 26, 2018

/s/ Naomi C. Dallob

Date

Naomi C. Dallob
 (Attorney-in-Fact)

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE
2015, 2016 AND 2017

| | <u>Page(s)</u> |
|--|----------------|
| Chemed Corporation Consolidated Financial Statements and Financial Statement Schedule | |
| Report of Independent Registered Public Accounting Firm | 45* |
| Consolidated Statements of Income | 47* |
| Consolidated Balance Sheets | 48* |
| Consolidated Statements of Cash Flows | 49* |
| Consolidated Statements of Changes in Stockholders' Equity | 50* |
| Notes to Consolidated Financial Statements | 51-75* |
| | |
| Report of Independent Registered Public Accounting Firm on Financial Statement Schedule | S-2 |
| Schedule II – Valuation and Qualifying Accounts | S-3 |

* Indicates page numbers in Chemed Corporation 2017 Annual Report to Stockholders

The consolidated financial statements of Chemed Corporation listed above, appearing in the 2017 Annual Report to Stockholders, are incorporated herein by reference. The Financial Statement Schedule should be read in conjunction with the consolidated financial statements listed above. Schedules not included have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto as listed above.

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Report of Independent Registered Public Accounting
Firm on Financial Statement Schedule

To the Board of Directors and Stockholders of Chemed Corporation

Our audits of the consolidated financial statements referred to in our report dated February 26, 2018 appearing in the 2017 Annual Report to Stockholders of Chemed Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the schedule of the valuation and qualifying accounts for each of the three years in the period ended December 31, 2017 appearing under Schedule II of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 26, 2018

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

| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | ADDITIONS | | DEDUCTIONS (a) | BALANCE AT END OF PERIOD |
|--------------------------------------|---|---|---|---------------------------|---|
| | | (CHARGED) CREDITED TO COSTS AND EXPENSES | (CHARGED) CREDITED TO OTHER ACCOUNTS | | |
| Allowances for doubtful accounts (b) | | | | | |
| For the year 2017 | \$ (14,236) | \$ (17,376) | \$ (1,360) | \$ 17,797 | \$ (15,175) |
| For the year 2016 | \$ (13,244) | \$ (16,420) | \$ (1,518) | \$ 16,946 | \$ (14,236) |
| For the year 2015 | \$ (14,728) | \$ (14,435) | \$ (1,169) | \$ 17,088 | \$ (13,244) |

(a) With respect to allowances for doubtful accounts, deductions include accounts considered uncollectible or written off, payments, companies divested, etc.

(b) Classified in consolidated balance sheets as a reduction of accounts receivable.

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INDEX TO EXHIBITS

| Exhibit Number | | File No. and Filing Date | Page Number or <u>Incorporation by Reference</u> Previous <u>Exhibit No.</u> |
|-----------------------|---|--|--|
| 3.1 | Certificate of Incorporation of Chemed Corporation | Form S-3 Reg. No. 33-44177 11/26/91 | 4.1 |
| 3.2 | Certificate of Amendment to Certificate of Incorporation | Form 8-K 5/16/06 | 3.1 |
| 3.3 | By-Laws of Chemed Corporation as amended February 17, 2017 | Form 8-K 2/17/17 | |
| 10.1 | 2006 Stock Incentive Plan, as amended August 11, 2006 | Form 10-Q 8/14/06, ** | 10.1 |
| 10.2 | 2010 Stock Incentive Plan | Form 8-K 5/18/10, ** | 99.1 |
| 10.3 | 2015 Stock Incentive Plan | Form S-8 7/15/15, ** | 4.5 |
| 10.4 | Employment Agreement with David P. Williams dated December 1, 2006. | Form 8-K 12/1/06, ** | 10.01 |
| 10.5 | First Amendment to Employment Agreement with David P. Williams dated July 9, 2009. | Form 10-Q 10/30/09, ** | 10.2 |
| 10.6 | Employment Agreement with Timothy S. O'Toole dated May 6, 2007. | Form 8-K 5/7/07, ** | 10.02 |
| 10.7 | First Amendment to Employment Agreement with Timothy S. O'Toole dated July 9, 2009. | Form 10-Q 10/30/09, ** | 10.3 |
| 10.8 | Consulting Agreement with Timothy S. O'Toole dated June 16, 2016. | Form 8-K 6/8/16, ** | 10.1 |
| 10.9 | Employment Agreement with Kevin J. McNamara dated May 3, 2008. | Form 8-K 5/6/08, ** | 10.01 |
| 10.10 | First Amendment to Employment Agreement with Kevin J. McNamara dated July 9, 2009. | Form 10-Q 10/30/09, ** | 10.1 |

| | | | |
|------------------------------|--|--|--------------------------------|
| <u>10.11</u> | <u>Excess Benefits Plan, as restated and amended, effective June 1, 2001</u> | <u>Form 10-K 3/12/04, **</u> | <u>10.24</u> |
| <u>10.12</u> | <u>Amendment No. 1 to Excess Benefits Plan, effective July 1, 2002</u> | <u>Form 10-K 3/12/04, **</u> | <u>10.25</u> |
| <u>10.13</u> | <u>Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003</u> | <u>Form 10-K 3/12/04, **</u> | <u>10.26</u> |
| <u>10.14</u> | <u>Non-Employee Directors' Deferred Compensation Plan</u> | <u>Form 10-K 3/24/88, **</u> | <u>10.10</u> |
| <u>10.15</u> | <u>Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999</u> | <u>Form 10-K 3/25/99, **</u> | <u>10.25</u> |
| <u>10.16</u> | <u>First Amendment to Chemed/Roto-Rooter Savings & Retirement Plan effective September 6, 2000</u> | <u>Form 10-K - 3/28/02, **</u> | <u>10.22</u> |
| <u>10.17</u> | <u>Second Amendment to Chemed/Roto-Rooter Savings & Retirement Plan effective January 1, 2001</u> | <u>Form 10-K 3/28/02, **</u> | <u>10.23</u> |
| <u>10.18</u> | <u>Third Amendment to Chemed/Roto-Rooter Savings & Retirement Plan effective December 12, 2001</u> | <u>Form 10-K 3/28/02, **</u> | <u>10.24</u> |
| <u>10.19</u> | <u>Directors Emeriti Plan</u> | <u>Form 10-Q 5/12/88, **</u> | <u>10.11</u> |
| <u>10.20</u> | <u>Change in Control Severance Plan as amended July 9, 2009.</u> | <u>Form 10-Q 10/30/09, **</u> | <u>10.5</u> |
| <u>10.21</u> | <u>Senior Executive Severance Policy as amended July 9, 2009.</u> | <u>Form 10-Q 10/30/09, **</u> | <u>10.4</u> |
| <u>10.22</u> | <u>Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998</u> | <u>Form 10-K 3/28/01, **</u> | <u>10.37</u> |
| <u>10.23</u> | <u>Roto-Rooter Deferred Compensation Plan No. 2</u> | <u>Form 10-K 3/28/01, **</u> | <u>10.38</u> |
| <u>10.24</u> | <u>Form of Performance Based Restricted Stock Unit Award</u> | <u>Form 10-K 2/27/14, **</u> | <u>10.32</u> |
| <u>10.25</u> | <u>Form of Restricted Stock Award</u> | <u>Form 10-K 3/28/05, **</u> | <u>- 10.50</u> |
| <u>10.26</u> | <u>Form of Stock Option Grant Pre-2013</u> | <u>Form 10-K 3/28/05, **</u> | <u>10.51</u> |
| <u>10.27</u> | <u>Form of Stock Option Grant – 2013</u> | <u>Form 10-K 2/27/14, **</u> | <u>10.35</u> |
| <u>10.28</u> | <u>Form of Stock Option Grant – 2015</u> | <u>Form 10-K 2/26/16, **</u> | <u>10.30</u> |

| | | | |
|------------------------------|---|--|-----------------------------|
| <u>10.29</u> | <u>Third Amended and Restated Credit Agreement by and among Chemed Corporation, JP Morgan Chase Bank NA, and other lenders As of June 30, 2014 exhibits and schedules thereto.</u> | <u>Form 8-K 7/2/14</u> | <u>10.1</u> |
| <u>10.30</u> | <u>Settlement Agreement, effective October 30, 2017 by and among the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General of the Department of Health and Human Services, VITAS Hospice Services, L.L.C., VITAS Healthcare Corporation, VITAS Healthcare Corporation Of California, VITAS Healthcare Corporation of Illinois, VITAS Healthcare Corporation of Florida, VITAS Healthcare Corporation of Ohio, VITAS Healthcare Corporation of Atlantic, VITAS Healthcare of Texas, L.P., VITAS Healthcare Corporation Midwest, VITAS Healthcare Corporation of Georgia, Chemed Corporation, and the various Relators named therein.</u> | <u>Form 8-K 11/2/17</u> | <u>10.1</u> |
| <u>10.31</u> | <u>Corporate Integrity Agreement, effective October 30, 2017 between the Office of Inspector General of the Department of Health and Human Services and VITAS Hospice Services, L.L.C, VITAS Healthcare Corporation, VITAS Healthcare Corporation of California, VITAS Healthcare Corporation of Illinois, VITAS Healthcare Corporation of Florida, VITAS Healthcare Corporation of Ohio, VITAS Healthcare Corporation of Atlantic, VITAS Healthcare of Texas, L.P., VITAS Healthcare Corporation Midwest, and VITAS Healthcare Corporation of Georgia.</u> | <u>Form 8-K 11/2/17</u> | <u>10.2</u> |
| <u>12</u> | <u>Computation of Ratio of Earnings to Fixed Charges</u> | <u>-</u> | |
| <u>13</u> | <u>2017 Annual Report to Stockholders</u> | <u>-</u> | |
| <u>14</u> | <u>Policies on Business Ethics of Chemed Corporation</u> | <u>Form 10-K 2/27/14</u> | |
| <u>21</u> | <u>Subsidiaries of Chemed Corporation</u> | <u>-</u> | |
| <u>23</u> | <u>Consent of Independent Registered Public Accounting Firm</u> | <u>-</u> | |
| <u>24</u> | <u>Powers of Attorney</u> | <u>-</u> | |
| <u>31.1</u> | <u>Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.</u> | <u>-</u> | |
| <u>31.2</u> | <u>Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a)</u> | <u>-</u> | |

| | | |
|-----------------------------|---|--------------------------|
| <u>31.3</u> | <u>Certification by Michael D. Witzeman pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.</u> | <u>*</u> |
| <u>32.1</u> | <u>Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | <u>*</u> |
| <u>32.2</u> | <u>Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | <u>*</u> |
| <u>32.3</u> | <u>Certification by Michael D. Witzeman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | <u>*</u> |
| 101.INS | XBRL Instance Document | * |
| 101.SCH | XBRL Extension Schema | * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | * |

* Filed herewith.

** Management contract or compensatory plan or arrangement.

CHEMED CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in thousands, except ratios)

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Pretax income from continuing operations | \$ 123,829 | \$ 162,754 | \$ 180,126 | \$ 177,054 | \$ 116,917 |
| Additions: | | | | | |
| Fixed charges | 28,032 | 21,388 | 16,985 | 17,060 | 18,009 |
| Amortization of capitalized interest | 435 | 435 | 435 | 435 | 109 |
| Adjusted income | <u>\$ 152,296</u> | <u>\$ 184,577</u> | <u>\$ 197,546</u> | <u>\$ 194,549</u> | <u>\$ 135,035</u> |
| Fixed Charges: | | | | | |
| Interest expense | \$ 15,035 | \$ 8,186 | \$ 3,645 | \$ 3,715 | \$ 4,272 |
| Interest component of rental expense | 12,997 | 13,202 | 13,340 | 13,345 | 13,737 |
| Fixed charges | <u>\$ 28,032</u> | <u>\$ 21,388</u> | <u>\$ 16,985</u> | <u>\$ 17,060</u> | <u>\$ 18,009</u> |
| Ratio of earnings to fixed charges (a) | <u>5.4 x</u> | <u>8.6 x</u> | <u>11.6 x</u> | <u>11.4 x</u> | <u>7.5 x</u> |

(a) For purposes of computing the ratio of earnings to fixed charges, pretax income from continuing operations has been added to fixed charges and adjusted for capitalized interest to derive adjusted income. Fixed charges consist of interest expense on debt (including the amortization of deferred financing costs), prepayment penalties on the early extinguishment of debt and one-third (the proportion deemed representative of the interest component) of rental expense. Fixed charge amounts include interest from both continuing and discontinued operations.

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, 2017, 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, 2017, 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, 2017, as stated in their report which appears on pages 45 and 46.

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 as of December 31, 2017 and 2016, 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, 2017, 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, 2017, 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, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 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, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for stock based compensation in 2017.

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 26, 2018

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

CONSOLIDATED STATEMENTS OF INCOME

Chemed Corporation and Subsidiary Companies

(in thousands, except per share data)

For the Years Ended December 31,

| | 2017 | 2016 | 2015 |
|---|------------------|-------------------|-------------------|
| Service revenues and sales | \$ 1,666,724 | \$ 1,576,881 | \$ 1,543,388 |
| Cost of services provided and goods sold (excluding depreciation) | 1,150,532 | 1,115,431 | 1,087,610 |
| Selling, general and administrative expenses | 276,652 | 243,572 | 237,821 |
| Depreciation | 35,488 | 34,279 | 32,369 |
| Amortization | 137 | 359 | 1,130 |
| Other operating expenses (Note 21) | 90,880 | 4,491 | - |
| Total costs and expenses | 1,553,689 | 1,398,132 | 1,358,930 |
| Income from operations | 113,035 | 178,749 | 184,458 |
| Interest expense | (4,272) | (3,715) | (3,645) |
| Other income/(expenses)--net (Note 10) | 8,154 | 2,020 | (687) |
| Income before income taxes | 116,917 | 177,054 | 180,126 |
| Income taxes (Note 11) | (18,740) | (68,311) | (69,852) |
| Net Income | \$ 98,177 | \$ 108,743 | \$ 110,274 |
| Earnings Per Share (Note 15) | | | |
| Net Income | \$ 6.11 | \$ 6.64 | \$ 6.54 |
| Average number of shares outstanding | 16,057 | 16,383 | 16,870 |
| Diluted Earnings Per Share (Note 15) | | | |
| Net Income | \$ 5.86 | \$ 6.48 | \$ 6.33 |
| Average number of shares outstanding | 16,742 | 16,789 | 17,422 |

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

CONSOLIDATED BALANCE SHEETS

Chemed Corporation and Subsidiary Companies

(in thousands, except shares and per share data)

December 31,

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (Note 9) | \$ 11,121 | \$ 15,310 |
| Accounts receivable less allowances of \$15,175 (2016 - \$14,236) | 113,651 | 132,021 |
| Inventories | 5,334 | 5,755 |
| Prepaid income taxes | 29,848 | 3,709 |
| Prepaid expenses | 16,092 | 13,105 |
| Total current assets | <u>176,046</u> | <u>169,900</u> |
| Investments of deferred compensation plans held in trust (Notes 14 and 16) | 62,067 | 54,389 |
| Properties and equipment, at cost, less accumulated depreciation (Note 12) | 143,034 | 121,302 |
| Identifiable intangible assets less accumulated amortization of \$32,887 (2016 - \$33,225) (Note 6) | 54,865 | 55,065 |
| Goodwill | 476,887 | 472,366 |
| Other assets | 7,127 | 7,037 |
| Total Assets | <u>\$ 920,026</u> | <u>\$ 880,059</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 48,372 | \$ 39,586 |
| Current portion of long-term debt (Note 3) | 10,000 | 8,750 |
| Accrued insurance | 46,968 | 47,960 |
| Accrued compensation | 62,933 | 53,979 |
| Accrued legal | 1,786 | 1,805 |
| Other current liabilities | 23,463 | 19,752 |
| Total current liabilities | <u>193,522</u> | <u>171,832</u> |
| Deferred income taxes (Note 11) | 16,640 | 14,291 |
| Long-term debt (Note 3) | 91,200 | 100,000 |
| Deferred compensation liabilities (Note 14) | 61,800 | 54,288 |
| Other liabilities | 16,510 | 15,549 |
| Total Liabilities | <u>379,672</u> | <u>355,960</u> |
| Commitments and contingencies (Notes 13 and 18) | | |
| Stockholders' Equity | | |
| Capital stock - authorized 80,000,000 shares \$1 par; issued 34,732,192 shares (2016 - 34,270,104 shares) | 34,732 | 34,270 |
| Paid-in capital | 695,797 | 639,703 |
| Retained earnings | 1,038,955 | 958,149 |
| Treasury stock - 18,694,047 shares (2016 - 18,083,527 shares), at cost | (1,231,332) | (1,110,536) |
| Deferred compensation payable in Company stock (Note 14) | 2,202 | 2,513 |
| Total Stockholders' Equity | <u>540,354</u> | <u>524,099</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 920,026</u> | <u>\$ 880,059</u> |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Chemed Corporation and Subsidiary Companies

(in thousands)

For the Years Ended December 31,

| | 2017 | 2016 | 2015 |
|---|------------------|------------------|------------------|
| Cash Flows from Operating Activities | | | |
| Net income | \$ 98,177 | \$ 108,743 | \$ 110,274 |
| Adjustments to reconcile net income to net cash provided by operations: | | | |
| Depreciation and amortization | 35,625 | 34,638 | 33,499 |
| Provision for uncollectible accounts receivable | 17,306 | 16,319 | 14,247 |
| Stock option expense | 10,485 | 8,330 | 5,445 |
| Loss on sale of transportation equipment (Note 21) | 5,266 | - | - |
| Noncash portion of long-term incentive compensation | 3,774 | 1,301 | 6,644 |
| Provision/(benefit) for deferred income taxes (Note 11) | 2,407 | (6,707) | 6,325 |
| Amortization of restricted stock awards | 1,231 | 1,855 | 2,107 |
| Noncash directors' compensation | 766 | 541 | 540 |
| Amortization of debt issuance costs | 516 | 519 | 523 |
| Noncash early retirement expense (Note 21) | - | 1,747 | - |
| Changes in operating assets and liabilities, excluding amounts acquired in business combinations: | | | |
| Decrease/(increase) in accounts receivable | 1,072 | (42,142) | 4,132 |
| Decrease/(increase) in inventories | 421 | 559 | (142) |
| Increase in prepaid expenses | (2,987) | (253) | (1,290) |
| Increase in accounts payable and other current liabilities | 12,890 | 891 | 476 |
| (Decrease)/increase in income taxes | (26,104) | 13,886 | 344 |
| Increase in other assets | (8,330) | (5,224) | (47) |
| Increase in other liabilities | 8,561 | 7,105 | 1,320 |
| Excess tax benefit on stock-based compensation | - | (7,195) | (14,042) |
| Other sources | 1,419 | 480 | 1,145 |
| Net cash provided by operating activities | <u>162,495</u> | <u>135,393</u> | <u>171,500</u> |
| Cash Flows from Investing Activities | | | |
| Capital expenditures | (64,300) | (39,772) | (44,135) |
| Business combinations, net of cash acquired (Note 7) | (4,725) | - | (6,614) |
| Other sources/(uses) | 1,417 | (90) | 432 |
| Net cash used by investing activities | <u>(67,608)</u> | <u>(39,862)</u> | <u>(50,317)</u> |
| Cash Flows from Financing Activities | | | |
| Proceeds from revolving line of credit | 261,650 | 184,550 | 103,200 |
| Payments on revolving line of credit | (260,450) | (159,550) | (153,200) |
| Purchases of treasury stock | (94,640) | (102,313) | (59,323) |
| Proceeds from exercise of stock options (Note 4) | 27,092 | 8,421 | 15,424 |
| Dividends paid | (17,371) | (16,439) | (15,605) |
| Capital stock surrendered to pay taxes on stock-based compensation | (14,223) | (8,772) | (15,734) |
| Payments on other long-term debt | (8,750) | (7,500) | (6,250) |
| Change in cash overdraft payable | 6,700 | (736) | (1,177) |
| Excess tax benefit on stock-based compensation | - | 7,195 | 14,042 |
| Other sources/(uses) | 916 | 196 | (1,965) |
| Net cash used by financing activities | <u>(99,076)</u> | <u>(94,948)</u> | <u>(120,588)</u> |
| Increase/(decrease) in cash and cash equivalents | (4,189) | 583 | 595 |
| Cash and cash equivalents at beginning of year | <u>15,310</u> | <u>14,727</u> | <u>14,132</u> |
| Cash and cash equivalents at end of year | <u>\$ 11,121</u> | <u>\$ 15,310</u> | <u>\$ 14,727</u> |

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

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

Chemed Corporation and Subsidiary
Companies

(in thousands, except per share data)

| | Capital Stock | Paid-in Capital | Retained Earnings | Treasury Stock- at Cost | Deferred Compensation Payable in Company Stock | Total |
|--|------------------|--------------------|----------------------|-------------------------------|--|-------------------|
| Balance at December 31, 2014 | \$ 33,337 | \$ 538,845 | \$ 771,176 | \$ (894,285) | \$ 2,283 | \$ 451,356 |
| Net income | - | - | 110,274 | - | - | 110,274 |
| Dividends paid (\$0.92 per share) | - | - | (15,605) | - | - | (15,605) |
| Stock awards and exercise of stock options (Note 4) | 648 | 66,077 | - | (38,257) | - | 28,468 |
| Purchases of treasury stock (Note 20) | - | - | - | (59,323) | - | (59,323) |
| Other | - | (1,916) | - | (113) | 112 | (1,917) |
| 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 20) | - | - | - | (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 20) | - | - | - | (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 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

NATURE OF OPERATIONS

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

PRINCIPLES OF ACCOUNTING

The consolidated financial statements have been prepared on a going-concern basis. Management has adopted the evaluation requirements of Accounting Stanadards 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.

CASH EQUIVALENTS

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

ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable are recorded at the principal balance outstanding less estimated allowances for uncollectible accounts. For the Roto-Rooter segment, allowances for trade accounts receivable are generally provided for accounts more than 90 days past due, although collection efforts continue beyond that time. Due to the small number of loans receivable outstanding, allowances for loan losses are determined on a case-by-case basis. For the VITAS segment, allowances for accounts receivable are provided on accounts based on expected collection rates by payer types. The expected collection rate is based on both historical averages and known current trends. Final write-off of overdue accounts or loans receivable is made when all reasonable collection efforts have been made and payment is not forthcoming. We closely monitor our receivables and periodically review procedures for granting credit to attempt to hold losses to a minimum.

We make appropriate provisions to reduce our accounts receivable balance for any governmental or other payer reviews resulting in denials of patient service revenue. We believe our hospice programs comply with all payer requirements at the time of billing. However, we cannot predict whether future billing reviews or similar audits by payers will result in material denials or reductions in revenue.

CONCENTRATION OF RISK

As of December 31, 2017 and 2016, approximately 59%, of VITAS’ total accounts receivable balance were due from Medicare and 32% and 31%, respectively, of VITAS’ total accounts receivable balance were due from various state Medicaid programs. Combined accounts receivable from Medicare and Medicaid represent approximately 55% of the consolidated net accounts receivable in the accompanying consolidated balance sheets as of December 31, 2017.

As further described in Note 19, we had agreements with a vendor to provide specified pharmacy services for VITAS and its hospice patients. In 2017 and 2016, respectively, purchases made from this vendor represent in excess of 85% 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, 2017, were:

| | |
|-------------------------------------|----------|
| Buildings and building improvements | 12.1yrs. |
| Transportation equipment | 11.0 |
| Machinery and equipment | 5.2 |
| Computer software | 4.6 |
| Furniture and fixtures | 4.8 |

GOODWILL AND INTANGIBLE ASSETS

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

| | <u>Vitas</u> | <u>Roto- Rooter</u> | <u>Total</u> |
|------------------------------|-------------------|-------------------------|-------------------|
| Balance at December 31, 2015 | \$ 328,301 | \$ 144,021 | \$ 472,322 |
| Foreign currency adjustments | - | 44 | 44 |
| 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 | <u>\$ 328,301</u> | <u>\$ 148,586</u> | <u>\$ 476,887</u> |

Identifiable, definite-lived intangible assets arise from purchase business combinations and are amortized using either an accelerated method or the straight-line method over the estimated useful lives of the assets. The selection of an amortization method is based on which method best reflects the economic pattern of usage of the asset. The weighted average lives of our identifiable, definite-lived intangible assets at December 31, 2017, were:

| | |
|-----------------------------|---------|
| Covenants not to compete | 6.5yrs. |
| Reacquired franchise rights | 5.9 |
| Referral networks | 10.0 |
| Customer lists | 13.3 |

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, 2017. 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.

REVENUE RECOGNITION

Both the VITAS segment and Roto-Rooter segment recognize service revenues and sales when the earnings process has been completed. Generally, this occurs when services are provided or products are delivered. See Footnote 2 for a more detailed description of revenue related to our VITAS segment. Sales of Roto-Rooter products, including drain cleaning machines and drain cleaning solution, comprise less than 2% of our total service revenues and sales for each of the three years in the period ended December 31, 2017. The VITAS segment does not have product sales.

CHARITY CARE

VITAS provides charity care, in certain circumstances, to patients without charge when management of the hospice program determines that the patient does not have the financial wherewithal to make payment. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care.

The cost of providing charity care during the years ended December 31, 2017, 2016 and 2015, was \$7.7 million, \$7.0 million and \$7.6 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.

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.

GUARANTEES

In the normal course of business, Roto-Rooter enters into various guarantees and indemnifications in our relationships with customers and others. These arrangements include guarantees of services for periods ranging from one day to one year and product satisfaction guarantees. At December 31, 2017 and 2016, our accrual for service guarantees and warranty claims was \$420,000 and \$405,000 respectively.

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, 2017, was \$40.9 million (2016 – \$ 37.2 million; 2015 - \$36.4 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 end 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, 2017, 2016 and 2015, were net pretax debits/(credits) of (\$5,560,000), (\$3,148,000) and (\$1,891,000) 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” (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 (“GAAP”) require resulting tax effects for the Act, to be recorded in the reporting period of enactment.

However, the U.S. Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the Act’s impact. Under SAB 118, it is permissible for an entity to use something similar to the measurement period in a business combination to fully evaluate the impact of the Act, 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 the following elements of the Act is incomplete. However, we were able to make reasonable estimates of certain effects and, therefore, record provisional adjustments as follows:

Reduction of US federal corporate tax rate: The Act reduces the federal corporate tax rate to 21 percent, effective January 1, 2018. Consequently, the Company has recorded a net tax benefit adjustment of \$8,937,000 to deferred income tax expense, for the year ended December 31, 2017.

Deemed Repatriation Transition Tax: The Act provides for a one-time “deemed repatriation” of accumulated foreign earnings for the year ended December 31, 2017. The Company expects to pay in the current year, U.S. federal and state cash taxes of approximately \$529,000 on the deemed repatriation.

Compensation and Shared-Based Payment Awards: The Act modifies the deductibility of covered employees compensation and eliminates the exclusion of performance based compensation under IRC § 162(m). The Company recorded a non-cash tax expense related to this modification of \$103,000 due to share-based payment awards as accounted for under ASC 718.

Global Intangible Low-Taxed Income (GILTI) tax rules: Because of the complexity of these new rules, we are continuing to evaluate this provision of the Tax Act and the application of ASC 740. In connection with these rules is the impact (if any) of Foreign Derived Intangible Income (FDII) which we are continuing to evaluate. These provisions are effective January 1, 2018.

Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (the “deferred method”). Our selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on not only our current structure and estimated future results of global operations but also our intent and ability to modify our structure and/or our business, we are not yet able to reasonably estimate the effect of this provision of the Act. Therefore, we have not made any adjustments related to potential GILTI tax in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI. However, we do not expect these provisions to have a material effect.

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 is still evaluating the full impact of the Act on the future foreign earnings.

Additionally, the Act provides for 100 percent bonus depreciation on personal tangible property expenditures 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 the bonus depreciation rules.

The ultimate impact of the Act may differ, due to changes in interpretations and assumptions the Company has made, guidance that may be issued, and actions the Company may take as a result of the Act. The Company will provide updated and additional information regarding impacts of the Act in connection with its future disclosures in accordance with SAB 118.

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.

We are subject to income taxes in Canada, U.S. federal and most state jurisdictions. Significant judgment 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 18, 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. Hospice Revenue Recognition

Approximately 97% of VITAS' revenue in 2017 was from Medicare and Medicaid. The remaining revenue was from commercial insurance carriers and individual self-payers.

MEDICARE AND MEDICAID REVENUE

Gross revenue is recorded on an accrual basis based on the date of service at amounts equal to the established payment rates. Medicare establishes the payment rates yearly which are consistent among all providers in the hospice industry. The payment rates are daily or hourly rates for each of the four levels of care we provide. The four levels of care are routine home care, general inpatient care, continuous home care and respite care. Routine home care accounts for 81.2%, 78.9% and 77.6% of our total net revenue for the years ending December 31, 2017, 2016 and 2015.

VITAS is subject to certain limitations on Medicare payments for services. Specifically, 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 in 2017, 2016 or 2015.

VITAS is 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 between November 1 of each year and October 31 of the following year 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.

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 have one program as of December 31, 2017 using the "proportional" method.

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

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, CMS determined that the Medicare cap should be calculated “as if” sequestration did not occur. As a result of this decision, VITAS has received notification from our third party intermediary that an additional \$2.6 million is owed for Medicare cap in three programs arising during the 2013, 2014 and 2015 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 with the appropriate regulatory appeal board. We have recorded a reserve of \$ 2.1 million at December 31, 2017 to cover a portion of the related accounts receivable.

During the year ended December 31, 2017, we recorded \$2.4 million in Medicare cap revenue reduction related to two program’s projected 2018 measurement period liability and \$247,000 for two programs cap liability for the 2013, 2014 and 2015 measurement period of which \$105,000 relates to the sequestration issue described above.

During the year ended December 31, 2016, we recorded \$228,000 in Medicare cap revenue reduction related to one program’s projected 2015 measurement period liability. This revenue reduction was related to the CMS’s methodology change described above. During the year ended December 31, 2015 we recorded a \$165,000 Medicare cap reversal of amounts recorded in the fourth quarter of 2014 for one program’s projected 2015 measurement period liability. The net pretax expense/(income) was \$2.7 million, \$228,000, and (\$165,000) for fiscal years 2017, 2016 and 2015, respectively.

Shown below is the Medicare cap liability activity for the years ended December 31, 2017 and 2016, (in thousands):

| | 2017 | 2016 |
|------------------------------|-----------------|---------------|
| Beginning Balance January 1, | \$ 235 | \$ 1,165 |
| 2018 measurement period | 2,435 | - |
| Prior measurement periods | 247 | 228 |
| Payments | (482) | (1,158) |
| Ending Balance December 31, | <u>\$ 2,435</u> | <u>\$ 235</u> |

REVENUE FROM OTHER PAYERS

Gross revenue is recorded on an accrual basis based on the date of service at amounts equal to our established rates with the applicable payer.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Payers may deny payment for services or require repayment of amounts that we previously received in whole or in part on the basis that such services are not eligible for coverage and do not qualify for reimbursement. We estimate denials each period and make adequate provision in the financial statements. The estimate of denials is based on historical trends and known circumstances and does not vary materially from period to period on an aggregate basis. Accounts are written-off when we believe all reasonable collection efforts have been exhausted.

The allowance for doubtful accounts for VITAS comprises the following (in thousands):

| | Medicare | Medicaid | Commercial | Other | Total |
|---|-----------------|-----------------|-----------------|---------------|------------------|
| Beginning Balance January 1, 2015 | \$ 3,799 | \$ 5,999 | \$ 2,874 | \$ (514) | \$ 12,158 |
| Bad debt provision | 1,793 | 7,209 | 3,938 | 664 | 13,604 |
| Write-offs | (3,382) | (6,595) | (4,331) | (209) | (14,517) |
| Other/Contractual adjustments | 752 | 65 | 791 | (113) | 1,495 |
| Ending Balance December 31, 2016 | <u>2,962</u> | <u>6,678</u> | <u>3,272</u> | <u>(172)</u> | <u>12,740</u> |
| Bad debt provision | 3,015 | 5,618 | 3,789 | 686 | 13,108 |
| Write-offs | (2,431) | (7,031) | (4,202) | - | (13,664) |
| Other/Contractual adjustments | 498 | 111 | 740 | - | 1,349 |
| Ending Balance December 31, 2017 | <u>\$ 4,044</u> | <u>\$ 5,376</u> | <u>\$ 3,599</u> | <u>\$ 514</u> | <u>\$ 13,533</u> |

3. Long-Term Debt and Lines of Credit

On June 30, 2014, we replaced our existing credit agreement with the Third Amended and Restated Credit Agreement (“2014 Credit Agreement”). Terms of the 2014 Credit Agreement consist of a five-year, \$350 million revolving credit facility and a \$100 million term loan. The 2014 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio. For December 31, 2017 and 2016, respectively, the interest rate is LIBOR plus 113 basis points.

The debt outstanding at December 31, 2017 and 2016 consists of the following (in thousands):

| | December 31, | |
|------------------------------|--------------|------------|
| | 2017 | 2016 |
| Revolver | \$ 26,200 | \$ 25,000 |
| Term loan | 75,000 | 83,750 |
| Total | 101,200 | 108,750 |
| Current portion of term loan | (10,000) | (8,750) |
| Long-term debt | \$ 91,200 | \$ 100,000 |

Scheduled principal payments of the term loan are as follows:

| | |
|------|------------------|
| 2018 | \$ 10,000 |
| 2019 | 65,000 |
| | <u>\$ 75,000</u> |

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):

| | |
|------|----------|
| 2017 | \$ 3,626 |
| 2016 | 3,047 |
| 2015 | 2,988 |

The 2014 Credit Agreement contains the following quarterly financial covenants:

| Description | Requirement | Chemed |
|--|------------------|----------------|
| Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA) | < 3.50 to 1.00 | 0.62 to 1.00 |
| Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges) | > 1.50 to 1.00 | 2.10 to 1.00 |
| Annual Operating Lease Commitment | < \$50.0 million | \$23.5 million |

We are in compliance with all debt covenants as of December 31, 2017. We have issued \$35.8 million in standby letters of credit as of December 31, 2017 for insurance purposes. Issued letters of credit reduce our available credit under the 2014 Credit Agreement. As of December 31, 2017, we have approximately \$288.0 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 two stock incentive plans under which a total of 3.8 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 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 2017, the CIC granted 3,762 unrestricted shares of stock to the Company's outside directors.

PERFORMANCE AWARDS

In February 2015, 2016 and 2017, 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 2015, 2016 and 2017, the CIC granted PSUs contingent on the achievement of certain EPS targets over the three-year measurement period. At the end of each reporting period, we estimate the number of shares of stock we believe will ultimately vest and record that expense over the service period of the award.

Comparative data for the PSUs include:

| | <u>2017 Awards</u> | <u>2016 Awards</u> | <u>2015 Awards</u> |
|---|--------------------|--------------------|--------------------|
| TSR Awards | | | |
| Shares of stock granted | 7,304 | 9,541 | 10,761 |
| Per-share fair value | \$ 226.95 | \$ 150.74 | \$ 142.55 |
| Volatility | 21.8% | 26.7% | 25.2% |
| Risk-free interest rate | 1.44% | 0.89% | 0.93% |
| EPS Awards | | | |
| Shares of stock granted | 7,304 | 9,541 | 10,761 |
| Per-share fair value | \$ 172.60 | \$ 126.37 | \$ 113.14 |
| Common Assumptions | | | |
| Service period (years) | 2.9 | 2.9 | 2.9 |
| Three-year measurement period ends December 31, | 2019 | 2018 | 2017 |

The following table summarizes total stock option, stock award and PSU activity during 2017:

| | Stock Options | | | Aggregate Intrinsic Value (thousands) | Stock Awards | | Performance Units (PSUs) | |
|---|----------------------|-------------------|--|--|---------------------|--|------------------------------|--|
| | Number of Options | Weighted Average | | | Number of Awards | Weighted Average Grant-Date Price | Number of Target Units | Weighted Average Grant-Date Price |
| | | Exercise Price | Remaining Contractual Life (Years) | | | | | |
| Outstanding at January 1, 2017 | 1,827,978 | \$ 114.09 | | | 45,267 | \$ 98.82 | 63,774 | \$ 118.95 |
| Granted | 330,550 | 231.91 | | | 3,762 | 203.52 | 27,622 | 156.04 |
| Exercised/Vested | (422,914) | 93.01 | | | (38,273) | 102.67 | (36,812) | 99.50 |
| Canceled/ Forfeited | (37,156) | 143.71 | | | (1,050) | 121.75 | (852) | 135.09 |
| Outstanding at December 31, 2017 | <u>1,698,458</u> | 141.62 | 4.4 | \$ 173,650 | <u>9,706</u> | 121.75 | <u>53,732</u> | 151.09 |
| Vested and expected to vest at December 31, 2017 | 1,698,458 | 141.62 | 4.4 | 173,650 | 9,706 | 121.75 | 93,170 * | 154.65 |
| Exercisable at December 31, 2017 | 912,889 | 108.96 | 4.7 | 123,146 | n.a. | n.a. | n.a. | n.a. |

* Amount includes 37,466 share units which vested and were converted to shares of stock and distributed in the first quarter of 2018.

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, | | |
|--|--------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Total compensation expense of stock-based compensation plans charged against income | \$ 16,256 | \$ 13,773 | \$ 14,737 |
| Total income tax benefit recognized in income for stock based compensation expense charged against income | 5,690 | 5,062 | 5,416 |
| Total intrinsic value of stock options exercised | 50,192 | 17,635 | 45,600 |
| Total intrinsic value of stock awards vested during the period | 6,983 | 7,429 | 12,065 |
| Per-share weighted averaged grant-date fair value of stock awards granted | 203.52 | 126.53 | 121.75 |

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---------------------------------|-------------|-------------|-------------|
| Stock price on date of issuance | \$ 231.91 | \$ 135.85 | \$ 157.36 |
| Grant date fair value per share | \$ 46.27 | \$ 22.74 | \$ 29.46 |
| Number of options granted | 330,550 | 505,775 | 422,750 |
| Expected term (years) | 4.0 | 4.0 | 4.0 |
| Risk free rate of return | 1.86% | 1.09% | 1.57% |
| Volatility | 22.80% | 21.10% | 22.20% |
| Dividend yield | 0.5% | 0.8% | 0.6% |
| Forfeiture rate | - | - | - |

Other data for stock options, stock awards and PSUs for 2017 include (dollar amounts in thousands):

| | <u>Stock Options</u> | <u>Stock Awards</u> | <u>PSUs</u> |
|---|--------------------------|-------------------------|-------------|
| Total unrecognized compensation at the end of the year | \$ 23,900 | \$ 446 | \$ 3,716 |
| Weighted average period over which unrecognized compensation to be recognized (years) | 2.3 | 0.4 | 1.7 |
| Actual income tax benefit realized | \$ 17,271 | \$ 2,403 | \$ 3,195 |
| Aggregate intrinsic value vested and expected to vest | \$ 173,650 | \$ 2,367 | \$ 22,720 |

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 69% and 31%, respectively, in 2017 and 71% and 29%, respectively, in 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. Accordingly, the reportable segments are defined as follows:

- The VITAS segment provides hospice services for patients with terminal illnesses. This type of care is aimed at making the terminally ill patient's end of life as comfortable and pain-free as possible. Hospice care is available to patients who have been initially certified or re-certified as terminally ill (i.e., a prognosis of six months or less) by their attending physician, if any, and the hospice physician. VITAS offers all levels of hospice care in a given market, including routine home care, inpatient care and continuous care. Over 95% of VITAS' revenues are derived through the Medicare and Medicaid reimbursement programs.
- The Roto-Rooter segment provides plumbing, drain cleaning and water restoration services to residential and commercial accounts using the Roto-Rooter registered service marks. They are delivered through company-owned and operated territories, independent contractor-operated territories and franchised locations. This segment also manufactures and sells products and equipment used to provide such services.
- 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, | | |
|--|----------------------------------|---------------------|---------------------|
| | 2017 | 2016 | 2015 |
| <u>Revenues by Type of Service</u> | | | |
| VITAS | | | |
| Routine homecare | \$ 935,913 | \$ 887,940 | \$ 865,145 |
| Continuous care | 124,557 | 138,025 | 150,802 |
| General inpatient | 90,472 | 97,580 | 99,439 |
| Medicare cap | (2,682) | (228) | 165 |
| Total segment | <u>1,148,260</u> | <u>1,123,317</u> | <u>1,115,551</u> |
| Roto-Rooter | | | |
| Plumbing repair and maintenance | 219,516 | 197,280 | 188,065 |
| Sewer and drain cleaning | 151,667 | 145,699 | 142,562 |
| Water restoration | 82,272 | 50,229 | 38,163 |
| Independent contractors | 43,770 | 40,097 | 37,966 |
| Other products and services | 21,239 | 20,259 | 21,081 |
| Total segment | <u>518,464</u> | <u>453,564</u> | <u>427,837</u> |
| Total service revenues and sales | <u>\$ 1,666,724</u> | <u>\$ 1,576,881</u> | <u>\$ 1,543,388</u> |
| <u>Aftertax Segment Earnings/(Loss)</u> | | | |
| VITAS | | | |
| Roto-Rooter | \$ 73,299 | \$ 52,893 | \$ 48,573 |
| Total | <u>130,944</u> | <u>137,854</u> | <u>141,919</u> |
| Corporate | (32,767) | (29,111) | (31,645) |
| Net income | <u>\$ 98,177</u> | <u>\$ 108,743</u> | <u>\$ 110,274</u> |
| <u>Interest Income</u> | | | |
| VITAS | | | |
| Roto-Rooter | \$ 5,635 | \$ 3,653 | \$ 3,425 |
| Total | <u>17,679</u> | <u>11,947</u> | <u>11,165</u> |
| Intercompany eliminations | (17,252) | (11,564) | (10,884) |
| Total interest income | <u>\$ 427</u> | <u>\$ 383</u> | <u>\$ 281</u> |
| <u>Interest Expense</u> | | | |
| VITAS | | | |
| Roto-Rooter | \$ 323 | \$ 332 | \$ 348 |
| Total | <u>511</u> | <u>543</u> | <u>548</u> |
| Corporate | 3,761 | 3,172 | 3,097 |
| Total interest expense | <u>\$ 4,272</u> | <u>\$ 3,715</u> | <u>\$ 3,645</u> |
| <u>Income Tax Provision</u> | | | |
| VITAS | | | |
| Roto-Rooter | \$ 32,782 | \$ 32,719 | \$ 29,630 |
| Total | <u>49,218</u> | <u>84,629</u> | <u>86,305</u> |
| Corporate | (30,478) | (16,318) | (16,453) |
| Total income tax provision | <u>\$ 18,740</u> | <u>\$ 68,311</u> | <u>\$ 69,852</u> |
| <u>Identifiable Assets</u> | | | |
| VITAS | | | |
| Roto-Rooter | \$ 294,663 | \$ 261,641 | \$ 255,192 |
| Total | <u>839,967</u> | <u>803,783</u> | <u>778,909</u> |
| Corporate | 80,059 | 76,276 | 73,416 |
| Total identifiable assets | <u>\$ 920,026</u> | <u>\$ 880,059</u> | <u>\$ 852,325</u> |

| | For the Years Ended December 31, | | |
|---------------------------------------|----------------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Additions to Long-Lived Assets | | | |
| VITAS | \$ 23,469 | \$ 22,000 | \$ 23,278 |
| Roto-Rooter | 45,386 | 17,709 | 26,476 |
| Total | 68,855 | 39,709 | 49,754 |
| Corporate | 483 | 63 | 995 |
| Total additions to long-lived assets | \$ 69,338 | \$ 39,772 | \$ 50,749 |
| Depreciation and Amortization | | | |
| VITAS | \$ 18,630 | \$ 19,090 | \$ 19,547 |
| Roto-Rooter | 16,790 | 15,002 | 13,360 |
| Total | 35,420 | 34,092 | 32,907 |
| Corporate | 205 | 546 | 592 |
| Total depreciation and amortization | \$ 35,625 | \$ 34,638 | \$ 33,499 |

6. Intangible Assets

Amortization of definite-lived intangible assets for the years ended December 31, 2017, 2016, 2015, was \$137,000, \$359,000 and \$1.1 million respectively. The following is a schedule by year of projected amortization expense for definite-lived intangible assets (in thousands):

| | | |
|------------|----|-----|
| 2018 | \$ | 103 |
| 2019 | | 47 |
| 2020 | | 36 |
| 2021 | | 32 |
| 2022 | | 23 |
| Thereafter | | 46 |

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

| | Gross Asset | Accumulated Amortization | Net Book Value |
|---------------------------------------|-------------|--------------------------|----------------|
| 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 |
| Rapid Rooter trade name | 150 | - | 150 |
| Operating licenses | 3,128 | - | 3,128 |
| Total | \$ 87,752 | \$ (32,887) | \$ 54,865 |
| December 31, 2016 | | | |
| Referral networks | \$ 21,729 | \$ (21,528) | \$ 201 |
| Covenants not to compete | 9,533 | (9,295) | 238 |
| Customer lists | 1,215 | (1,215) | - |
| Reacquired franchise rights | 1,261 | (1,187) | 74 |
| Subtotal - definite-lived intangibles | 33,738 | (33,225) | 513 |
| VITAS trade name | 51,300 | - | 51,300 |
| Rapid Rooter trade name | 150 | - | 150 |
| Operating licenses | 3,102 | - | 3,102 |
| Total | \$ 88,290 | \$ (33,225) | \$ 55,065 |

7. Business Combinations

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 |
| | \$ | <u>4,725</u> |

We did not complete any business combinations during 2016.

During 2015, we completed two business combinations of former franchisees within the Roto-Rooter segment for \$6.6 million in cash to increase our market penetration. The purchase price of these acquisitions was allocated as follows (in thousands):

| | | |
|------------------------------------|----|--------------|
| Identifiable intangible assets | \$ | 213 |
| Goodwill | | 5,944 |
| Other assets and liabilities - net | | 457 |
| | \$ | <u>6,614</u> |

The unaudited pro forma results of operations, assuming purchase business combinations completed in 2017 and 2016 were completed on January 1, 2015, do not materially impact the accompanying consolidated financial statements. The results of operations of each of the above business combinations are included in our results of operations from the date of the respective acquisition.

8. Discontinued Operations

At December 31, 2017 and 2016, 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 2017 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):

| | | |
|------------|----|--------------|
| 2018 | \$ | 826 |
| 2019 | | 300 |
| Thereafter | | 601 |
| | \$ | <u>1,727</u> |

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

9. Cash Overdrafts and Cash Equivalents

Included in accounts payable are cash overdrafts of \$15.3 million and \$8.6 million as of December 31, 2017 and 2016, 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/(expense)—Net

Other income/(expense)—net from continuing operations comprises the following (in thousands):

| | For the Years Ended December 31, | | |
|--|----------------------------------|-----------------|-----------------|
| | 2017 | 2016 | 2015 |
| Market value gains related to deferred compensation trusts | \$ 8,430 | \$ 2,061 | \$ 148 |
| Loss on disposal of property and equipment | (707) | (424) | (698) |
| Interest income | 427 | 383 | 281 |
| Other--net | 4 | - | (418) |
| Total other income/(expense) | <u>\$ 8,154</u> | <u>\$ 2,020</u> | <u>\$ (687)</u> |

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

11. Income Taxes

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

| | For the Years Ended December 31, | | |
|-------------------------------|----------------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| Current | | | |
| U.S. federal | \$ 11,724 | \$ 64,698 | \$ 55,026 |
| U.S. state and local | 4,144 | 9,927 | 8,104 |
| Foreign | 465 | 393 | 397 |
| Deferred | | | |
| U.S. federal, state and local | 2,402 | (6,712) | 6,323 |
| Foreign | 5 | 5 | 2 |
| Total | <u>\$ 18,740</u> | <u>\$ 68,311</u> | <u>\$ 69,852</u> |

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

| | December 31, | |
|---|--------------------|--------------------|
| | 2017 | 2016 |
| Accrued liabilities | \$ 30,419 | \$ 43,168 |
| Stock compensation expense | 6,282 | 9,716 |
| State net operating loss carryforwards | 2,243 | 1,811 |
| Allowance for uncollectible accounts receivable | 291 | 1,952 |
| Other | 565 | 776 |
| Deferred income tax assets | <u>39,800</u> | <u>57,423</u> |
| Amortization of intangible assets | (36,882) | (52,133) |
| Accelerated tax depreciation | (14,057) | (14,975) |
| Market valuation of investments | (2,277) | (1,341) |
| State income taxes | (1,722) | (793) |
| Currents assets | (1,255) | (1,825) |
| Other | (247) | (647) |
| Deferred income tax liabilities | <u>(56,440)</u> | <u>(71,714)</u> |
| Net deferred income tax liabilities | <u>\$ (16,640)</u> | <u>\$ (14,291)</u> |

At December 31, 2017 and 2016, state net operating loss carryforwards were \$36.5 million and \$36.0 million, respectively. These net operating losses will expire, in varying amounts, between 2024 and 2037. 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):

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------|-----------------|
| Balance at January 1, | \$ 1,069 | \$ 1,052 | \$ 980 |
| Unrecognized tax benefits due to positions taken in current year | 268 | 218 | 260 |
| Decrease due to expiration of statute of limitations | (214) | (201) | (188) |
| Balance at December 31, | <u>\$ 1,123</u> | <u>\$ 1,069</u> | <u>\$ 1,052</u> |

We file tax returns in the U.S. federal jurisdiction and various states. The years ended December 31, 2014 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, 2012. 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, 2017 and 2016, we have approximately \$134,000 and \$130,000, 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):

| | <u>For the Years Ended December 31,</u> | | |
|---|---|------------------|------------------|
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Income tax provision calculated using the statutory rate of 35% | \$ 40,921 | \$ 61,969 | \$ 63,044 |
| State and local income taxes, less federal income tax effect | 4,600 | 6,044 | 5,787 |
| Nondeductible expenses | 1,041 | 881 | 1,438 |
| Stock compensation tax benefits | (18,932) | - | - |
| Enactment of the tax reform act | (8,305) | - | - |
| Other--net | (585) | (583) | (417) |
| Income tax provision | <u>\$ 18,740</u> | <u>\$ 68,311</u> | <u>\$ 69,852</u> |
| Effective tax rate | <u>16.0%</u> | <u>38.6%</u> | <u>38.8%</u> |

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

| | | |
|------|----|--------|
| 2017 | \$ | 42,311 |
| 2016 | | 60,905 |
| 2015 | | 62,928 |

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 all of these businesses rather than to effect 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 | 2016 |
| Land | \$ 7,108 | \$ 7,098 |
| Buildings and building improvements | 85,570 | 79,814 |
| Transportation equipment | 47,243 | 33,895 |
| Machinery and equipment | 99,234 | 89,346 |
| Computer software | 47,840 | 45,079 |
| Furniture and fixtures | 74,191 | 71,781 |
| Projects under development | 11,882 | 5,579 |
| Total properties and equipment | 373,068 | 332,592 |
| Less accumulated depreciation | (230,034) | (211,290) |
| Net properties and equipment | \$ 143,034 | \$ 121,302 |

The net book value of computer software at December 31, 2017 and 2016, was \$7.3 million and \$7.9 million, respectively. Depreciation expense for computer software was \$4.4 million, \$4.0 million and \$3.9 million for the years ended December 31, 2017, 2016 and 2015, 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 ten 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, 2017 or 2016.

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, 2017 (in thousands):

| | |
|-------------------------------|-----------|
| 2018 | \$ 23,527 |
| 2019 | 20,448 |
| 2020 | 18,157 |
| 2021 | 14,031 |
| 2022 | 8,346 |
| Thereafter | 13,774 |
| Total minimum rental payments | \$ 98,283 |

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

| | For the Years Ended December 31, | | |
|----------------------|----------------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Total rental expense | \$ 41,210 | \$ 40,034 | \$ 40,021 |

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, | | |
|--|----------------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| | \$ 22,025 | \$ 14,467 | \$ 11,970 |

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, 2017, these trusts held 83,125 shares at historical average cost or \$2.2 million of our stock (2016 – 99,315 shares or \$2.5 million).

15. Earnings Per Share

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

| For the Years Ended December 31, | Net Income | | |
|--|-------------------|---------------|--------------------|
| | Net Income | Shares | Earnings per Share |
| 2017 | | | |
| Earnings | \$ 98,177 | 16,057 | \$ 6.11 |
| Dilutive stock options | - | 596 | |
| Nonvested stock awards | - | 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 |
| 2015 | | | |
| Earnings | \$ 110,274 | 16,870 | \$ 6.54 |
| Dilutive stock options | - | 394 | |
| Conversion of Notes and impact of warrants outstanding | - | 158 | |
| Diluted earnings | \$ 110,274 | 17,422 | \$ 6.33 |

During 2017, 328,000 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 2016, 923,000 stock options were also excluded. During 2015, 422,000 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, 2017 (in thousands):

| | Carrying Value | Fair Value Measure | | |
|--|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments of deferred compensation plans held in trust | \$ 62,067 | \$ 62,067 | \$ - | \$ - |
| Long-term debt and current portion of long-term debt | 101,200 | - | 101,200 | - |

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2016 (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 | \$ 54,389 | \$ 54,389 | \$ - | \$ - |
| Long-term debt and current portion of long-term debt | 108,750 | - | 108,750 | - |

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. Loans Receivable from Independent Contractors

At December 31, 2017, we had contractual arrangements with 70 independent contractors to provide plumbing repair, drain cleaning and water restoration services under sublicensing agreements using the Roto-Rooter name in lesser-populated areas of the United States and Canada. The arrangements give the independent contractors the right to conduct a plumbing, drain cleaning and water restoration business using the Roto-Rooter name in a specified territory in exchange for a royalty based on a percentage of labor sales, depending upon type of service this percentage ranges between 27%–32%. We also pay for certain telephone directory advertising and internet marketing in these areas, lease certain capital equipment and provide operating manuals to serve as resources for operating a plumbing, drain cleaning and water restoration business. The contracts are generally cancelable upon 90 days' written notice (without cause) or upon a few days' notice (with cause). The independent contractors are responsible for running the businesses as they believe best.

Our maximum exposure to loss from arrangements with our independent contractors at December 31, 2017, is approximately \$2.1 million (2016 - \$1.7 million). The exposure to loss is mainly the result of loans provided to the independent contractors. In most cases, these loans are partially secured by receivables and equipment owned by the independent contractor. The interest rates on the loans range from zero to 7% per annum, and the remaining terms of the loans are 5 years or less at December 31, 2017. We recorded the following from our independent contractors (in thousands):

| | For the Years Ended December 31, | | |
|----------------|----------------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Revenues | \$ 43,770 | \$ 40,097 | \$ 37,966 |
| Pretax profits | 26,586 | 24,477 | 22,176 |

18. 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 on or before September 29, 2017, with Plaintiff's Answering Brief to be filed on or before December 1, 2017, and Defendants' Reply Brief to be filed on or before December 29, 2017. The matter has been fully briefed. 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 the civil litigation brought by the United States Department of Justice ("DOJ") on behalf of the OIG and the relators under a lawsuit concerning hospice operations of VITAS, filed in the U.S. District Court for the Western District of Missouri, *United States v. VITAS Hospice Services, LLC, et al.*, No. 4:13-cv-00449-BCW (the "2013 Action"). The court dismissed the 2013 Action on February 2, 2018. The litigation involved patient eligibility for the Routine Home Care and Continuous Home Care levels of hospice services, provided by VITAS from July 24, 2002 through May 2, 2013.

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

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 Spottiswood Settlement has also been resolved upon VITAS's agreement to pay \$500,000 to the State of Illinois. This resolution is subject to execution of a final agreement.

The Company previously recorded a \$90 million loss reserve (\$55.8 million after-tax) related to the Settlement Agreement, Spottiswood Settlement, and associated costs in the second quarter of 2017. As of December 31, 2017, an accrual of \$1.1 million remains on the consolidated balance sheet relating to the amount due to the State of Illinois and unpaid legal and administrative fees. 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.

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

The Settlement Agreement and Spottiswood Settlement will also resolve allegations made against the Company by various qui tam relators, who will be required to dismiss their claims with prejudice.

The Settlement Agreement and Spottiswood Settlement both reflect the Company's disagreement with the United States' and State of Illinois' claims and contain no admissions of facts or liability on the part of the Company or any of its subsidiaries.

The costs incurred related to U.S. v. Vitas and related regulatory matters, exclusive of the settlement were \$5.2 million, \$5.3 million and \$5.0 million for 2017, 2016 and 2015 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. Williams seeks to pursue these claims in the form of a state-wide class action of current and former 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 pursuing discovery of her individual claim and has agreed to a stay of class discovery pending mediation in the Jordan Seper and Jiwann Chhina cases. This stay will be reviewed at a case management conference on February 27, 2018. Defendant filed and served each of Plaintiffs Williams, Phillips, and Moore with a Notice of Related Cases on July 19, 2017.

Defendant understands that the *Jordan Seper* and *Jiwann Chhina* cases will be effectively consolidated in Los Angeles County Superior court; *Chhina* will be 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.

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.

19. 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 \$32.7 million, \$35.2 million and \$37.7 million for the years ended December 31, 2017, 2016 and 2015, respectively. For the years ended December 31, 2017, 2016 and 2015, respectively, purchases from this vendor represent approximately 85%, 90% and 90%, respectively of all pharmacy services used by VITAS. VITAS' accounts payable for pharmacy services was \$2.0 million at December 31, 2017. At December 31, 2016, VITAS' accounts payable for pharmacy services was \$2.5 million.

20. Capital Stock Transactions

We repurchased the following capital stock:

| | For the Years Ended December 31, | | |
|--|----------------------------------|------------|-----------|
| | 2017 | 2016 | 2015 |
| Total cost of repurchased shares (in thousands): | \$ 94,640 | \$ 102,313 | \$ 59,323 |
| Shares repurchased | 500,000 | 780,134 | 460,765 |
| Weighted average price per share | \$ 189.28 | \$ 131.15 | \$ 128.75 |

In March 2017, the Board of Directors authorized an additional \$100.0 million for stock repurchase under the February 2011 repurchase program. We currently have \$55.5 million of authorization remaining under this share purchase plan.

21. Other Operating Expenses

| | December 31, | |
|--|--------------|----------|
| | 2017 | 2016 |
| Litigation settlement | \$ 84,476 | \$ - |
| Loss on sale of transportation equipment | 5,266 | - |
| Program closure expenses | 1,138 | - |
| Retirement expenses | - | 4,491 |
| Total other operating expenses | \$ 90,880 | \$ 4,491 |

During 2017, the Company recorded \$84.5 million related to the Settlement Agreement and Spottiswood Settlement. See footnote 18 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 of \$4.5 million related to the early retirement of VITAS' former Chief Executive Officer. The costs were calculated in accordance with the terms of his employment agreement.

22. Recent Accounting Statements

In May 2014, the FASB issued Accounting Standards Update "ASU No. 2014-09 – Revenue from Contracts with Customers" which provides additional guidance to clarify the principles for recognizing revenue. The standard and subsequent amendments are intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide more useful information to users through improved disclosure requirements, and simplify the preparation of financial statements. This guidance and subsequent amendments are effective for fiscal years beginning after December 15, 2017. We will apply a modified retrospective adoption for our fiscal year beginning January 1, 2018. We are in the process of finalizing our assessment, but expect the most significant impacts of adoption to be as follows:

VITAS

- VITAS' net room and board expense related to Medicaid patients will be reclassified to a contra-revenue account from its current classification in cost of services provided. The net room and board expense for the year ended December 31, 2017 was approximately \$9.0 million. We have also analyzed the cash flow stream related to room and board for Medicaid patients and concluded that "net" reporting in the financial statements continues to be appropriate.

Chemed Consolidated

- The majority of the Company's provision for bad debts, currently classified in selling, general and administrative expense in our Statements of Income, will be reclassified to a contra-revenue account as they will be considered implicit price concessions at the time service is performed. The total provision for bad debts for the year ended December 31, 2017 was approximately \$-17.4 million.
- We do not anticipate the cumulative effect of adoption as of January 1, 2018 to be material.
- We do not anticipate a material impact on the Company's net income on an on-going basis.

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. Based on the provisions of the ASU, we anticipate a material increase in both assets and liabilities when our current operating lease contracts are recorded on the balance sheets. We do not currently have a specific dollar estimate of the impact.

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

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.

UNAUDITED SUMMARIES OF QUARTERLY RESULTS

Chemed Corporation and Subsidiary Companies

(in thousands, except per share and footnote data)

| For the Year Ended December 31, 2017 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total 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/(loss) 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--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/(loss) (a) | \$ 29,844 | \$ (21,656) | \$ 35,437 | \$ 54,552 | \$ 98,177 |
| Earnings/(Loss) Per Share (a) | | | | | |
| Net income/(loss) | \$ 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/(Loss) Per Share (a) | | | | | |
| Net income/(loss) | \$ 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 (in thousands):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total 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) |
| Excess tax benefits on stock compensation | 3,695 | 2,643 | 1,783 | 10,811 | 18,932 |
| Impact of tax reform | - | - | - | 8,302 | 8,302 |
| Loss on sale of transportation equipment | - | - | - | (3,314) | (3,314) |
| Expenses related to litigation settlements | - | (55,929) | - | 3,425 | (52,504) |
| Program closure expenses | (513) | (385) | 223 | - | (675) |
| Medicare cap sequestration adjustment | - | (65) | - | (211) | (276) |
| Expenses related to the Office of Inspector General investigation | (1,328) | (1,292) | (578) | (9) | (3,207) |
| Total | \$ (651) | \$ (57,563) | \$ (335) | \$ 15,672 | \$ (42,877) |

UNAUDITED SUMMARIES OF QUARTERLY RESULTS

Chemed Corporation and Subsidiary Companies

(in thousands, except per share and footnote data)

| For the Year Ended December 31, 2016 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total Year |
|---------------------------------------|------------------|-------------------|------------------|-------------------|---------------|
| Total service revenues and sales | \$ 390,389 | \$ 390,409 | \$ 392,607 | \$ 403,476 | \$ 1,576,881 |
| Gross profit (excluding depreciation) | \$ 111,954 | \$ 114,154 | \$ 110,949 | \$ 124,393 | \$ 461,450 |
| Income from operations | \$ 44,393 | \$ 38,363 | \$ 42,871 | \$ 53,122 | \$ 178,749 |
| Interest expense | (842) | (971) | (1,018) | (884) | (3,715) |
| Other income/(expense)--net | (2,924) | 3,217 | 1,640 | 87 | 2,020 |
| Income before income taxes | 40,627 | 40,609 | 43,493 | 52,325 | 177,054 |
| Income taxes | (15,787) | (15,724) | (16,664) | (20,136) | (68,311) |
| Net income (a) | \$ 24,840 | \$ 24,885 | \$ 26,829 | \$ 32,189 | \$ 108,743 |
| Earnings Per Share (a) | | | | | |
| Net income | \$ 1.49 | \$ 1.51 | \$ 1.66 | \$ 1.99 | \$ 6.64 |
| Average number of shares outstanding | 16,720 | 16,443 | 16,166 | 16,206 | 16,383 |
| Diluted Earnings Per Share (a) | | | | | |
| Net income | \$ 1.45 | \$ 1.48 | \$ 1.62 | \$ 1.94 | \$ 6.48 |
| Average number of shares outstanding | 17,170 | 16,831 | 16,559 | 16,598 | 16,789 |

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

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total Year |
|---|------------------|-------------------|------------------|-------------------|---------------|
| Pretax (cost)/benefit: | | | | | |
| Stock option expense | \$ (2,563) | \$ (2,277) | \$ (1,419) | \$ (2,071) | \$ (8,330) |
| Long-term incentive compensation | 241 | (499) | (643) | (1,029) | (1,930) |
| Early retirement expenses | - | (4,491) | - | - | (4,491) |
| Expenses related to litigation settlements | - | (44) | - | (1) | (45) |
| Expenses related to securities litigation | (3) | 3 | - | - | - |
| Medicare cap sequestration adjustment | - | - | (228) | - | (228) |
| Expenses incurred in connection with the Office of Inspector General investigation | (2,336) | (1,170) | (599) | (1,155) | (5,260) |
| Total | \$ (4,661) | \$ (8,478) | \$ (2,889) | \$ (4,256) | \$ (20,284) |
| After-tax (cost)/benefit: | | | | | |
| Stock option expense | \$ (1,621) | \$ (1,440) | \$ (897) | \$ (1,308) | \$ (5,266) |
| Long-term incentive compensation | 152 | (316) | (406) | (651) | (1,221) |
| Early retirement expenses | - | (2,840) | - | - | (2,840) |
| Expenses related to litigation settlements | - | (27) | - | (1) | (28) |
| Expenses related to securities litigation | (2) | 2 | - | - | - |
| Medicare cap sequestration adjustment | - | - | (141) | - | (141) |
| Expenses incurred in connection with the Office of Inspector General investigation | (1,443) | (722) | (370) | (713) | (3,248) |
| Total | \$ (2,914) | \$ (5,343) | \$ (1,814) | \$ (2,673) | \$ (12,744) |

SELECTED FINANCIAL DATA

Chemed Corporation and Subsidiary Companies

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

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|--------------|--------------|--------------|--------------|--------------|
| Summary of Operations | | | | | |
| Continuing operations (a) | | | | | |
| Service revenues and sales | \$ 1,666,724 | \$ 1,576,881 | \$ 1,543,388 | \$ 1,456,282 | \$ 1,413,329 |
| Gross profit (excluding depreciation) | 516,192 | 461,450 | 455,778 | 421,609 | 404,521 |
| Depreciation | 35,488 | 34,279 | 32,369 | 29,881 | 27,698 |
| Amortization | 137 | 359 | 1,130 | 720 | 1,644 |
| Income from operations | 113,035 | 178,749 | 184,458 | 168,419 | 133,394 |
| Net income | 98,177 | 108,743 | 110,274 | 99,317 | 77,227 |
| Earnings per share | | | | | |
| Net income | \$ 6.11 | \$ 6.64 | \$ 6.54 | \$ 5.79 | \$ 4.24 |
| Average number of shares outstanding | 16,057 | 16,383 | 16,870 | 17,165 | 18,199 |
| Diluted earnings per share | | | | | |
| Net income | \$ 5.86 | \$ 6.48 | \$ 6.33 | \$ 5.57 | \$ 4.16 |
| Average number of shares outstanding | 16,742 | 16,789 | 17,422 | 17,840 | 18,585 |
| Cash dividends per share | \$ 1.08 | \$ 1.00 | \$ 0.92 | \$ 0.84 | \$ 0.76 |
| Financial Position--Year-End | | | | | |
| Cash and cash equivalents | \$ 11,121 | \$ 15,310 | \$ 14,727 | \$ 14,132 | \$ 84,418 |
| Working capital/(deficit) | (17,476) | (1,932) | (20,528) | (990) | (139,330) |
| Current ratio | 0.91 | 0.99 | 0.88 | 0.99 | 0.62 |
| Properties and equipment, at cost less accumulated depreciation | \$ 143,034 | \$ 121,302 | \$ 117,370 | \$ 105,336 | \$ 92,955 |
| Total assets | 920,026 | 880,059 | 852,325 | 859,932 | 893,701 |
| Long-term debt | 91,200 | 100,000 | 83,750 | 141,250 | - |
| Stockholders' equity | 540,354 | 524,099 | 513,253 | 451,356 | 448,890 |
| Other Statistics | | | | | |
| Capital expenditures | \$ 64,300 | \$ 39,772 | \$ 44,135 | \$ 43,571 | \$ 29,324 |
| Number of employees | 14,813 | 14,613 | 14,406 | 14,190 | 13,952 |

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

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------------|-------------|-------------|------------|-------------|
| After-tax benefit/(cost): | | | | | |
| Litigation settlements | \$ (52,504) | \$ (28) | \$ (3) | \$ (74) | \$ (16,061) |
| Excess tax benefits on stock compensation | 18,932 | - | - | - | - |
| Impact of tax reform | 8,302 | - | - | - | - |
| Stock option expense | (6,892) | (5,266) | (3,439) | (3,022) | (3,813) |
| Loss on sale of transportation equipment | (3,314) | - | - | - | - |
| Long-term incentive compensation | (3,243) | (1,221) | (4,752) | (1,625) | (822) |
| Expenses incurred in connection with the Office of Inspector General investigation | (3,207) | (3,248) | (3,072) | (1,328) | (1,333) |
| Program closure expenses | (675) | - | - | - | - |
| Medicare cap sequestration adjustment | (276) | (141) | - | - | - |
| Early retirement expenses | - | (2,840) | - | - | - |
| Noncash impact of change in accounting for convertible debt | - | - | - | (2,143) | (5,448) |
| Expenses related to litigation settlements | - | - | - | - | (865) |
| Acquisition expense | - | - | (104) | (15) | (38) |
| Expenses of securities litigation | - | - | (23) | (207) | (69) |
| Loss on extinguishment of debt | - | - | - | - | (294) |
| Severance arrangements | - | - | - | - | (184) |
| Uncertain tax position adjustments | - | - | - | - | 1,782 |
| Total | \$ (42,877) | \$ (12,744) | \$ (11,393) | \$ (8,414) | \$ (27,145) |

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

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

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

| | VITAS | Roto- Router | Corporate | Chemed Consolidated |
|---|--------------------|-----------------|--------------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (10,485) | \$ (10,485) |
| Loss on sale of transportation equipment | - | - | (5,266) | (5,266) |
| Impact of tax reform | - | - | (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 | <u>\$ (91,255)</u> | <u>\$ (213)</u> | <u>\$ (20,745)</u> | <u>\$ (112,213)</u> |

| | VITAS | Roto- Router | Corporate | Chemed Consolidated |
|---|--------------------|-----------------|-------------------|------------------------|
| 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 | <u>\$ (45,476)</u> | <u>\$ 7,632</u> | <u>\$ (5,033)</u> | <u>\$ (42,877)</u> |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 UNAUDITED CONSOLIDATING STATEMENTS OF INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2016
 (in thousands)(unaudited)

| 2016 | VITAS | Roto- Rooter | Corporate | Chemed Consolidated |
|--|--------------|-----------------|-------------|------------------------|
| 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 | - | - | 4,491 |
| Total costs and expenses | 994,223 | 371,153 | 32,756 | 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 operations (in thousands):

| | VITAS | Roto- Rooter | Corporate | Chemed Consolidated |
|---|------------|-----------------|-------------|------------------------|
| 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) |

| | VITAS | Roto- Rooter | Corporate | Chemed Consolidated |
|---|------------|-----------------|------------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (5,266) | \$ (5,266) |
| Long-term incentive compensation | - | - | (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) | - | - | (3,248) |
| Total | \$ (6,229) | \$ (28) | \$ (6,487) | \$ (12,744) |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 UNAUDITED CONSOLIDATING STATEMENTS OF INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2015
 (in thousands)(unaudited)

| 2015 | VITAS | Roto- Rooter | Corporate | Chemed Consolidated |
|--|--------------|-----------------|-------------|------------------------|
| Service revenues and sales | \$ 1,115,551 | \$ 427,837 | \$ - | \$ 1,543,388 |
| Cost of services provided and goods sold | 862,587 | 225,023 | - | 1,087,610 |
| Selling, general and administrative expenses | 89,879 | 114,269 | 33,673 | 237,821 |
| Depreciation | 18,789 | 12,988 | 592 | 32,369 |
| Amortization | 758 | 372 | - | 1,130 |
| Total costs and expenses | 972,013 | 352,652 | 34,265 | 1,358,930 |
| Income/(loss) from operations | 143,538 | 75,185 | (34,265) | 184,458 |
| Interest expense | (200) | (348) | (3,097) | (3,645) |
| Intercompany interest income/(expense) | 7,499 | 3,385 | (10,884) | - |
| Other income/(expense)—net | (816) | (19) | 148 | (687) |
| Income/(loss) before income taxes | 150,021 | 78,203 | (48,098) | 180,126 |
| Income taxes | (56,675) | (29,630) | 16,453 | (69,852) |
| Net income/(loss) | \$ 93,346 | \$ 48,573 | \$ (31,645) | \$ 110,274 |

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

| | VITAS | Roto- Rooter | Corporate | Chemed Consolidated |
|---|------------|-----------------|-------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (5,445) | \$ (5,445) |
| Long-term incentive compensation | - | - | (7,519) | (7,519) |
| Securities litigation | - | - | (37) | (37) |
| Expenses related to litigation settlements | - | (5) | - | (5) |
| Acquisition expense | - | (172) | - | (172) |
| Expenses incurred in connection with the Office of Inspector General investigation | (4,974) | - | - | (4,974) |
| Total | \$ (4,974) | \$ (177) | \$ (13,001) | \$ (18,152) |

| | VITAS | Roto- Rooter | Corporate | Chemed Consolidated |
|---|------------|-----------------|------------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (3,439) | \$ (3,439) |
| Long-term incentive compensation | - | - | (4,752) | (4,752) |
| Securities litigation | - | - | (23) | (23) |
| Expenses related to litigation settlements | - | (3) | - | (3) |
| Acquisition expense | - | (104) | - | (104) |
| Expenses incurred in connection with the Office of Inspector General investigation | (3,072) | - | - | (3,072) |
| Total | \$ (3,072) | \$ (107) | \$ (8,214) | \$ (11,393) |

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, 2017, 2016 and 2015 (in thousands except percentages and per share amounts):

| | 2017 | 2016 | 2015 |
|---|---------------------|--------------|--------------|
| Consolidated service revenues and sales | \$ 1,666,724 | \$ 1,576,881 | \$ 1,543,388 |
| Consolidated net income | \$ 98,177 | \$ 108,743 | \$ 110,274 |
| Diluted EPS | \$ 5.86 | \$ 6.48 | \$ 6.33 |
| Adjusted net income | \$ 141,054 | \$ 121,487 | \$ 121,667 |
| Adjusted diluted EPS | \$ 8.43 | \$ 7.24 | \$ 6.98 |
| Adjusted EBITDA | \$ 268,459 | \$ 236,979 | \$ 235,931 |
| Adjusted EBITDA as a % of revenue | 16.1% | 15.0% | 15.3% |

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.

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.

Both VITAS and Roto-Rooter have significant operations in Houston and south Florida. For 2017, we did not experience any material business interruptions or loss of assets related to the hurricanes in Houston or Florida.

2016 versus 2015

The increase in consolidated service revenues and sales from 2015 to 2016 was a result of a 6.0% increase at Roto-Rooter and a 0.7% increase at VITAS. The increase at Roto-Rooter was driven by an increase in all major service lines. The increase in service revenues at VITAS was a result of Medicare reimbursement rates increasing approximately 0.6%, a 4.2% increase in days of care offset by acuity mix shift and changes in Medicare hospice reimbursement which negatively impacted revenue. Consolidated net income decreased 1.4% over the prior year mainly due to the change in the Medicare hospice reimbursement as well as other operating expenses related to the early retirement of VITAS' Chief Executive Officer. Diluted EPS increased mainly as a result of the decrease in the number of shares outstanding. Adjusted EBITDA decreased as a percent of revenue by 0.3%.

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” (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 (“GAAP”) require resulting tax effects for the Act, to be recorded in the reporting period of enactment.

However, the U.S. Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the Act’s impact. Under SAB 118, it is permissible for an entity to use something similar to the measurement period in a business combination to fully evaluate the impact of the Act, 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 the following elements of the Act is incomplete. However, we were able to make reasonable estimates of certain effects and, therefore, record provisional adjustments as follows:

Reduction of US federal corporate tax rate: The Act reduces the federal corporate tax rate to 21 percent, effective January 1, 2018. Consequently, the Company has recorded a net tax benefit adjustment of \$8,937,000 to deferred income tax expense, for the year ended December 31, 2017.

Deemed Repatriation Transition Tax: The Act provides for a one-time “deemed repatriation” of accumulated foreign earnings for the year ended December 31, 2017. The Company expects to pay in the current year, U.S. federal and state cash taxes of approximately \$529,000 on the deemed repatriation.

Compensation and Shared-Based Payment Awards: The Act modifies the deductibility of covered employees compensation and eliminates the exclusion of performance based compensation under IRC § 162(m). The Company recorded a non-cash tax expense related to this modification of \$103,000 due to share-based payment awards as accounted for under ASC 718.

Global Intangible Low-Taxed Income (GILTI) tax rules: Because of the complexity of these new rules, we are continuing to evaluate this provision of the Tax Act and the application of ASC 740. In connection with these rules is the impact (if any) of Foreign Derived Intangible Income (FDII) which are continuing to evaluate. These provisions are effective January 1, 2018.

Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (the “deferred method”). Our selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on not only our current structure and estimated future results of global operations but also our intent and ability to modify our structure and/or our business, we are not yet able to reasonably estimate the effect of this provision of the Act. Therefore, we have not made any adjustments related to potential GILTI tax in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI. However, we do not expect to these provision to have a material effect.

Historically, the Company has not provided for deferred on undistributed earnings because such earnings are considered to be indefinitely reinvested outside of the U.S. The Company is still evaluating the full impact of the Act on the future foreign earnings.

Additionally, 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 the bonus depreciation rules.

The ultimate impact of the Act may differ, due to changes in interpretations and assumptions the Company has made, guidance that may be issued, and actions the Company may take as a result of the Act. The Company will provide updated and additional information regarding impacts of the Act in connection with its future disclosures in accordance to SAB 118.

We are subject to income taxes in Canada, U.S. federal and most state jurisdictions. Significant judgment 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.

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.

For 2016, the two-tiered national per diem rate for RHC was \$190.41 for the first 60 days and \$149.68 for RHC provided to patients in hospice beyond 60 days. An individual hospice's actual per diem rate is adjusted for differences in geographic cost of living. Rebasing in 2016 would have been revenue neutral to a hospice if it has 37.6% of total RHC days-of-care being provided to patients in their first 60 days of admission and 62.4% of total RHC days-of-care provided to patients after the 60 days. (Days-of-Care ratio).

For the year ended December 31, 2016, VITAS had a 25/75 RHC Days-of-Care ratio and generated approximately \$4.5 million in SIA payments. This resulted in approximately \$23.8 million less revenue than under the previous Medicare reimbursement methodology.

Full-year 2018 revenue growth for VITAS, prior to Medicare Cap, is estimated to be in the range of 2.5% to 3.5%. Admissions and Average Daily Census in 2018 are estimated to expand approximately 3.0% to 4.0% and full-year Adjusted EBITDA margin, prior to Medicare Cap, is estimated to be 15.4%. We are currently estimating \$5.0 million for Medicare Cap billing limitations in the 2018 calendar year.

Roto-Rooter is forecasted to achieve full-year 2018 revenue growth of 4.0% to 5.0%. This revenue estimate is based upon increased job pricing of approximately 2.0% and continued growth in water restoration services. Adjusted EBITDA margin for 2018 is estimated at 22.3%.

Based upon the above, full-year 2018 adjusted earnings per diluted share, excluding non-cash expense for stock options, costs related to litigation, and other discrete items, is estimated to be in the range of \$10.60 to \$10.85. This compares to Chemed's 2017 reported adjusted earnings per diluted share of \$8.43. This guidance assumes an effective corporate tax rate of 25.7%.

LIQUIDITY AND CAPITAL RESOURCES

Significant factors affecting our cash flows during 2017 and financial position at December 31, 2017, include the following:

- Our operations generated cash of \$162.5 million. This includes payments made during the year of \$83.4 related to the Settlement and Spottiswood Agreements.
- We repurchased \$94.6 million of our stock.
- We spent \$64.3 million on capital expenditures.
- We spent \$4.7 million on business combinations.
- We paid \$17.4 million in dividends.
- On a net basis, we repaid \$7.6 million of long-term debt.

The ratio of total debt to total capital was 15.7% at December 31, 2017, compared with 17.2% at December 31, 2016. Our current ratio was 0.91 and 0.99 at December 31, 2017 and 2016, respectively. The decrease in the current ratio is primarily a result of the decrease in accounts receivable.

The 2014 Credit Agreement requires us to meet certain restrictive non-financial and financial covenants. We are in compliance with all non-financial debt covenants as of December 31, 2017. The restrictive financial covenants are defined in the 2014 Credit Agreement and include maximum leverage ratios, minimum fixed charge coverage and consolidated net worth ratios, limits on operating leases and minimum asset value limits. We are in compliance with all financial debt covenants as of December 31, 2017, as follows:

| Description | Requirement | Chemed |
|--|------------------|----------------|
| Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA) | < 3.50 to 1.00 | 0.62 to 1.00 |
| Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges) | > 1.50 to 1.00 | 2.10 to 1.00 |
| Annual Operating Lease Commitment | < \$50.0 million | \$23.5 million |

We forecast to be in compliance with all debt covenants through fiscal 2018.

We have issued \$35.8 million in standby letters of credit as of December 31, 2017, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2017, we have approximately \$288.0 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 2017, 2016 and 2015 are summarized as follows (in millions):

| | For the Years Ended December 31, | | |
|--|----------------------------------|----------|----------|
| | 2017 | 2016 | 2015 |
| Net cash provided by operating activities | \$ 162.5 | \$ 135.4 | \$ 171.5 |
| Capital expenditures | (64.3) | (39.8) | (44.1) |
| Operating cash after capital expenditures | 98.2 | 95.6 | 127.4 |
| Purchase of treasury stock in the open market | (94.6) | (102.3) | (59.3) |
| Proceeds from exercise of stock options | 27.1 | 8.4 | 15.4 |
| Dividends paid | (17.4) | (16.4) | (15.6) |
| Net increase/(decrease) in long-term debt | (7.6) | 17.5 | (56.3) |
| Increase/(decrease) in cash overdraft payable | 6.7 | (0.7) | (1.2) |
| Business combinations | (4.7) | - | (6.6) |
| Other--net | (11.9) | (1.5) | (3.2) |
| Increase/(decrease) in cash and cash equivalents | \$ (4.2) | \$ 0.6 | \$ 0.6 |

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.

2016 versus 2015

The change in net cash provided by operating activities is mainly the result of a \$46.3 million decrease in cash flows related to accounts receivable offset by a \$6.8 million increase in cash flows related to excess tax benefit on stock-based compensation. 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 2016, we repurchased 780,134 shares of Chemed capital stock at a weighted average price of \$131.15 per share. In 2015, we repurchased approximately 460,765 shares of Chemed stock at a weighted average price of \$128.75 per share. We financed a portion of these repurchases through a net borrowing on our line of credit of \$25 million. 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 net cash provided by operating activities is mainly the result of a \$46.3 million decrease in cash flows related to accounts receivable offset by a \$6.8 million increase in cash flows related to excess tax benefit on stock-based compensation.

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, 2016. 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, 2016, 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 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 on or before September 29, 2017, with Plaintiff's Answering Brief to be filed on or before December 1, 2017, and Defendants' Reply Brief to be filed on or before December 29, 2017. The matter has been fully briefed. 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 the Settlement Agreement, to resolve the civil litigation brought by the DOJ on behalf of the OIG and the relators under the 2013 Action. The court dismissed the 2013 Action on February 2, 2018. The litigation involved patient eligibility for the Routine Home Care and Continuous Home Care levels of hospice services, provided by VITAS from July 24, 2002 through May 2, 2013.

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

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 Spottiswood Settlement has also been resolved upon VITAS's agreement to pay \$500,000 to the State of Illinois. This resolution is subject to execution of a final agreement.

The Company previously recorded a \$90 million loss reserve (\$55.8 million after-tax) related to the Settlement Agreement, Spottiswood Settlement, and associated costs in the second quarter of 2017. As of December 31, 2017, an accrual of \$1.1 million remains on the consolidated balance sheet relating to the amount due to the State of Illinois and unpaid legal and administrative fees. 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's fees were less than originally estimated.

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

The Settlement Agreement and Spottiswood Settlement will also resolve allegations made against the Company by various qui tam relators, who will be required to dismiss their claims with prejudice.

The Settlement Agreement and Spottiswood Settlement both reflect the Company's disagreement with the United States' and State of Illinois' claims and contain no admissions of facts or liability on the part of the Company or any of its subsidiaries.

The costs incurred related to U.S. v. Vitas and related regulatory matters, exclusive of the settlement were \$5.2 million, \$5.3 million and \$5.0 million for 2017, 2016 and 2015 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 *Joran 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. Williams seeks to pursue these claims in the form of a state-wide class action of current and former non-exempt employees. Plaintiff served VITAS with the lawsuit on May 31, 2017. VITAS timely answered the Complaint generally denying Plaintiff's allegations. Williams is pursuing discovery of her individual claim and has agreed to a stay of class discovery pending mediation in the *Jordan Seper* and *Jiwann Chhina* cases. This stay will be reviewed at a case management conference on February 27, 2018. Defendant filed and served each of Plaintiffs Williams, Phillips, and Moore with a Notice of Related Cases on July 19, 2017.

Defendant understands that the *Jordan Seper* and *Jiwann Chhina* cases will be effectively consolidated in Los Angeles County Superior court; *Chhina* will be 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.

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, 2017 (in thousands):

| | Total | Less than 1 year | 1-3 Years | 4 -5 Years | After 5 Years |
|------------------------------------|-------------------|---------------------|-------------------|------------------|------------------|
| Long-term debt obligations (a) | \$ 101,200 | \$ 10,000 | \$ 91,200 | \$ - | \$ - |
| Interest on long-term debt | 2,762 | 1,886 | 876 | - | - |
| Operating lease obligations | 98,284 | 23,527 | 38,606 | 22,377 | 13,774 |
| Purchase obligations (b) | 48,372 | 48,372 | - | - | - |
| Other long-term obligations (c) | 74,672 | 3,218 | 6,436 | 3,218 | 61,800 |
| Total contractual cash obligations | <u>\$ 325,290</u> | <u>\$ 87,003</u> | <u>\$ 137,118</u> | <u>\$ 25,595</u> | <u>\$ 75,574</u> |

(a) Represents the face value of the obligation.

(b) Purchase obligations consist of accounts payable at December 31, 2017.

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

RESULTS OF OPERATIONS2017 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):

| | <u>Favorable/(Unfavorable)</u> | |
|--|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> |
| Service revenues and sales | | |
| VITAS | \$ 24,943 | 2 |
| Roto-Rooter | 64,900 | 14 |
| Total | <u>89,843</u> | 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 | <u>(86,389)</u> | (1,924) |
| Income from operations | (65,714) | (37) |
| Interest expense | (557) | (15) |
| Other income - net | <u>6,134</u> | 304 |
| Income before income taxes | (60,137) | (34) |
| Income taxes | 49,571 | 73 |
| Net income | <u>\$ (10,566)</u> | (10) |

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

| | <u>Amount</u> | <u>Percent</u> |
|-------------------|------------------|----------------|
| Routine homecare | \$ 47,973 | 5 |
| Continuous care | (13,468) | (10) |
| General inpatient | (7,108) | (7) |
| Medicare cap | <u>(2,454)</u> | (1,076) |
| | <u>\$ 24,943</u> | 2 |

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

Days of care increased as follows:

| | <u>Days of Care</u> | | <u>Increase/(Decrease)</u> |
|--------------------|---------------------|------------------|----------------------------|
| | <u>2017</u> | <u>2016</u> | <u>Percent</u> |
| Routine homecare | 5,740,090 | 5,518,002 | 4 |
| Continuous care | 171,395 | 188,657 | (9) |
| General inpatient | 129,295 | 146,516 | (12) |
| Total days of care | <u>6,040,780</u> | <u>5,853,175</u> | 3 |

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

| | <u>Amount</u> | <u>Percent</u> |
|--------------------------|------------------|----------------|
| Plumbing | \$ 22,236 | 11 |
| Sewer and drain cleaning | 5,968 | 4 |
| Water restoration | 32,043 | 64 |
| Contractor operations | 3,673 | 9 |
| Other | 980 | 5 |
| | <u>\$ 64,900</u> | 14 |

Plumbing revenues for 2017 increased 11.3% when compared to 2016 due to a 0.5% increase in the number of jobs performed and a 10.8% increase in price and service mix. Sewer and drain cleaning revenues increased 4.1% when compared to 2016 due to a 5.8% increase in price and service mix shift offset by a 1.7% decrease in the number of jobs performed. 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):

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| 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 | <u>\$ 276,652</u> | <u>\$ 243,572</u> |

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):

| | <u>2017</u> | <u>2016</u> |
|---|-----------------|-----------------|
| 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 | <u>\$ 8,154</u> | <u>\$ 2,020</u> |

Our effective tax rate reconciliation is as follows:

| | <u>2017</u> | <u>2016</u> |
|---|------------------|------------------|
| 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) | - |
| Other--net | (585) | (583) |
| Income tax provision | <u>\$ 18,740</u> | <u>\$ 68,311</u> |
| Effective tax rate | <u>16.0%</u> | <u>38.6%</u> |

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

| | <u>2017</u> | <u>2016</u> |
|---|--------------------|--------------------|
| 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 | <u>\$ (42,877)</u> | <u>\$ (12,744)</u> |

2017 Versus 2016 – Segment Results

The change in net income for 2017 versus 2016 is due to (in thousands, except percentages):

| | <u>Increase/(Decrease)</u> | |
|-------------|----------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> |
| VITAS | \$ (27,316) | (32) |
| Roto-Rooter | 20,406 | 39 |
| Corporate | (3,656) | (13) |
| | <u>\$ (10,566)</u> | <u>(10)</u> |

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.

2016 Versus 2015 – Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to income for 2016 versus 2015 (in thousands, except percentages):

| | Favorable/(Unfavorable) | |
|--|-------------------------|---------|
| | Amount | Percent |
| Service revenues and sales | | |
| VITAS | \$ 7,766 | 1 |
| Roto-Rooter | 25,727 | 6 |
| Total | <u>33,493</u> | 2 |
| Cost of services provided and goods sold | (27,821) | (3) |
| Selling, general and administrative expenses | (5,751) | (2) |
| Depreciation | (1,910) | (6) |
| Amortization | 771 | 68 |
| Other operating expenses | <u>(4,491)</u> | - |
| Income from operations | (5,709) | (3) |
| Interest expense | (70) | (2) |
| Other income - net | 2,707 | 394 |
| Income before income taxes | <u>(3,072)</u> | (2) |
| Income taxes | 1,541 | 2 |
| Net income | <u>\$ (1,531)</u> | (1) |

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

| | Amount | Percent |
|-------------------|-----------------|---------|
| Routine homecare | \$ 22,795 | 3 |
| Continuous care | (12,777) | (8) |
| General inpatient | (1,859) | (2) |
| Medicare cap | (393) | (238) |
| | <u>\$ 7,766</u> | 1 |

The increase in VITAS' revenue from 2015 to 2016 was a combination of Medicare reimbursement rates increasing approximately 0.6%, an increase in days of care of 4.2% offset by acuity mix shift which negatively impacted revenue and changes in Medicare hospice reimbursement rates which negatively impacted revenue by approximately \$23.8 million. For 2016, VITAS recorded a Medicare Cap revenue reduction of \$228,000.

Days of care increased as the result of the following:

| | Days of Care | | Increase/(Decrease) |
|--------------------|------------------|------------------|---------------------|
| | 2016 | 2015 | Percent |
| Routine homecare | 5,518,002 | 5,258,660 | 5 |
| Continuous Care | 188,657 | 206,405 | (9) |
| General inpatient | 146,516 | 150,424 | (3) |
| Total days of care | <u>5,853,175</u> | <u>5,615,489</u> | 4 |

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

| | Amount | Percent |
|--------------------------|------------------|---------|
| Plumbing | \$ 9,215 | 5 |
| Sewer and drain cleaning | 3,138 | 2 |
| Contractor operations | 2,131 | 6 |
| Water restoration | 12,066 | 32 |
| Other | (823) | (4) |
| | <u>\$ 25,727</u> | 6 |

Plumbing revenues for 2016 increased 4.9% when compared to 2015 due to a 0.4% increase in the number of jobs performed and a 4.5% increase in price and service mix. Sewer and drain cleaning revenues increased 2.2% when compared to 2015 due to a 2.8% increase in price and service mix shift offset by a 0.6% decrease in the number of jobs performed. Water restoration increased 31.6% as a result of continued expansion of this service offering. There was an increase in water restoration jobs of 29.9% between years. Water restoration is the remediation or removal of water and humidity after a flood.

The consolidated gross margin excluding depreciation was 29.3% in 2016 versus 29.5% in 2015. On a segment basis, VITAS' gross margin excluding depreciation was 21.8% in 2016 and 22.7% in 2015. The decline in VITAS' gross margin is mainly attributable to the impact of the 2016 rebasing to the Medicare hospice reimbursement per diem. Roto-Rooter's gross margin excluding depreciation was 47.7% in 2016 and 47.4% in 2015.

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

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| SG&A expenses before long-term incentive compensation, OIG expenses and the impact of market gains of deferred compensation plans | \$ 234,321 | \$ 225,180 |
| Long-term incentive compensation | 1,930 | 7,519 |
| Expenses related to OIG investigation | 5,260 | 4,974 |
| Impact of market value gains on liabilities held in deferred compensation trusts | 2,061 | 148 |
| Total SG&A expenses | <u>\$ 243,572</u> | <u>\$ 237,821</u> |

SG&A expenses before long-term incentive compensation, OIG expenses and the impact of market gains of deferred compensation plans increased \$9.1 million (4.1%) from 2015 to 2016. This increase was mainly a result of the increase in variable expenses caused by increased revenue, increased bad debt expense as well as normal salary increases in 2016.

Depreciation expense increased \$1.9 million (5.9%) in 2016 mainly due to an increase in capital expenditures in the prior year.

Other operating expense increased \$4.5 million as a result of payment of early retirement expenses during 2016.

Other income/(expense)-net for 2016 and 2015 comprise (in thousands):

| | <u>2016</u> | <u>2015</u> |
|---|-----------------|-----------------|
| Market value gains on assets held in deferred compensation trusts | \$ 2,061 | \$ 148 |
| Loss on disposal of property and equipment | (424) | (698) |
| Interest income | 383 | 281 |
| Other | - | (418) |
| Total other income | <u>\$ 2,020</u> | <u>\$ (687)</u> |

Our effective tax rate was 38.6% in 2016 compared to 38.8% for 2015.

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

| | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|
| VITAS | | |
| Costs associated with the OIG investigation | \$ (3,248) | \$ (3,072) |
| Early retirement expenses | (2,840) | - |
| Medicare cap sequestration adjustment | (141) | - |
| Roto-Rooter | | |
| Expenses related to litigation settlements | (28) | (3) |
| Acquisition expense | - | (104) |
| Corporate | | |
| Long-term incentive compensation | (1,221) | (4,752) |
| Costs related to securities litigation | - | (23) |
| Stock option expense | (5,266) | (3,439) |
| Total | <u>\$ (12,744)</u> | <u>\$ (11,393)</u> |

2016 Versus 2015 – Segment Results

The change in net income for 2016 versus 2015 is due to (in thousands, except percentages):

| | <u>Increase/(Decrease)</u> | |
|-------------|----------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> |
| VITAS | \$ (8,385) | (9) |
| Roto-Rooter | 4,320 | 9 |
| Corporate | 2,534 | 8 |
| | <u>\$ (1,531)</u> | <u>(1)</u> |

VITAS' after-tax earnings were negatively impacted in 2016 compared to 2015 by a \$2.8 million increase other operating expense related to the early retirement of the Chief Executive Officer of Vitas. Gross margin decreased mainly as a result of the impact of the 2016 rebasing to the Medicare hospice reimbursement per diem. After-tax earnings as a percent of revenue in 2016 were 7.6% as compared to 8.4% in 2015.

Roto-Rooter's after-tax earnings were positively impacted in 2016 compared to 2015 by a \$12.1 million revenue increase in Roto-Rooter's water restoration line of business and a \$9.2 million revenue increase in Roto-Rooter's plumbing line of business. After-tax earnings as a percent of revenue at Roto-Rooter in 2016 were 11.7% as compared to 11.4% in 2015.

After-tax Corporate expenses for 2016 decreased 8.0% when compared to 2015 mainly due to decreased long term incentive compensation expense and cash bonus expense in 2016.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update "ASU No. 2014-09 – Revenue from Contracts with Customers" which provides additional guidance to clarify the principles for recognizing revenue. The standard and subsequent amendments are intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide more useful information to users through improved disclosure requirements, and simplify the preparation of financial statements. This guidance and subsequent amendments are effective for fiscal years beginning after December 15, 2017. We will apply a modified retrospective adoption for our fiscal year beginning January 1, 2018. We are in the process of finalizing our assessment, but expect impacts of adoption to be as follows:

VITAS

- VITAS' net room and board expense related to Medicaid patients will be reclassified to a contra-revenue account from its current classification in cost of services provided. The net room and board expense for the year ended December 31, 2017 was approximately \$9.0 million. We have also analyzed the cash flow stream related to room and board for Medicaid patients and concluded that "net" reporting in the financial statements continues to be appropriate.

- The majority of the Company's provision for bad debts, currently classified in selling, general and administrative expense in our Statements of Income, will be reclassified to a contra-revenue account as they will be considered implicit price concessions at the time service is performed. The total provision for bad debts for the year ended December 31, 2017 was approximately \$-17.4 million.
- We do not anticipate the cumulative effect of adoption as of January 1, 2018 to be material.
- We do not anticipate a material impact on the Company's net income on an on-going basis.

Roto-Rooter

For the Roto-Rooter segment, service revenues and sales are recognized when the earnings process has been completed. Generally, this occurs when services are provided or products are delivered. Sales of Roto-Rooter products, including drain cleaning machines and drain cleaning solution, comprise less than 2% of our total service revenues and sales for each of the three years in the period ended December 31, 2017.

VITAS

MEDICARE AND MEDICAID REVENUE

Approximately 95% of VITAS' revenue in 2017 was from Medicare and Medicaid. The remaining revenue was from commercial insurance carriers and individual self-payers. Gross revenue is recorded on an accrual basis based on the date of service at amounts equal to the established payment rates. Medicare establishes the payment rates yearly which are consistent among all providers in the hospice industry. The payment rates are daily or hourly rates for each of the four levels of care we provide. The four levels of care are routine home care, general inpatient care, continuous home care and respite care. Routine home care accounts for 81.2%, 78.9% and 77.6% of our total net revenue for the years ending December 31, 2017, 2016 and 2015.

VITAS is subject to certain limitations on Medicare payments for services. Specifically, 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 in 2017, 2016 or 2015.

VITAS is 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 between November 1 of each year and October 31 of the following year 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.

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 have one program as of December 31, 2017 using the "proportional" method.

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

Our estimate of the Medicare cap liability is particularly sensitive to allocations made by our Medicare Administrative Contractors relative to patient transfers between hospices. We are allocated a percentage of the Medicare cap based on the total days a patient spent in hospice care. The allocation for patient transfers cannot be determined until a patient dies. As the number of days a patient spends in hospice is based on a future event, this allocation process may take several years. If the actual relationship of transfers in and transfers out for a given measurement period proves to be different for any program at or near a billing limitation, our estimate of the liability would increase or decrease on a dollar-for-dollar basis. While our method has historically been materially accurate, each program can vary during a given measurement period.

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, CMS determined that the Medicare cap should be calculated “as if” sequestration did not occur. As a result of this decision, VITAS has received notification from our third party intermediary that an additional \$2.6 million is owed for Medicare cap in three programs arising during the 2013, 2014 and 2015 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 with the appropriate regulatory appeal board. We have recorded a reserve of \$ 2.1 million at December 31, 2017 to cover the related accounts receivable.

During the year ended December 31, 2017, we recorded \$2.4 million in Medicare cap revenue reduction related to two program’s projected 2018 measurement period liability and \$247,000 for two programs cap liability for the 2013, 2014 and 2015 measurement period of which \$105,000 relates to the sequestration issue described above.

During the year ended December 31, 2016, we recorded \$228,000 in Medicare cap revenue reduction related to one program’s projected 2015 measurement period liability. This revenue reduction was related to the CMS’s methodology change described above. During the year ended December 31, 2015 we recorded a \$165,000 Medicare cap reversal of amounts recorded in the fourth quarter of 2014 for one program’s projected 2015 measurement period liability. The net pretax expense/(income) was \$2.7 million, \$228,000, and (\$165,000) for fiscal years 2017, 2016 and 2015, respectively.

Shown below is the Medicare cap liability activity for the years ended December 31, 2017 and 2016, (in thousands):

| | <u>2017</u> | <u>2016</u> |
|------------------------------|-----------------|----------------|
| Beginning Balance January 1, | \$ 235 | \$ 1,165 |
| 2018 measurement period | 2,435 | - |
| Prior measurement periods | 247 | 228 |
| Payments | <u>(482)</u> | <u>(1,158)</u> |
| Ending Balance December 31, | <u>\$ 2,435</u> | <u>\$ 235</u> |

REVENUE FROM OTHER PAYERS

Gross revenue is recorded on an accrual basis based on the date of service at amounts equal to our established rates with the applicable payer.

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, 2017, 2016 and 2015, were net pretax debits/(credits) of (\$5,560,000), (\$3,148,000), and (\$1,891,000) 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, 2017 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, 2017.

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, 2017. We assessed such qualitative factors as macroeconomic conditions, industry and market conditions, cost factors, financial performance and the legislative and regulatory environment. Based on our assessment, we do not believe that it is more likely than not that our reporting units' or indefinite-lived assets fair values are less than their carrying values.

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

Stock-based Compensation Plans

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

Contingencies

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

Unaudited Consolidating Summaries and Reconciliations of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands)

| 2017 | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-------------------|-------------------|--------------------|------------------------|
| Net income/(loss) | \$ 57,645 | \$ 73,299 | \$ (32,767) | \$ 98,177 |
| Add/(deduct): | | | | |
| Interest expense | 188 | 323 | 3,761 | 4,272 |
| Income taxes | 16,436 | 32,782 | (30,478) | 18,740 |
| Depreciation | 18,616 | 16,667 | 205 | 35,488 |
| Amortization | 14 | 123 | - | 137 |
| EBITDA | <u>92,899</u> | <u>123,194</u> | <u>(59,279)</u> | <u>156,814</u> |
| Add/(deduct): | | | | |
| Intercompany interest/(expense) | (11,656) | (5,596) | 17,252 | - |
| Interest income | (388) | (39) | - | (427) |
| Loss on sale of transportation equipment | - | - | 5,266 | 5,266 |
| Expenses related to OIG investigation | 5,194 | - | - | 5,194 |
| Program closure expenses | 1,138 | - | - | 1,138 |
| Medicare cap sequestration adjustment | 447 | - | - | 447 |
| Litigation settlements | 84,476 | 213 | - | 84,689 |
| Advertising cost adjustment | - | (1,371) | - | (1,371) |
| Stock option expense | - | - | 10,485 | 10,485 |
| Stock award expense | 291 | 269 | 670 | 1,230 |
| Long-term incentive compensation | - | - | 4,994 | 4,994 |
| Adjusted EBITDA | <u>\$ 172,401</u> | <u>\$ 116,670</u> | <u>\$ (20,612)</u> | <u>\$ 268,459</u> |
| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
| Net income/(loss) | \$ 84,961 | \$ 52,893 | \$ (29,111) | \$ 108,743 |
| Add/(deduct): | | | | |
| Interest expense | 211 | 332 | 3,172 | 3,715 |
| Income taxes | 51,910 | 32,719 | (16,318) | 68,311 |
| Depreciation | 19,035 | 14,698 | 546 | 34,279 |
| Amortization | 55 | 304 | - | 359 |
| EBITDA | <u>156,172</u> | <u>100,946</u> | <u>(41,711)</u> | <u>215,407</u> |
| Add/(deduct): | | | | |
| Intercompany interest/(expense) | (7,969) | (3,595) | 11,564 | - |
| Interest income | (325) | (58) | - | (383) |
| Expenses related to OIG investigation | 5,260 | - | - | 5,260 |
| Retirement expenses | 4,491 | - | - | 4,491 |
| Medicare cap sequestration adjustment | 228 | - | - | 228 |
| Expenses related to litigation settlements | 1,149 | 45 | - | 1,194 |
| Advertising cost adjustment | - | (1,333) | - | (1,333) |
| Stock option expense | - | - | 8,330 | 8,330 |
| Stock award expense | 387 | 307 | 1,161 | 1,855 |
| Long-term incentive compensation | - | - | 1,930 | 1,930 |
| Expenses related to securities litigation | - | - | - | - |
| Adjusted EBITDA | <u>\$ 159,393</u> | <u>\$ 96,312</u> | <u>\$ (18,726)</u> | <u>\$ 236,979</u> |
| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
| Net income/(loss) | \$ 93,346 | \$ 48,573 | \$ (31,645) | \$ 110,274 |
| Add/(deduct): | | | | |
| Interest expense | 200 | 348 | 3,097 | 3,645 |
| Income taxes | 56,675 | 29,630 | (16,453) | 69,852 |
| Depreciation | 18,789 | 12,988 | 592 | 32,369 |
| Amortization | 758 | 372 | - | 1,130 |
| EBITDA | <u>169,768</u> | <u>91,911</u> | <u>(44,409)</u> | <u>217,270</u> |
| Add/(deduct): | | | | |
| Intercompany interest/(expense) | (7,499) | (3,385) | 10,884 | - |
| Interest income | (241) | (40) | - | (281) |
| Expenses related to OIG investigation | 4,974 | - | - | 4,974 |
| Acquisition expenses | - | 172 | - | 172 |
| Expenses related to litigation settlements | - | 5 | - | 5 |
| Advertising cost adjustment | - | (1,317) | - | (1,317) |
| Stock option expense | - | - | 5,445 | 5,445 |
| Stock award expense | 496 | 268 | 1,343 | 2,107 |
| Long-term incentive compensation | - | - | 7,519 | 7,519 |
| Expenses related to securities litigation | - | - | 37 | 37 |
| Adjusted EBITDA | <u>\$ 167,498</u> | <u>\$ 87,614</u> | <u>\$ (19,181)</u> | <u>\$ 235,931</u> |

2016

2015

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

| | For the Years Ended December 31, | | |
|--|----------------------------------|------------|------------|
| | 2017 | 2016 | 2015 |
| Net income as reported | \$ 98,177 | \$ 108,743 | \$ 110,274 |
| Add/(deduct) after-tax cost of: | | | |
| Litigation settlements | 52,504 | - | - |
| Excess tax benefits on stock compensation | (18,932) | - | - |
| Impact of tax reform | (8,302) | - | - |
| Stock option expense | 6,892 | 5,266 | 3,439 |
| Loss on sale of transportation equipment | 3,314 | - | - |
| Long-term incentive compensation | 3,243 | 1,221 | 4,752 |
| Expenses related to OIG investigation | 3,207 | 3,248 | 3,072 |
| Program closure expenses | 675 | - | - |
| Medicare cap sequestration adjustment | 276 | 141 | - |
| Early retirement expenses | - | 2,840 | - |
| Net expenses related to litigation settlements | - | 28 | 3 |
| Expenses related to securities litigation | - | - | 23 |
| Acquisition expenses | - | - | 104 |
| Adjusted net income | \$ 141,054 | \$ 121,487 | \$ 121,667 |
| Diluted Earnings Per Share As Reported | | | |
| Net income | \$ 5.86 | \$ 6.48 | \$ 6.33 |
| Average number of shares outstanding | 16,742 | 16,789 | 17,422 |
| Adjusted Diluted Earnings Per Share | | | |
| Net income | \$ 8.43 | \$ 7.24 | \$ 6.98 |
| Average number of shares outstanding | 16,742 | 16,789 | 17,422 |

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

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

| OPERATING STATISTICS | Three Months Ended December | | Year Ended December 31, | |
|--|-----------------------------|--------------------------|----------------------------|----------------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net revenue (\$000) | | | | |
| Homecare | \$ 242,554 | \$ 228,463 | \$ 935,913 | \$ 887,940 |
| Inpatient | 22,033 | 23,724 | 90,472 | 97,580 |
| Continuous care | 30,131 | 31,999 | 124,557 | 138,025 |
| Total before Medicare cap allowance | <u>\$ 294,718</u> | <u>\$ 284,186</u> | <u>\$ 1,150,942</u> | <u>\$ 1,123,545</u> |
| Medicare cap allowance | (2,435) | - | (2,682) | (228) |
| Total | <u><u>\$ 292,283</u></u> | <u><u>\$ 284,186</u></u> | <u><u>\$ 1,148,260</u></u> | <u><u>\$ 1,123,317</u></u> |
| Net revenue as a percent of total before Medicare cap allowance | | | | |
| Homecare | 82.3% | 80.4% | 81.2% | 78.9% |
| Inpatient | 7.5 | 8.3 | 7.9 | 8.7 |
| Continuous care | 10.2 | 11.3 | 10.9 | 12.4 |
| Total before Medicare cap allowance | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| Medicare cap allowance | (0.8) | - | (0.2) | - |
| Total | <u><u>99.2%</u></u> | <u><u>100.0%</u></u> | <u><u>99.8%</u></u> | <u><u>100.0%</u></u> |
| Average daily census (days) | | | | |
| Homecare | 12,861 | 12,241 | 12,549 | 12,040 |
| Nursing home | 3,265 | 3,065 | 3,177 | 3,037 |
| Routine homecare | <u>16,126</u> | <u>15,306</u> | <u>15,726</u> | <u>15,077</u> |
| Inpatient | 342 | 383 | 354 | 400 |
| Continuous care | 452 | 471 | 470 | 515 |
| Total | <u><u>16,920</u></u> | <u><u>16,160</u></u> | <u><u>16,550</u></u> | <u><u>15,992</u></u> |
| Total Admissions | 16,575 | 15,889 | 66,449 | 65,094 |
| Total Discharges | 16,553 | 16,282 | 65,637 | 64,689 |
| Average length of stay (days) | 91.4 | 91.4 | 88.8 | 86.7 |
| Median length of stay (days) | 16.0 | 16.0 | 16.0 | 16.0 |
| ADC by major diagnosis | | | | |
| Cerebro | 36.1% | 33.4% | 35.5% | 32.7% |
| Neurological | 18.5 | 20.3 | 19.2 | 21.1 |
| Cardio | 16.4 | 16.9 | 16.5 | 17.1 |
| Cancer | 14.1 | 15.4 | 14.6 | 15.3 |
| Respiratory | 8.0 | 7.8 | 7.9 | 7.8 |
| Other | 6.9 | 6.2 | 6.3 | 6.0 |
| Total | <u><u>100.0%</u></u> | <u><u>100.0%</u></u> | <u><u>100.0%</u></u> | <u><u>100.0%</u></u> |
| Admissions by major diagnosis | | | | |
| Cerebro | 22.3% | 21.6% | 22.0% | 21.0% |
| Neurological | 10.7 | 11.3 | 10.6 | 11.0 |
| Cancer | 30.0 | 32.2 | 30.6 | 31.8 |
| Cardio | 14.9 | 16.0 | 15.0 | 15.4 |
| Respiratory | 10.7 | 10.8 | 10.8 | 10.2 |
| Other | 11.4 | 8.1 | 11.0 | 10.6 |
| Total | <u><u>100.0%</u></u> | <u><u>100.0%</u></u> | <u><u>100.0%</u></u> | <u><u>100.0%</u></u> |
| Direct patient care margins | | | | |
| Routine homecare | 53.9% | 53.1% | 52.6% | 52.1% |
| Inpatient | 8.5 | 1.2 | 5.4 | 2.3 |
| Continuous care | 16.8 | 15.8 | 16.9 | 14.2 |
| Homecare margin drivers (dollars per patient day) | | | | |
| Labor costs | \$ 55.65 | \$ 56.11 | \$ 56.80 | \$ 56.41 |
| Combined drug, home medical equipment and medical supplies cost | 14.30 | 14.99 | 14.65 | 15.66 |
| Inpatient margin drivers (dollars per patient day) | | | | |
| Labor costs | \$ 355.96 | \$ 363.06 | \$ 366.41 | \$ 350.56 |
| Continuous care margin drivers (dollars per patient day) | | | | |
| Labor costs | \$ 583.45 | \$ 602.30 | \$ 584.49 | \$ 607.52 |
| Bad debt expense as a percent of revenues | 1.1% | 1.2% | 1.1% | 1.2% |
| Accounts receivable -- | | | | |
| Days of revenue outstanding- excluding unapplied Medicare payments | 33.7 | 36.5 | N.A. | N.A. |
| Days of revenue outstanding- including unapplied Medicare payments | 25.0 | 32.6 | N.A. | N.A. |

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

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

EXHIBIT 21
SUBSIDIARIES OF CHEMED CORPORATION

The following is a list of subsidiaries of the Company as of December 31, 2017: Other subsidiaries which have been omitted from the list would not, when considered in the aggregate, constitute a significant subsidiary. Each of the companies is incorporated under the laws of the state following its name. The percentage given for each company represents the percentage of voting securities of such company owned by the Company or, where indicated, subsidiaries of the Company as of December 31, 2017.

All of the majority owned companies listed below are included in the consolidated financial statements as of December 31, 2017.

Chemed RT, Inc. (Delaware, 100%)

Comfort Care Holdings Co. (Nevada, 100%)

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

Jet Resource, Inc. (Delaware, 100%)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VITAS of North Florida, Inc. (Florida, 100% by VITAS Hospice Services, L.L.C.)

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

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

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

Hospice Care Incorporated (Delaware, 100% by VITAS Hospice Services, L.L.C.)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-145555) and on Form S-8 (Nos. 333-167733 and 333-205669) of Chemed Corporation of our report dated February 26, 2018 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 26, 2018 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Cincinnati, Ohio

February 26, 2018

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 14, 2018

/s/ Joel F. Gemunder

Joel F. Gemunder

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 15, 2018

/s/ Patrick P. Grace

Patrick P. Grace

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 14, 2018

/s/ Thomas C. Hutton

Thomas C. Hutton

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 12, 2018

/s/ Thomas P. Rice

Thomas P. Rice

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 16, 2018

/s/ Donald E. Saunders

Donald E. Saunders

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 12, 2018

/s/ George J. Walsh III

George J. Walsh III

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 15, 2018

/s/ Frank E. Wood

Frank E. Wood

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 12, 2018

/s/ Walter L. Krebs

Walter L. Krebs

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 13, 2018

/s/ Andrea R. Lindell

Andrea R. Lindell

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

I, Kevin J. McNamara, certify that:

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

Dated: February 26, 2018

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

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

I, David P. Williams, certify that:

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

Dated: February 26, 2018

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

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

I, Michael D. Witzeman, certify that:

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

Dated: February 26, 2018

/s/ Michael D. Witzeman

Michael D. Witzeman

(Vice President and Controller)

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

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

- 1) The Company’s Annual Report on Form 10-K for the year ending December 31, 2017 (“Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 26, 2018

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

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

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

- 1) The Company’s Annual Report on Form 10-K for the year ending December 31, 2017 (“Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 26, 2018

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

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

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

- 1) The Company’s Annual Report on Form 10-K for the year ending December 31, 2017 (“Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 26, 2018

/s/ Michael D. Witzeman

Michael D. Witzeman
(Vice President and Controller)