UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

x Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2020

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

Commission File Number: 1-8351

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

Delaware	31-0791746
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
255 E. Fifth Street, Suite 2600, Cincinnati, Ohio	45202
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes x No o

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

Large Accelerated Filer x Accelerated Filer o Non-accelerated Filer o Smaller Reporting Company o

Emerging growth company o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

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

Title of Each Class	Trading Symbol	Name of Each Exchange on which Registered	Amount	Date
Capital Stock $1 Par Value	CHE	New York Stock Exchange	15,919,194 Shares	June 30, 2020

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**$ 20,376**	$ 6,158
Accounts receivable less allowances of $1,425 (2019 - $353)	**132,487**	143,827
Inventories	**7,467**	7,462
Prepaid income taxes	**5,794**	10,074
Prepaid expenses	**23,183**	23,150
Total current assets	**189,307**	190,671
Investments of deferred compensation plans	**80,113**	77,446
Properties and equipment, at cost, less accumulated depreciation of $281,237 (2019 - $270,140)	**183,017**	175,763
Lease right of use asset	**128,418**	111,652
Identifiable intangible assets less accumulated amortization of $42,584 (2019 - $37,620)	**122,791**	126,370
Goodwill	**578,491**	577,367
Other assets	**9,055**	9,048
Total Assets	**$ 1,291,192**	$ 1,268,317
LIABILITIES		
Current liabilities		
Accounts payable	**$ 36,704**	$ 51,101
Income taxes	**19,576**	-
Accrued insurance	**50,847**	50,328
Accrued compensation	**80,552**	70,814
Accrued legal	**6,959**	6,941
Short-term lease liability	**36,093**	39,280
Unutilized CARES Act grant	**39,236**	-
Other current liabilities	**48,549**	43,756
Total current liabilities	**318,516**	262,220
Deferred income taxes	**21,108**	18,504
Long-term debt	-	90,000
Deferred compensation liabilities	**77,639**	76,446
Long-term lease liability	**104,444**	86,656
Other liabilities	**18,789**	7,883
Total Liabilities	**540,496**	541,709
Commitments and contingencies (Note 11)		
STOCKHOLDERS' EQUITY		
Capital stock - authorized 80,000,000 shares $1 par; issued 36,039,794 shares (2019 - 35,810,528 shares)	**36,040**	35,811
Paid-in capital	**904,421**	860,671
Retained earnings	**1,553,144**	1,425,752
Treasury stock - 20,198,753 shares (2019 - 19,867,220 shares)	**(1,745,299)**	(1,597,940)
Deferred compensation payable in Company stock	**2,390**	2,314
Total Stockholders' Equity	**750,696**	726,608
Total Liabilities and Stockholders' Equity	**$ 1,291,192**	$ 1,268,317

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Service revenues and sales	**$ 502,199**	$ 473,584	**$ 1,017,997**	$ 935,618
Cost of services provided and goods sold (excluding depreciation)	**352,163**	323,637	**703,908**	645,588
Selling, general and administrative expenses	**84,513**	71,556	**155,096**	145,585
Depreciation	**11,659**	9,887	**23,047**	19,597
Amortization	**2,488**	406	**4,965**	925
Other operating (income)/expenses	**(41,384)**	2,570	**(41,142)**	8,923
Total costs and expenses	**409,439**	408,056	**845,874**	820,618
Income from operations	**92,760**	65,528	**172,123**	115,000
Interest expense	**(651)**	(1,237)	**(1,626)**	(2,361)
Other (expense)/income - net	**7,514**	13	**(1,952)**	2,452
Income before income taxes	**99,623**	64,304	**168,545**	115,091
Income taxes	**(17,522)**	(13,575)	**(30,553)**	(19,695)
Net income	**$ 82,101**	$ 50,729	**$ 137,992**	$ 95,396
Earnings Per Share:				
Net income	**$ 5.16**	$ 3.18	**$ 8.65**	$ 5.98
Average number of shares outstanding	**15,914**	15,928	**15,953**	15,941
Diluted Earnings Per Share:				
Net income	**$ 5.01**	$ 3.08	**$ 8.39**	$ 5.79
Average number of shares outstanding	**16,373**	16,449	**16,445**	16,489
Cash Dividends Per Share	**$ 0.32**	$ 0.30	**$ 0.64**	$ 0.60

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2020	**2019**
Cash Flows from Operating Activities		
Net income	$ **137,992**	$ 95,396
Adjustments to reconcile net income to net cash provided		
by operating activities:		
Unutilized CARES Act grant	**39,236**	-
Depreciation and amortization	**28,012**	20,522
Deferred payroll taxes	**10,716**	-
Stock option expense	**10,113**	8,018
Noncash long-term incentive compensation	**3,527**	2,506
Provision/(benefit) for deferred income taxes	**2,717**	(2,769)
Noncash directors' compensation	**1,171**	767
Provision for bad debts	**871**	-
Amortization of debt issuance costs	**153**	153
Asset impairment loss	-	2,266
Litigation settlement	-	6,000
Changes in operating assets and liabilities:		
Decrease/(increase) in accounts receivable	**6,696**	(16,613)
Increase in inventories	**(5)**	(631)
Increase in prepaid expenses	**(33)**	(2,301)
Increase/(decrease) in accounts payable and other current liabilities	**13,303**	(4,175)
Change in current income taxes	**23,725**	(2,249)
Net change in lease assets and liabilities	**1,287**	(338)
Increase in other assets	**(2,988)**	(4,653)
Increase in other liabilities	**1,383**	5,833
Other (uses)/sources	**(54)**	1,175
Net cash provided by operating activities	**277,822**	108,907
Cash Flows from Investing Activities		
Capital expenditures	**(32,251)**	(28,312)
Business combinations	**(3,600)**	-
Other sources/(uses)	**473**	(137)
Net cash used by investing activities	**(35,378)**	(28,449)
Cash Flows from Financing Activities		
Payments on revolving line of credit	**(264,900)**	(227,000)
Proceeds from revolving line of credit	**174,900**	222,800
Purchases of treasury stock	**(122,148)**	(71,926)
Proceeds from exercise of stock options	**19,440**	16,517
Capital stock surrendered to pay taxes on stock-based compensation	**(14,845)**	(14,884)
Dividends paid	**(10,238)**	(9,567)
Change in cash overdrafts payable	**(9,849)**	1,710
Other (uses)/sources	**(586)**	384
Net cash used by financing activities	**(228,226)**	(81,966)
Increase/(decrease) in Cash and Cash Equivalents	**14,218**	(1,508)
Cash and cash equivalents at beginning of year	**6,158**	4,831
Cash and cash equivalents at end of period	$ **20,376**	$ 3,323

See accompanying Notes to Unaudited Consolidated Financial Statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(in thousands, except per share data)

For the three months ended June 30, 2020 and 2019:

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at March 31, 2020	**35,912**	**878,550**	**1,476,151**	**(1,709,390)**	**2,378**	**683,601**
Net income	-	-	**82,101** -	-	-	**82,101**
Dividends paid ($0.32 per share)	-	-	**(5,108)**	-	-	**(5,108)**
Stock awards and exercise of stock options	**128**	**25,340**	-	**(13,995)**	-	**11,473**
Purchases of treasury stock	-	-	-	**(21,914)**	-	**(21,914)**
Other	-	**531**	-	-	**12**	**543**
Balance at June 30, 2020	**$ 36,040**	**$ 904,421**	**$ 1,553,144**	**$ (1,745,299)**	**$ 2,390**	**$ 750,696**

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at March 31, 2019	35,521	803,701	1,265,485	(1,519,077)	2,380	588,010
Net income	-	-	50,729	-	-	50,729
Dividends paid ($0.30 per share)	-	-	(4,768)	-	-	(4,768)
Stock awards and exercise of stock options	70	13,337	-	(6,350)	-	7,057
Purchases of treasury stock	-	-	-	(22,676)	-	(22,676)
Other	-	217	-	(35)	35	217
Balance at June 30, 2019	$ 35,591	$ 817,255	$ 1,311,446	$ (1,548,138)	$ 2,415	$ 618,569

For the six months ended June 30, 2020 and 2019:

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at December 31, 2019	**35,811**	**860,671**	**1,425,752**	**(1,597,940)**	**2,314**	**726,608**
Net income	-	-	**137,992**	-	-	**137,992**
Dividends paid ($0.64 per share)	-	-	**(10,238)**	-	-	**(10,238)**
Stock awards and exercise of stock options	**229**	**44,312**	-	**(25,135)**	-	**19,406**
Purchases of treasury stock	-	-	-	**(122,148)**	-	**(122,148)**
Other	-	**(562)**	**(362)**	**(76)**	**76**	**(924)**
Balance at June 30, 2020	**$ 36,040**	**$ 904,421**	**$ 1,553,144**	**$ (1,745,299)**	**$ 2,390**	**$ 750,696**

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at December 31, 2018	35,311	774,358	1,225,617	(1,446,296)	2,344	591,334
Net income	-	-	95,396	-	-	95,396
Dividends paid ($0.60 per share)	-	-	(9,567)	-	-	(9,567)
Stock awards and exercise of stock options	280	42,489	-	(29,845)	-	12,924
Purchases of treasury stock	-	-	-	(71,926)	-	(71,926)
Other	-	408	-	(71)	71	408
Balance at June 30, 2019	$ 35,591	$ 817,255	$ 1,311,446	$ (1,548,138)	$ 2,415	$ 618,569

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

1. Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2019 balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP. However, in our opinion, the financial statements presented herein contain all adjustments, consisting only of normal recurring adjustments, necessary to state fairly our financial position, results of operations and cash flows. These financial statements are prepared on the same basis as and should be read in conjunction with the audited Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2019.

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

CURRENT EXPECTED CREDIT LOSSES

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments, Credit Losses. The ASU introduces the current expected credit loss ("CECL") methodology. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for financial assets at the time the asset is originated or acquired. This generally results in earlier recognition of credit losses and greater transparency about credit risk. The Company adopted the provisions of ASU No. 2016-13 on January 1, 2020 using the modified retrospective method. The provisions of ASU No. 2016-13 did not significantly impact the method or timing that the Company recognizes expected credit losses and the cumulative effect of adoption was immaterial.

The Company's only material financial asset subject to ASU No. 2016-13 is accounts receivable, trade and other. The Company recognizes an allowance for credit losses related to accounts receivable to present the net amount expected to be collected as of the balance sheet date. Accounts receivable are written-off when it is determined that the amount is deemed uncollectible. The following presents a detailed discussion of the operating subsidiaries' accounts receivable and their evaluation of credit risk related to those accounts:

- Roto-Rooter's trade accounts receivable are comprised mainly of amounts due from commercial entities and commercial insurance carriers. Roto-Rooter's accounts receivable are generally outstanding for 90 days or less and there are no significant amounts outstanding greater than one year. Roto-Rooter historically has not experienced significant write-offs due to credit losses. For amounts due from commercial entities, Roto-Rooter utilizes a provision matrix based on historical credit losses by aging category. For amounts due from commercial insurance carriers, mainly from water restoration revenue, Roto-Rooter periodically reviews published default tables related to commercial insurance carriers and provides an allowance. As further discussed below, Roto-Rooter assesses on a quarterly basis whether the historical rates used are expected to be representative of credit risk over the life of the account taking into consideration existing economic conditions.
- In excess of 90% of VITAS' accounts receivable are from the Federal or state governments under Medicare and Medicaid. VITAS believes that it is reasonable to expect that the risk of non-payment as a result of credit issues from these government entities is zero. As such, there is no allowance for credit losses established related to these accounts. The remainder of VITAS' accounts are from commercial insurance carriers. VITAS' accounts are generally outstanding for 90 days or less and there are no significant amounts outstanding greater than one year. VITAS historically has not experienced significant write-offs due to credit losses. VITAS periodically reviews published default tables related to commercial insurance carriers and provides an allowance. VITAS assesses on a quarterly basis whether these default rates are expected to be representative of credit risk over the life of the account taking into consideration existing economic conditions.

As further discussed in footnote 5, Chemed has $37.9 million in standby letters of credit outstanding. These letters of credit are with large, highly rated financial institutions. The Company periodically reviews published default tables related to these institutions to assess the need for an allowance. Chemed believes that any expected credit loss related to outstanding letters of credit based on current economic conditions is not material.

In conjunction with its first and second quarter of 2020 closing process, subsequent to the adoption of ASU No. 2016-13, Roto-Rooter re-assessed its expected credit losses as a result of COVID-19. In addition to the historical provision matrix described above, and in conjunction with the quarterly assessment of current economic conditions and published default rates to evaluate credit risk over the life of the account, Roto-Rooter analyzed the industries from which the accounts receivable originated. Using available information and judgement, additional expected credit losses were recorded for industries deemed higher risk during the economic shut down, such as restaurants, hotels and bars. The additional charge taken for the three and six months ended June 30, 2020 related to expected credit losses from COVID-19 issues was $265,000 and $789,000, respectively. The full economic impact as a result of COVID-19 and the related business shut-downs will not be known for some period of time. The amount recorded for the three and six months ended June 30, 2020 represents management's current best estimate.

	ADDITIONS				
BALANCE AT 1/1/2020	(CHARGED) CREDITED TO COSTS AND EXPENSES	(CHARGED) CREDITED TO OTHER ACCOUNTS	DEDUCTIONS	OTHER	BALANCE AT 6/30/2020
$ (353)	$ (871)	$ (475)	$ 366	$ (92)	$ (1,425)

CORONAVIRUS AID, RELIEF AND ECONOMIC STIMULUS (CARES) ACT

The current COVID-19 pandemic did have a material impact on our results of operations, cash flow and financial position as of and for the three and six months ended June 30, 2020. We are closely monitoring the impact of the pandemic on all aspects of our business including impacts to employees, customers, patients, suppliers and vendors. The Company's two operating subsidiaries have been categorized as critical infrastructure businesses and are not currently materially limited by federal, state or local regulations that restrict movement or operating ability.

The length and severity of the pandemic, coupled with related governmental actions including relief acts and actions relating to our workforce at federal, state and local levels, and underlying economic disruption will determine the ultimate short-term and long-term impact to our business operations and financial results. We are unable to predict the myriad of possible issues that could arise or the ultimate effect to our businesses as a result of the unknown short, medium and long-term impacts that the pandemic will have on the United States economy and society as a whole.

On March 27, 2020, the CARES Act was passed. It is intended to provide economic relief to individuals and businesses affected by the coronavirus pandemic. It also contains provisions related to healthcare providers' operations and the issues caused by the coronavirus pandemic. The following are significant economic impacts for Chemed and its subsidiaries as a result of specific provisions of the CARES Act:

- A portion of the CARES Act provides $100 billion from the Public Health and Social Services Emergency Fund ("Relief Fund") to healthcare providers on the front lines of the coronavirus response. Of this distribution, $30 billion was designated to be automatically distributed to facilities and healthcare providers based upon their 2019 Medicare fee-for-service revenue.
- On April 10, 2020 VITAS automatically received $80.2 million from the Relief Fund based upon VITAS's 2019 Medicare fee-for-service Medicare revenue. The main condition that is attached to the grant is that the money will be used "only for health care related expenses or lost revenues that are attributable to coronavirus". HHS guidance does not specifically designate what healthcare expenses are related to COVID-19. The guidance to date is general and broad but does provide some examples such as equipment and supplies, workforce training, reporting COVID-19 test results, securing separate facilities for COVID-19 patients and acquiring additional resources to expand or preserve care delivery. VITAS has cared for approximately 1,500 COVID positive patients through June 30, 2020.
- The additional conditions to the Relief Fund payment are specific in nature, such as the money cannot be used for gun control advocacy purposes, abortions, embryo research, etc. The Company is in compliance, and intends to maintain compliance, with these specific conditions. Based on this analysis, management believes that there is reasonable assurance that VITAS will comply with the conditions.
- Chemed deferred its first and second quarter 2020 income tax payments totaling $19.0 million to the Federal government until July 15, 2020, as permitted by the CARES Act. In addition, Chemed and its subsidiaries deferred $10.7 million of certain employer payroll taxes and $2.9 million of certain state tax payments, as permitted by the CARES Act.
- During the period from May 1, 2020 through December 31, 2020, the 2% Medicare sequestration reimbursement cut is suspended. For the three and six month period ended June 30, 2020 approximately $4.2 million was recognized as revenue due to the suspension of sequestration.

There is no U.S. GAAP that covers accounting for such government "grants" to for-profit entities. As a result, the Company analogized to International Accounting Standard 20 – *Accounting for Government Grants and Disclosures* ("IAS 20"). Under IAS 20, once it is reasonably assured that the entity will comply with the conditions of the grant, the grant money should be recognized on a systematic basis over the periods in which the entity recognizes the related expenses or losses.

For the three months ended June 30, 2020, VITAS recognized $41.0 million in other operating income. The components of the amount recognized are as follows, (in thousands):

Hard costs	$	**3,814**
Incremental Medicare Cap		**2,250**
Incremental PTO		**21,425**
Lost revenue		**13,500**
Other operating income	$	**40,989**

Hard costs are primarily expenses paid to outside vendors for personal protection equipment and deep cleaning of in-patient facilities. The incremental Medicare Cap is the result of lower admissions in certain programs combined with the additional 2% sequestration revenue. In April, VITAS provided an extra two weeks of paid time off to all frontline workers. Lost revenue was calculated based on a comparison of historical Average Daily Census (“ADC”) growth rates by service-line to actual growth rates experienced between April and June of 2020 reduced for uncertainties related to the ultimate affect the pandemic will have on or business.

LEASE ACCOUNTING

In February 2016, the FASB issued Accounting Standards Update “ASU No. 2016-02 Leases” which introduced a lessee model that brings most leases onto the balance sheets and updates lessor accounting to align with changes in the lessee model and the revenue recognition standard. This standard is also referred to as Accountings Standards Codification No.842 (“ASC 842”). We adopted ASC 842 effective January 1, 2019, using the optional transition method requiring leases existing at, or entered into after, January 1, 2019 to be recognized and measured. The transition method selected does not require adjustments to prior period amounts, which continue to be reflected in accordance with historical accounting. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard which among other things, allowed us to carry forward the historical lease classification.

Chemed and each of its operating subsidiaries are service companies. As such, real estate leases comprise the largest lease obligation (and conversely, right of use asset) in our lease portfolio. VITAS has leased office space, as well as space for inpatient units (“IPUs”) and/or contract beds within hospitals. Roto-Rooter mainly has leased office space.

Roto-Rooter purchases equipment and leases it to certain of its independent contractors. We analyzed these leases in accordance with ASC 842 and determined they are operating leases. As a result, Roto-Rooter will continue to capitalize the equipment underlying these leases, depreciate the equipment and recognize rental income.

Adoption of the new standard resulted in right of use assets and lease liabilities of $93.1 million and $104.3 million, respectively, as of January 1, 2019. In determining the liability, we used our incremental borrowing rate based on the information available at the time of adoption, since the rate implicit in the leases cannot be readily determined. At January 1, 2019, the weighted average rate was 3.47%. The standard did not materially impact our consolidated net income or cash flows. We did not book a cumulative effect adjustment upon adoption of the standard.

CLOUD COMPUTING

On January 1, 2019, we early adopted ASU No. 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract”. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software. We adopted the ASU on a prospective basis.

As of June 30, 2020, we have two cloud computing arrangements that are service contracts. Roto-Rooter is implementing a system to assist in technician dispatch and VITAS implemented a new human resources system. We have capitalized approximately $9.0 million related to implementation of these projects which are included in prepaid assets in the accompanying balance sheets. The VITAS human resource system was placed into service in January 2020 and is being amortized over 5 years. For the three and six months ended June 30, 2020, $263,000 and $525,000 has been amortized. There has been no amortization expense associated with the Roto-Rooter project, as the software has not yet been placed in service. We anticipate amortizing this asset over the original term of the arrangement plus renewal options that are reasonably certain of being exercised.

NON-EMPLOYEE STOCK COMPENSATION

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

INCOME TAXES

Our effective income tax rate was 17.6% in the second quarter of 2020 compared to 21.1% during the second quarter of 2019. Excess tax benefit on stock options reduced our income tax expenses by $8.2 million and $3.2 million, respectively for the quarters ended June 30, 2020 and 2019.

Our effective income tax rate was 18.1% in the first six months of 2020 compared to 17.1% during the first six months of 2019. Excess tax benefit on stock options reduced our income tax expenses by $12.8 million and $9.9 million, respectively for the first six months ended June 30, 2020 and 2019.

NON-CASH TRANSACTIONS

Included in the accompanying Consolidated Balance Sheets are $668,000 and $1.8 million of capitalized property and equipment which were not paid for as of June 30, 2020 and December 31, 2019, respectively. These amounts have been excluded from capital expenditures in the accompanying Consolidated Statements of Cash Flow. There are no material non-cash amounts included in interest expense for any period presented.

BUSINESS COMBINATIONS

We account for acquired businesses using the acquisition method of accounting. All assets acquired and liabilities assumed are recorded at their respective fair values at the date of acquisition. The determination of fair value involves estimates and the use of valuation techniques when market value is not readily available. We use various techniques to determine fair value in accordance with accepted valuation models, primarily the income approach. The significant assumptions used in developing fair values include, but are not limited to, revenue growth rates, the amount and timing of future cash flows, discount rates, useful lives, royalty rates and future tax rates. The excess of purchase price over the fair value of assets and liabilities acquired is recorded as goodwill. See footnote 17 for discussion of recent acquisitions.

2. Revenue Recognition

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

VITAS

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

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

> *Routine Home Care* occurs when a patient receives hospice care in their home, including a nursing home setting. The routine home care rate is paid for each day that a patient is in a hospice program and is not receiving one of the other categories of hospice care. For Medicare patients, the routine home care rate reflects a two-tiered rate, with a higher rate for the first 60 days of a hospice patient's care and a lower rate for days 61 and after. In addition, there is a

Service Intensity Add-on payment which covers direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient's life, reimbursed up to 4 hours per day in 15 minute increments at the continuous home care rate.

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

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

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

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

Care is provided to patients regardless of their ability to pay. Patients who meet our criteria for charity care are provided care without charge. There is no revenue or associated accounts receivable in the accompanying Consolidated Financial Statements related to charity care. The cost of providing charity care during the quarters ended June 30, 2020 and 2019 was $1.7 million and $2.2 million, respectively. The cost of providing charity care during the first six months ended June 30, 2020 and 2019 was $3.9 million and $4.3 million, respectively. The cost of charity care is included in cost of services provided and goods sold and is calculated by taking the ratio of charity care days to total days of care and multiplying by the total cost of care.

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

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

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

Inpatient Cap. If the number of inpatient care days any hospice program provides to Medicare beneficiaries exceeds 20% of the total days of hospice care such program provided to all Medicare patients for an annual period beginning September 28, the days in excess of the 20% figure may be reimbursed only at the routine homecare rate. None of VITAS' hospice programs exceeded the payment limits on inpatient services during the three and six months ended June 30, 2020 and 2019.

Medicare Cap. We are also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured in one of two ways based on a provider election. The "streamlined" method compares total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by that Medicare provider number with the product of the per-beneficiary cap amount and the number of Medicare beneficiaries electing hospice care for the first time from that hospice program or programs from September 28 through September 27 of the following year. At June 30, 2020, all our programs except one are using the "streamlined" method.

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

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

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, CMS determined that the Medicare cap should be calculated "as if" sequestration did not occur. As a result of this decision, VITAS has received notification from our third-party intermediary that an additional $9.1 million is owed for Medicare cap in three programs arising during the 2013 through 2020 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. Pursuant to the recent legislation, the sequestration has been lifted for the period from May 1 through December 31, 2020.

During the quarter ended June 30, 2020, we recorded $5.8 million in net Medicare cap revenue reduction related to five programs for the 2020 government fiscal year. During the quarter ended June 30, 2019, we recorded $2.4 million in net Medicare cap revenue reduction related to three programs for the 2019 government fiscal year. Additionally, we recorded $847,000 related to adjustments to prior year cap liabilities.

During the first six months ended June 30, 2020, we recorded $8.3 million in net Medicare cap revenue reduction related to five programs for the 2020 government fiscal year. During the first six months ended June 30, 2019, we recorded $5.8 million in net Medicare cap revenue reduction related to four programs for the 2019 government fiscal year. Additionally, we recorded $847,000 related to adjustments of prior year cap liabilities.

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

The composition of patient care service revenue by payor and level of care for the quarter ended June 30, 2020 is as follows (in thousands):

	Medicare	Medicaid	Commercial	Total
Routine home care	$ 257,550	$ 12,673	6,122	$ 276,345
Continuous care	31,483	1,622	1,477	34,582
Inpatient care	22,448	2,311	1,109	25,868
	$ 311,481	$ 16,606	$ 8,708	$ 336,795
All other revenue - self-pay, respite care, etc.				2,109
Subtotal				$ 338,904
Medicare cap adjustment				(5,750)
Implicit price concessions				(3,042)
Room and board, net				(2,647)
Net revenue				$ 327,465

The composition of patient care service revenue by payor and level of care for the quarter ended June 30, 2019 is as follows (in thousands):

	Medicare	Medicaid	Commercial	Total
Routine home care	$ 248,545	$ 11,907	$ 6,009	$ 266,461
Continuous care	27,975	1,408	1,403	30,786
Inpatient care	19,282	2,117	1,495	22,894
	$ 295,802	$ 15,432	$ 8,907	$ 320,141
All other revenue - self-pay, respite care, etc.				2,237
Subtotal				$ 322,378
Medicare cap adjustment				(3,198)
Implicit price concessions				(3,720)
Room and board, net				(2,710)
Net revenue				$ 312,750

The composition of patient care service revenue by payor and level of care for the six months ended June 30, 2020 is as follows (in thousands):

	Medicare	Medicaid	Commercial	Total
Routine home care	$ 511,505	$ 24,806	$ 11,787	$ 548,098
Continuous care	68,615	3,493	3,029	75,137
Inpatient care	50,596	4,870	2,884	58,350
	$ 630,716	$ 33,169	$ 17,700	$ 681,585
All other revenue - self-pay, respite care, etc.				5,265
Subtotal				$ 686,850
Medicare cap adjustment				(8,250)
Implicit price concessions				(7,192)
Room and board, net				(6,028)
Net revenue				$ 665,380

The composition of patient care service revenue by payor and level of care for the six months ended June 30, 2019 is as follows (in thousands):

	Medicare	Medicaid	Commercial	Total
Routine home care	$ 489,978	$ 23,581	$ 11,753	$ 525,312
Continuous care	56,949	3,195	2,886	63,030
Inpatient care	38,271	4,265	2,928	45,464
	$ 585,198	$ 31,041	$ 17,567	$ 633,806
All other revenue - self-pay, respite care, etc.				4,242
Subtotal				$ 638,048
Medicare cap adjustment				(6,598)
Implicit price concessions				(6,667)
Room and board, net				(5,252)
Net revenue				$ 619,531

Roto-Rooter

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

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

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

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

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

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

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

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

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

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

The composition of disaggregated revenue for the second quarter is as follows (in thousands):

	June 30,	
	2020	**2019**
Short-term core service jobs	$ **126,541**	$ 116,211
Water restoration	**31,426**	29,955
Contractor revenue	**15,193**	14,595
Franchise fees	**1,210**	1,623
All other	**2,971**	2,973
Subtotal	$ **177,341**	$ 165,357
Implicit price concessions and credit memos	**(2,607)**	(4,523)
Net revenue	$ **174,734**	$ 160,834

The composition of disaggregated revenue for the first six months is as follows (in thousands):

	June 30,	
	2020	**2019**
Short-term core service jobs	$ **260,965**	$ 228,397
Water restoration	**60,672**	59,163
Contractor revenue	**31,421**	28,627
Franchise fees	**2,400**	3,245
All other	**6,505**	5,979
Subtotal	$ **361,963**	$ 325,411
Implicit price concessions and credit memos	**(9,346)**	(9,324)
Net revenue	$ **352,617**	$ 316,087

3. Segments

Service revenues and sales by business segment are shown in Footnote 2. After-tax earnings by business segment are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
After-tax Income/(Loss)				
VITAS	**$ 60,245**	$ 37,339	**$ 101,524**	$ 66,626
Roto-Rooter	**29,468**	27,175	**53,790**	50,162
Total	**89,713**	64,514	**155,314**	116,788
Corporate	**(7,612)**	(13,785)	**(17,322)**	(21,392)
Net income	**$ 82,101**	$ 50,729	**$ 137,992**	$ 95,396

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

4. Earnings per Share

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

	Net Income		
For the Three Months Ended June 30,	**Income**	**Shares**	**Earnings per Share**
2020			
Earnings	**$ 82,101**	**15,914**	**$ 5.16**
Dilutive stock options	**-**	**383**	
Nonvested stock awards	**-**	**76**	
Diluted earnings	**$ 82,101**	**16,373**	**$ 5.01**
2019			
Earnings	$ 50,729	15,928	$ 3.18
Dilutive stock options	-	449	
Nonvested stock awards	-	72	
Diluted earnings	$ 50,729	16,449	$ 3.08

	Net Income		
For the Six Months Ended June 30,	**Income**	**Shares**	**Earnings per Share**
2020			
Earnings	**$ 137,992**	**15,953**	**$ 8.65**
Dilutive stock options	**-**	**415**	
Nonvested stock awards	**-**	**77**	
Diluted earnings	**$ 137,992**	**16,445**	**$ 8.39**
2019			
Earnings	$ 95,396	15,941	$ 5.98
Dilutive stock options	-	474	
Nonvested stock awards	-	74	
Diluted earnings	$ 95,396	16,489	$ 5.79

For the three and six months ended June 30, 2020, there were 285,000 stock options excluded in the computation of dilutive earnings per share because they would have been anti-dilutive.

For the three and six months ended June 30, 2019, there were 246,000 stock options excluded in the computation of dilutive earnings per share because they would have been anti-dilutive.

5. Long-Term Debt and Lines of Credit

On June 20, 2018, we replaced our existing credit agreement with the Fourth Amended and Restated Credit Agreement ("2018 Credit Agreement"). Terms of the 2018 Credit Agreement consist of a five year, $450 million revolving credit facility and a $150 million expansion feature, which may consist of term loans or additional revolving commitments. The interest rate at the inception of the agreement is LIBOR plus 100 basis points. The 2018 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio. There is no debt outstanding as of June 30, 2020.

The 2018 Credit Agreement contains the following quarterly financial covenants effective as of June 30, 2020:

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

We are in compliance with all debt covenants as of June 30, 2020. We have issued $37.9 million in standby letters of credit as of June 30, 2020, mainly for insurance purposes. Issued letters of credit reduce our available credit under the 2018 Credit Agreement. As of June 30, 2020, we have approximately $412.1 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility.

6. Other Operating Expenses/(Income)

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
CARES Act grant	**$ (40,989)**	$ -	**$ (40,989)**	$ -
(Gain)/loss on disposal of fixed assets	**(395)**	304	**(153)**	657
Transportation equipment held for sale	**-**	2,266	**-**	2,266
Litigation settlement	**-**	-	**-**	6,000
Total other operating expenses	**$ (41,384)**	$ 2,570	**$ (41,142)**	$ 8,923

7. Other (Expense)/Income – Net

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

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Market value adjustment on assets held in deferred compensation trust	**$ 7,408**	$ (130)	**$ (2,164)**	$ 2,207
Interest income	**116**	112	**225**	214
Other-net	**(10)**	31	**(13)**	31
Total other (expense)/income - net	**$ 7,514**	$ 13	**$ (1,952)**	$ 2,452

8. Leases

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

We do not currently have any finance leases, therefore all lease information disclosed is related to operating leases.

The components of balance sheet information related to leases were as follows:

	June 30, 2020	December 31, 2019
Assets		
Operating lease assets	$ **128,418**	$ 111,652
Liabilities		
Current operating leases	**36,093**	39,280
Noncurrent operating leases	**104,444**	86,656
Total operating lease liabilities	$ **140,537**	$ 125,936

The components of lease expense for the second quarter is as follows (in thousands):

	Three months ended June 30,	
	2020	2019
Lease Expense (a)		
Operating lease expense	$ **15,103**	$ 11,573
Sublease income	**(7)**	-
Net lease expense	$ **15,096**	$ 11,573

The components of lease expense for the first six months is as follows (in thousands):

	Six months ended June 30,	
	2020	2019
Lease Expense (a)		
Operating lease expense	$ **29,731**	$ 23,098
Sublease income	**(7)**	(6)
Net lease expense	$ **29,724**	$ 23,092

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

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

	Six months ended June 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from leases	$ 24,967	$ 20,201
Leased assets obtained in exchange for new operating lease liabilities	$ 40,133	$ 15,944

Weighted Average Remaining Lease Term at June 30, 2020	
Operating leases	5.1years
Weighted Average Discount Rate at June 30, 2020	
Operating leases	3.1%

Maturity of Operating Lease Liabilities (in thousands)

2020	$	**23,512**
2021		37,394
2022		28,283
2023		21,331
2024		15,508
Thereafter		26,475
Total lease payments	$	152,503
Less: interest		(11,675)
Less: future lease obligations not yet commenced		(291)
Total liability recognized on the balance sheet	$	140,537

For leases commencing prior to April 2019, minimum rental payments exclude payments to landlords for real estate taxes and common area maintenance. Operating lease payments include $2.3 million related to extended lease terms that are reasonably certain of being exercised and exclude $291,000 lease payments for leases signed but not yet commenced.

9. Stock-Based Compensation Plans

On February 21, 2020, the Compensation/Incentive Committee of the Board of Directors ("CIC") granted 5,156 Performance Stock Units ("PSUs") contingent upon the achievement of certain total shareholder return ("TSR") targets as compared to the TSR of a group of peer companies for the three year period ending December 31, 2022, the date at which such awards vest. The cumulative compensation cost of the TSR-based PSU award to be recorded over the three year service period is $3.3 million.

On February 21, 2020, the CIC also granted 5,156 PSUs contingent upon the achievement of certain earnings per share ("EPS") targets for the three year period ending December 31, 2022. At the end of each reporting period, the Company estimates the number of shares that it believes will ultimately be earned and records the corresponding expense over the service period of the award. We currently estimate the cumulative compensation cost of the EPS-based PSUs to be recorded over the three year service period is $5.0 million.

10. Retirement Plans

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

Three months ended June 30,		Six months ended June 30,	
2020	**2019**	**2020**	**2019**
$ 11,354	$ 3,796	**$ 6,940**	$ 10,710

11. Legal and Regulatory Matters

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

Regulatory Matters and Litigation

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

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

The Company entered into a settlement agreement in March 2019 that will resolve state-wide wage and hour class action claims raised in four separate cases: (1) *Jordan A. Seper on behalf of herself and others similarly situated v. VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corp of CA, a business entity unknown; and DOES 1 to 100, inclusive*; Los Angeles Superior Court Case Number BC 642857 ("*Seper*"); (2) *Jiwan Chhina v. VITAS Health Services of California, Inc., a California corporation; VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corporation of California, a Delaware corporation dba VITAS Healthcare Inc.; and DOES 1 to 100, inclusive*; San Diego Superior Court Case Number 37-2015-00033978-CU-OE-CTL ("*Chhina*") (which was subsequently merged with *Seper*); (3) *Chere Phillips and Lady Moore v. VITAS Healthcare Corporation of California*, Sacramento County Superior Court, Case No. 34-2017-0021-2755 *("Phillips and Moore");* and (4) *Williams v. VITAS Healthcare Corporation of California*, Alameda County Superior Court Case No. RG 17853886 ("*Williams*"). These actions were brought by both current and former employees including a registered nurse, a licensed vocational nurse (LVN), home health aides and a social worker. Each action stated multiple claims generally including (1) failure to pay minimum wage for all hours worked; (2) failure to provide overtime for all hours worked; (3) failure to pay wages for all hours at the regular rate; (4) failure to provide meal periods; (5) failure to provide rest breaks; (6) failure to provide complete and accurate wage statements; (7) failure to pay for all reimbursement expenses; (8) unfair business practices; and (9) violation of the California Private Attorneys General Act. The cases generally asserted claims on behalf of classes defined to include all current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of each lawsuit. For additional procedural history of these cases, please refer to our prior quarterly and annual filings.

The settlement amount of $5.75 million plus employment taxes was recorded in the first quarter of 2019. As of December 31, 2019, $6.0 million was accrued in the accompanying Consolidated Balance Sheet. The definition of the class to participate in the settlement is intended to cover claims raised in the consolidated *Seper/Chhina* matter, claims raised in *Phillips and Moore*, as well as any class claims in *William*s. On January 28, 2020, the court granted preliminary approval of the settlement. A notice of the proposed settlement has been sent to the members of the class by the class claims administrator. The court has re-set the date for the final approval of the settlement hearing for December 8, 2020.

Alfred Lax ("Lax"), a current employee of Roto-Rooter Services Company ("RRSC"), was hired in RRSC's Menlo Park branch in 2007. On November 30, 2018, Lax filed a class action lawsuit in Santa Clara County Superior Court alleging (1) failure to provide or compensate for required rest breaks; (2) failure to properly pay for all hours worked; (3) failure to provide accurate wage statements; (4) failure to reimburse for work-related expenses; and (5) unfair business practices. Lax stated these claims as a representative of a class defined as all service technicians employed by RRSC in California during the four years preceding the filing of the complaint. He seeks a determination that the action may proceed and be maintained as a class action and for compensatory and statutory damages (premium payments for missed rest periods, uncompensated rest periods, wages for time allegedly not paid such as travel time, repair time, and vehicle maintenance time, and unreimbursed expenses), penalties and restitutions, pre- and post-judgement interest and attorneys' fees and costs. The lawsuit is, *Alfred Lax on behalf of himself and all others similarly situated v. Roto-Rooter Services Company, and Does 1 through 50 inclusive;* Santa Clara County Superior Court Case Number 18CV338652.The Company intends to defend vigorously against the allegations in the *Lax* lawsuit.

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

12. Concentration of Risk

As of June 30, 2020, and December 31, 2019, approximately 74% and 71%, respectively, of VITAS' total accounts receivable balance were from Medicare and 22% and 24%, respectively, of VITAS' total accounts receivable balance were due from various state Medicaid or managed Medicaid programs. Combined accounts receivable from Medicare, Medicaid, and managed Medicaid represent approximately 75% of the consolidated net accounts receivable in the accompanying consolidated balance sheets as of June 30, 2020.

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

13. Cash Overdrafts and Cash Equivalents

There are no cash overdrafts payable included in accounts payable at June 30, 2020 (December 31, 2019 - $9.8 million).

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. The amount invested was not material for each balance sheet date presented.

14. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of June 30, 2020 (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)**
Mutual fund investments of deferred compensation plans held in trust	**$ 80,113**	**$ 80,113**	**$ -**	**$ -**
Total debt	**-**	**-**	**-**	**-**

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2019 (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)
Mutual fund investments of deferred compensation plans held in trust	$ 77,446	$ 77,446	$ -	$ -
Total debt	90,000	-	90,000	-

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 5, 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.

15. Capital Stock Repurchase Plan Transactions

We repurchased the following capital stock:

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Total cost of repurchased shares (in thousands)	**$ 21,914**	$ 22,676	**$ 122,148**	$ 71,926
Shares repurchased	**50,000**	69,009	**275,000**	219,009
Weighted average price per share	**$ 438.27**	$ 328.59	**$ 444.18**	$ 328.41

In March 2020, the Board of Directors authorized an additional $250.0 million for stock repurchase under Chemed's existing share repurchase program. We currently have $231.9 million of authorization remaining under this share repurchase plan.

16. Recent Accounting Standards

In March 2020, the FASB issued Accounting Standards Update "ASU No. 2020-04 - Reference Rate Reform". The update provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate expected to be discontinued. The update is effective for all entities as of March 12, 2020 and will apply through December 31, 2022. The interest rate charged on borrowings from our existing revolver is based on LIBOR. The credit agreement includes provisions for modifying the interest rate in the instance that LIBOR is discontinued. As a result, no contract modifications will be required when LIBOR is discontinued.

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

17. Acquisitions

On June 1, 2020, we completed the acquisition of a Roto-Rooter franchise and the related assets in Bloomington, IN for $2.2 million in cash.

On August 2, 2019, we entered into an Asset Purchase Agreement (the "Agreement") to purchase substantially all of the assets of HSW RR, Inc., a Delaware corporation ("HSW") and certain related assets of its affiliates, for $120 million, subject to a working capital adjustment that resulted in an additional $1.4 million payment to HSW. HSW owned and operated fourteen Roto-Rooter franchises mainly in the southwestern section of the United States, including Los Angeles, Dallas and Phoenix. Included in the assets purchased were the assets of Western Drain Supply, Inc., a plumbing supply company. The purchase was made using a combination of cash on-hand and borrowings under Chemed's existing $450 million revolving credit facility. On September 16, 2019, we completed the acquisition.

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

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

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

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

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

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

Amortization of reacquired franchise rights comprises the following (in thousands):

Three months ended June 30,		Six months ended June 30,	
2020	**2019**	**2020**	**2019**
$ 2,352	$ 331	**$ 4,704**	$ 772

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

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

The pro forma revenue and earnings of the Company for the three and six months ended June 30, 2019, as if all acquisitions made in fiscal 2020 and 2019 were completed on January 1, 2019, are as follows: (in thousands, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Service revenues and sales	$ 502,389	$ 495,847	$ 1,018,377	$ 980,143
Net income	$ 82,133	$ 54,491	$ 138,050	$ 102,475
Earnings per share	$ 5.16	$ 3.42	$ 8.65	$ 6.43
Diluted earnings per share	$ 5.02	$ 3.31	$ 8.39	$ 6.21

Shown below is movement in Goodwill (in thousands):

	VITAS	**Roto-Rooter**	**Total**
Balance at December 31, 2019	$ 333,331	$ 244,036	$ 577,367
Business combinations	-	1,193	1,193
Foreign currency adjustments	-	(69)	(69)
Balance at June 30, 2020	$ 333,331	$ 245,160	$ 578,491

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

Executive Summary

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

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

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Service revenues and sales	**$ 502,199**	$ 473,584	**$ 1,017,997**	$ 935,618
Net income	**$ 82,101**	$ 50,729	**$ 137,992**	$ 95,396
Diluted EPS	**$ 5.01**	$ 3.08	**$ 8.39**	$ 5.79
Adjusted net income	**$ 72,223**	$ 55,215	**$ 132,938**	$ 103,390
Adjusted diluted EPS	**$ 4.41**	$ 3.36	**$ 8.08**	$ 6.27
Adjusted EBITDA	**$ 108,741**	$ 85,089	**$ 201,770**	$ 159,888
Adjusted EBITDA as a % of revenue	**21.7%**	18.0 %	**19.8%**	17.1 %

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization ("EBITDA"), Adjusted EBITDA and Adjusted EBITDA as a percent of revenue are not measures derived in accordance with US GAAP. We provide non-GAAP measures to help readers evaluate our operating results and to compare our operating performance with that of similar companies that have different capital structures. Our non-GAAP measures should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. A reconciliation of our non-GAAP measures is presented on pages 39-41.

For the three months ended June 30, 2020, the increase in consolidated service revenues and sales was driven by an 8.6% increase at Roto-Rooter and a 4.7% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase mainly in excavation, water restoration, and drain cleaning as well as a result of acquisitions completed in 2019. The increase in service revenues at VITAS is comprised primarily of a 2.8% increase in days-of-care, a geographically weighted average Medicare reimbursement rate increase of approximately 5.4%, and acuity mix shift which reduced the blended average Medicare rate increase approximately 3.0%. See page 42 for additional VITAS operating metrics.

For the six months ended June 30, 2020, the increase in consolidated service revenues and sales was driven by a 11.6% increase at Roto-Rooter and a 7.4% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in almost all major service lines as well as a result of acquisitions completed in 2019. The increase in service revenues at VITAS is comprised primarily of a 4.3% increase in days-of-care, a geographically weighted average Medicare reimbursement rate increase of approximately 5.2%, and acuity mix shift which reduced the blended Medicare rate increase by approximately 2.0%. See page 42 for additional VITAS operating metrics.

The current COVID-19 pandemic did have a material impact on our business operations, results of operations, cash flow and financial position as of and for the three and six months ended June 30, 2020. We are closely monitoring the impact of the pandemic on all aspects of our business including impacts to employees, customers, patients, suppliers and vendors. The Company's two operating subsidiaries have been categorized as critical infrastructure businesses and are not currently materially limited by federal, state or local regulations that restrict movement or operating ability.

The continued health of our workforce cannot be predicted during the pandemic. Significant shortages of labor could inhibit the ability of both VITAS and Roto-Rooter to perform services. The inability to procure personal-protective equipment, and to protect worker health and customer safety, could negatively impact the health of our workforce. A portion of our workforce is currently working from remote locations on a regular basis which increases both operational and cybersecurity risks.

VITAS is working closely with hospitals, doctors and other healthcare providers. The response of these healthcare providers to the pandemic may limit VITAS' ability to provide care and may result in fewer referrals. A prolonged or severe economic downturn may significantly impact Roto-Rooter's service revenue. A significant disruption in the supply chain for critical items needed by either VITAS or Roto-Rooter could inhibit our ability to provide services or significantly increase the cost of providing those services.

The length and severity of the pandemic, coupled with related governmental actions including relief acts and actions relating to our workforce at federal, state and local levels, and underlying economic disruption will determine the ultimate short-term and long-term impact to our business operations and financial results. We are unable to predict the myriad of possible issues that could arise or the ultimate effect to our businesses as a result of the unknown short, medium and long-term impacts that the pandemic will have on the United States economy and society as a whole.

On March 27, 2020, the CARES Act was passed. It is intended to provide economic relief to individuals and businesses affected by the coronavirus pandemic. It also contains provisions related to healthcare providers' operations and the issues caused by the coronavirus pandemic. The following are significant economic impacts for Chemed and its subsidiaries as a result of specific provisions of the CARES Act:

- A portion of the CARES Act provides $100 billion from the Public Health and Social Services Emergency Fund ("Relief Fund") to healthcare providers on the front lines of the coronavirus response. Of this distribution, $30 billion was designated to be automatically distributed to facilities and healthcare providers based upon their 2019 Medicare fee-for-service revenue.
- On April 10, 2020 VITAS automatically received $80.2 million from the Relief Fund based upon VITAS's 2019 Medicare fee-for-service Medicare revenue. The main condition that is attached to the grant is that the money will be used "only for health care related expenses or lost revenues that are attributable to coronavirus". HHS guidance does not specifically designate what healthcare expenses are related to COVID-19. The guidance to date is general and broad but does provide some examples such as equipment and supplies, workforce training, reporting COVID-19 test results, securing separate facilities for COVID-19 patients and acquiring additional resources to expand or preserve care delivery. VITAS has cared for approximately 1,500 COVID positive patients through June 30, 2020.
- The additional conditions to the Relief Fund payment are specific in nature, such as the money cannot be used for gun control advocacy purposes, abortions, embryo research, etc. The Company is in compliance, and intends to maintain compliance, with these specific conditions. Based on this analysis, management believes that there is reasonable assurance that VITAS will comply with the conditions.
- Chemed deferred its first and second quarter 2020 income tax payments totaling $19.0 million to the Federal government until July 15, 2020, as permitted by the CARES Act. In addition, Chemed and its subsidiaries deferred $10.7 million of certain employer payroll taxes and $2.9 million of certain state tax payments, as permitted by the CARES Act.
- During the period from May 1, 2020 through December 31, 2020, the 2% Medicare sequestration reimbursement cut is suspended. For the three and six month period ended June 30, 2020 approximately $4.2 million was recognized as revenue due to the suspension of sequestration.

There is no U.S. GAAP that covers such accounting for government "grants" to for-profit entities. As a result, the Company analogized to International Accounting Standard 20 – *Accounting for Government Grants and Disclosures* ("IAS 20"). Under IAS 20, once it is reasonably assured that the entity will comply with the conditions of the grant, the grant money should be recognized on a systematic basis over the periods in which the entity recognizes the related expenses or losses.

For the three and six months ended June 30, 2020, the Company recognized $41.0 million in other operating income. The components of the amount recognized are as follows, (in thousands):

Hard costs	$	**3,814**
Incremental Medicare Cap		**2,250**
Incremental PTO		**21,425**
Lost revenue		**13,500**
Other operating income	$	**40,989**

Hard costs are primarily expenses paid to outside vendors for personal protection equipment and deep cleaning of in-patient facilities. The incremental Medicare Cap is the result of lower admissions in certain programs combined with the additional 2% sequestration revenue. In April, VITAS provided an extra two weeks of paid time off to all frontline workers. Lost revenue was calculated based on a comparison of historical Average Daily Census ("ADC") growth rates by service-line to actual growth rates experienced between April and June of 2020 reduced for uncertainties related to the ultimate affect the pandemic will have on our business.

The situation surrounding COVID-19 remains fluid. We evaluate our cash flow, liquidity and capital resources on a daily basis. VITAS and Roto-Rooter continue to operate and have positive net income and operating cash flow. We have $412.1 million available for borrowing under our $450 million revolving line-of-credit.

On August 6, 2019, the Centers for Medicare and Medicaid Services released the fiscal year 2020 hospice wage index and payment rate update ("FY 2020 update"). The FY 2020 update includes the normal yearly inflationary increase by level of care plus a rebasing of the continuous care, inpatient care and respite care rates. The rebasing of these levels of care was to reflect non-inflationary changes in providers' costs over time. The rebasing increased the national average reimbursement rate for continuous care by 39.9%

and inpatient care by 34.7%. Respite care is not material to our operations. The rebasing of these levels of care was effective on October 1, 2019.

On August 2, 2019, we entered into an Asset Purchase Agreement (the "Agreement") to purchase substantially all of the assets of HSW RR, Inc., a Delaware corporation ("HSW") and certain related assets of its affiliates, for $120 million, subject to a working capital adjustment. HSW owned and operated fourteen Roto-Rooter franchises mainly in the southwestern section of the United States, including Los Angeles, Dallas and Phoenix. Included in the assets purchased were the assets of Western Drain Supply, Inc., a plumbing supply company. The purchase was made using a combination of cash on-hand and borrowings under Chemed's existing $450 million revolving credit facility. On September 16, 2019, we completed the acquisition.

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

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

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

	2018 Franchise Revenue	Valuation of Reacquired Franchise Rights	Multiple of Annual Franchise Fees to Reacquired Franchise Rights	Annualized Amortization of Reacquired Franchise Rights
HSW	$ 1,782	$ 52,980	29.7 yrs	$ 7,258
Oakland	95	6,190	65.2	825
Subtotal	1,877	$ 59,170	31.5 yrs	$ 8,083
All other franchise territories	4,505			
	$ 6,382			

Amortization of reacquired franchise agreements comprises the following (in thousands):

Three months ended June 30,		Six months ended June 30,	
2020	**2019**	**2020**	**2019**
$ 2,352	$ 331	**$ 4,704**	$ 772

Historically, Chemed earnings guidance has been developed using previous years' key operating metrics which are then modeled and projected out for the calendar year. Critical within these projections is the understanding of traditional patterned correlations among key operating metrics. Once we complete this phase of our projected operating results, we would then modify the projections for the timing of price increases, changes in commission structure, wages, marketing programs and a variety of continuous improvement initiatives that our business segments plan on executing over the coming year. This modeling exercise also takes into consideration anticipated industry and macro-economic issues outside of management's control but are somewhat predictable in terms of timing and impact on our business segments' operating results.

The 2020 pandemic has made accurate modeling and providing meaningful earnings guidance for Chemed exceptionally challenging. Federal, state and local government authorities are forced to make swift decisions affecting our healthcare system, labor pools and general economy. These governmental decisions have the potential for immediate and material impact on VITAS and Roto-Rooter operating results.

Over the past four months, Chemed has been able to successfully navigate within this rapidly changing environment and produce operating results that we believe provide us with the ability to provide guidance for the remainder of the calendar year. However, this guidance should be taken with the recognition the pandemic will continue to materially disrupt all aspects of our healthcare system and general economy and thus materially impact our ability to achieve this guidance.

Revenue growth for VITAS in 2020, prior to Medicare cap, is estimated to be in the range of 5% to 7%. Average Daily Census in 2020 is estimated to expand approximately 2% to 4%. Full-year Adjusted EBITDA margin, prior to Medicare cap, is estimated to be 19% to 20%. We are currently estimating $17 million for Medicare cap billing limitations for calendar year 2020. We also anticipate the $80.2 million of CARES Act funds, formulaically calculated by the federal government based upon our 2019 Medicare fee-for-service revenue, will be adequate to cover increased costs specifically related to operating VITAS during the pandemic as well as any incremental Medicare cap billing limitations triggered from declines in Medicare admissions. Chemed's full year adjusted earnings per share guidance eliminates any financial benefit from the CARES Act funds that relate to lost revenue. We anticipate returning any unused CARES Act funds to the federal government at the end of the pandemic measurement period. Roto-Rooter is forecasted to achieve full-year 2020 revenue growth of 9% to 10%. Roto-Rooter's Adjusted EBITDA margin for 2020 is estimated to be in the range of 23% to 25%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

Financial Condition

Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2019 to June 30, 2020 include the following:

- A $11.3 million decrease in accounts receivable due to timing of receipts.
- A $14.4 million decrease in accounts payable due to timing of payments.
- A $19.6 million increase in income taxes mainly due to the deferral of the first and second quarter federal payments as permitted by the CARES Act.
- A $9.7 million increase in accrued compensation due to accrual of additional paid time off for VITAS front line works offset by the payments of cash bonuses in the first quarter of 2020.
- A $39.2 million increase in the unutilized portion of the CARES Act grant received in the second quarter of 2020.
- A $90.0 million decrease in long-term debt due to payments made in the second quarter of 2020.
- A $10.9 million increase in other liabilities mainly due to the deferral of certain payroll taxes as permitted by the CARES Act.
- A $147.4 million increase in treasury stock due mainly to stock repurchases.

Net cash provided by operating activities increased $168.9 million from June 30, 2019 to June 30, 2020. The main drivers of the increase relate to the receipt of $80.2 million in CARES Act grant funds and the deferral of certain income and payroll tax payments as permitted by the CARES Act. Additionally, significant changes in our accounts receivable balances are typically driven by the timing of payments received from the Federal government at our VITAS subsidiary. We typically receive a payment in excess of $40.0 million from the Federal government for hospice services every other Friday. The timing of a period end will have a significant impact on the accounts receivable at VITAS. These changes generally normalize over a two year period, as cash flow variations in one year are offset in the following year.

Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

On June 20, 2018, we replaced our existing credit agreement with the Fourth Amended and Restated Credit Agreement ("2018 Credit Agreement"). Terms of the 2018 Credit Agreement consist of a five year, $450 million revolving credit facility and a $150 million expansion feature, which may consist of term loans or additional revolving commitments. The revolving credit facility has a five year maturity with principal payments due at maturity. The interest rate at the inception of the agreement was LIBOR plus 100 basis points. The 2018 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio.

We have issued $37.9 million in standby letters of credit as of June 30, 2020, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2020, we have approximately $412.1 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

Commitments and Contingencies

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. We are in compliance with all financial and other debt covenants as of June 30, 2020 and anticipate remaining in compliance throughout the foreseeable future.

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

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

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

The Company entered into a settlement agreement in March 2019 that will resolve state-wide wage and hour class action claims raised in four separate cases: (1) *Jordan A. Seper on behalf of herself and others similarly situated v. VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corp of CA, a business entity unknown; and DOES 1 to 100, inclusive*; Los Angeles Superior Court Case Number BC 642857 (“*Seper*”); (2) *Jiwan Chhina v. VITAS Health Services of California, Inc., a California corporation; VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corporation of California, a Delaware corporation dba VITAS Healthcare Inc.; and DOES 1 to 100, inclusive*; San Diego Superior Court Case Number 37-2015-00033978-CU-OE-CTL (“*Chhina*”) (which was subsequently merged with *Seper*); (3) *Chere Phillips and Lady Moore v. VITAS Healthcare Corporation of California*, Sacramento County Superior Court, Case No. 34-2017-0021-2755 *(“Phillips and Moore”)*; and (4) *Williams v. VITAS Healthcare Corporation of California*, Alameda County Superior Court Case No. RG 17853886 *(“Williams’).* These actions were brought by both current and former employees including a registered nurse, a licensed vocational nurse (LVN), home health aides and a social worker. Each action stated multiple claims generally including (1) failure to pay minimum wage for all hours worked; (2) failure to provide overtime for all hours worked; (3) failure to pay wages for all hours at the regular rate; (4) failure to provide meal periods; (5) failure to provide rest breaks; (6) failure to provide complete and accurate wage statements; (7) failure to pay for all reimbursement expenses; (8) unfair business practices; and (9) violation of the California Private Attorneys General Act. The cases generally asserted claims on behalf of classes defined to include all current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of each lawsuit. For additional procedural history of these cases, please refer to our prior quarterly and annual filings.

The settlement amount of $5.75 million plus employment taxes was recorded in the first quarter of 2019. As of December 31, 2019, $6.0 million was accrued in the accompanying Consolidated Balance Sheet. The definition of the class to participate in the settlement is intended to cover claims raised in the consolidated *Seper/Chhina* matter, claims raised in *Phillips and Moore*, as well as any class claims in *Williams*. On January 28, 2020, the court granted preliminary approval of the settlement. A notice of the proposed settlement has been sent to the members of the class by the class claims administrator. The court has re-set the date for the final approval of the settlement hearing for December 8, 2020.

Alfred Lax (“Lax”), a current employee of Roto-Rooter Services Company (“RRSC”), was hired in RRSC’s Menlo Park branch in 2007. On November 30, 2018, Lax filed a class action lawsuit in Santa Clara County Superior Court alleging (1) failure to provide or compensate for required rest breaks; (2) failure to properly pay for all hours worked; (3) failure to provide accurate wage statements; (4) failure to reimburse for work-related expenses; and (5) unfair business practices. Lax stated these claims as a representative of a class defined as all service technicians employed by RRSC in California during the four years preceding the filing of the complaint. He seeks a determination that the action may proceed and be maintained as a class action and for compensatory and statutory damages (premium payments for missed rest periods, uncompensated rest periods, wages for time allegedly not paid such as travel time, repair time, and vehicle maintenance time, and unreimbursed expenses), penalties and restitutions, pre- and post-judgement interest and attorneys’ fees and costs. The lawsuit is, *Alfred Lax on behalf of himself and all others similarly situated v. Roto-Rooter Services Company, and Does 1 through 50 inclusive;* Santa Clara County Superior Court Case Number 18CV338652. The Company intends to defend vigorously against the allegations in the *Lax* lawsuit.

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

Results of Operations
Three months ended June 30, 2020 versus 2019 - Consolidated Results

Our service revenues and sales for the second quarter of 2020 increased 6.0% versus services and sales revenues for the second quarter of 2019. Of this increase, a $14.7 million increase was attributable to VITAS and $13.9 million increase was attributable to Roto-Rooter. The following chart shows the components of revenue by operating segment (in thousands):

	Three months ended June 30, 2020	Three months ended June 30, 2019
VITAS		
Routine homecare	$ **276,345**	$ 266,461
Continuous care	**34,582**	30,786
General inpatient	**25,868**	22,894
Other	**2,109**	2,237
Medicare cap adjustment	**(5,750)**	(3,198)
Room and board - net	**(2,647)**	(2,710)
Implicit price concessions	**(3,042)**	(3,720)
Roto-Rooter		
Drain cleaning - short term core	**49,455**	46,039
Plumbing - short term core	**32,022**	34,171
Subtotal	**81,477**	80,210
Excavation - short term core	**44,678**	35,422
Water restoration	**31,426**	29,955
Contractor operations	**15,193**	14,595
Outside franchisee fees	**1,210**	1,623
Other - short term core	**386**	579
Other	**2,971**	2,973
Implicit price concessions	**(2,607)**	(4,523)
Total	$ **502,199**	$ 473,584

Days of care at VITAS during the quarter ended June 30 were as follows:

	Days of Care 2020	Days of Care 2019	Increase/(Decrease) Percent
Routine homecare	**1,401,744**	1,317,854	6.4
Nursing home	**279,462**	303,983	(8.1)
Respite	**4,158**	6,669	(37.7)
Subtotal routine homecare and respite	**1,685,364**	1,628,506	3.5
Continuous care	**35,814**	41,804	(14.3)
General inpatient	**25,542**	29,663	(13.9)
Total days of care	**1,746,720**	1,699,973	2.8

This increase in service revenues at VITAS is comprised primarily of a 2.8% increase in days-of-care, a geographically weighted average Medicare reimbursement rate increase of approximately 5.4%, and acuity mix shift which reduced the blended average Medicare rate increase by approximately 3.1%.

During the quarter ended June 30, 2020, we recorded $5.8 million in net Medicare cap revenue reduction related to five programs for the 2020 government fiscal year. During the quarter ended June 30, 2019, we recorded $2.4 million in net Medicare cap revenue reduction related to three programs for the 2019 government fiscal year. Additionally, we recorded $847,000 related to adjustments to prior year cap liabilities.

The decrease in plumbing revenues for the second quarter of 2020 versus 2019 is attributable to a 4.7% decrease in price and service mix shift and a 1.6% decrease in job count. The increase in excavation revenues for the second quarter of 2020 versus 2019 is attributable to a 10.1% increase in price and service mix shift and a 16.0% increase in job count. Drain cleaning revenues for the second quarter of 2020 versus 2019 reflect a 1.7% increase in price and service mix shift and a 5.7% increase in job count. Water restoration revenue increased for the second quarter of 2020 versus 2019 due to a 4.1% increase in job count and an 0.8% increase in price. Contractor operations increased 4.1% mainly due to their continued expansion into water restoration.

The consolidated gross margin was 29.9% in the second quarter of 2020 as compared with 31.7% in the second quarter of 2019. On a segment basis, VITAS' gross margin was 18.5% in the second quarter of 2020 as compared with 22.9%, in the second quarter of

2019. The decline in gross margin is attributable mainly to increased costs related to COVID-19. The CARES Act grant amount that offsets these higher costs is recorded in other operating income. The Roto-Rooter segment's gross margin was 51.2% for the second quarter of 2020 as compared with 48.7% in the second quarter of 2019 primarily due to increased revenue and expense management.

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

	Three months ended June 30,	
	2020	**2019**
SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts	**$ 75,176**	$ 70,300
Impact of market value adjustments related to assets held in deferred compensation trusts	**7,408**	(130)
Long-term incentive compensation	**1,929**	1,386
Total SG&A expenses	**$ 84,513**	$ 71,556

SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts for the second quarter of 2020 were up 6.9% when compared to the second quarter of 2019. This increase was mainly a result of the increase in variable selling and general administrative expenses caused by increased revenue.

Depreciation for the second quarter of 2020, increased 17.9% when compared to the second quarter of 2019, primarily due to new equipment purchased at Roto-Rooter related to the acquisitions completed in the second half of 2019.

Amortization for the second quarter of 2020, increased 512.8% when compared to the second quarter of 2019 due to the amortization of reacquired franchise rights related to acquisitions completed in the second half of 2019.

Other operating (income)/expenses comprise the following:

	Three months ended June 30,	
	2020	**2019**
CARES Act grant	**$ (40,989)**	$ -
(Gain)/loss on disposal of fixed assets	**(395)**	304
Transportation equipment held for sale	**-**	2,266
Total other operating (income)/expenses	**$ (41,384)**	$ 2,570

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

	Three months ended June 30,	
	2020	**2019**
Market value adjustment on assets held in deferred compensation trusts	**$ 7,408**	$ (130)
Interest income	**116**	112
Other	**(10)**	31
Total other income - net	**$ 7,514**	$ 13

Our effective tax rate reconciliation is as follows:

	Three months ended June 30,	
	2020	**2019**
Income tax provision calculated at the statutory federal rate	**$ 20,921**	$ 13,504
Stock compensation tax benefits	**(8,203)**	(3,212)
State and local income taxes	**3,604**	2,212
Other--net	**1,200**	1,071
Income tax provision	**$ 17,522**	$ 13,575
Effective tax rate	**17.6**%	21.1%

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

	Three months ended June 30, 2020	Three months ended June 30, 2019
VITAS		
CARES Act grant	**$ 30,537**	$ -
Direct costs related to COVID-19	**(18,101)**	-
COVID-19 Medicare cap	**(1,679)**	-
Medicare cap sequestration adjustment	**(594)**	(1,253)
Non cash ASC 842 expenses	-	(1)
Roto-Rooter		
Amortization of reacquired franchise agreements	**(1,729)**	(244)
Direct costs related to COVID-19	**(822)**	-
Acquisition expenses	-	(71)
Corporate		
Excess tax benefits on stock compensation	**8,203**	3,212
Stock option expense	**(4,209)**	(3,197)
Long-term incentive compensation	**(1,728)**	(1,199)
Impairment loss on transportation equipment	-	(1,733)
Acquisition expense	-	-
Total	**$ 9,878**	$ (4,486)

Three months ended June 30, 2020 versus 2019 - Segment Results

Net income/(loss) for the second quarter of 2020 versus the second quarter of 2019 by segment (in thousands):

	Three months ended June 30, 2020	Three months ended June 30, 2019
VITAS	**$ 60,245**	$ 37,339
Roto-Rooter	**29,468**	27,175
Corporate	**(7,612)**	(13,785)
	$ 82,101	$ 50,729

VITAS' after-tax earnings were positively impacted in 2020 compared to 2019 due to the recognition of $30.5 million of the CARES Act (offset by higher expenses due to COVID-19), higher revenue and improved labor management and ancillary costs. After-tax earnings as a percent of revenue at VITAS in the second quarter of 2020 was 18.4% as compared to 11.9% in the second quarter of 2019.

Roto-Rooter's net income was impacted in 2020 compared to 2019 primarily by higher revenue offset by increased depreciation and amortization expense. After-tax earnings as a percent of revenue at Roto-Rooter in the second quarter of 2020 was 16.9%, essentially equal to the second quarter of 2019.

After-tax Corporate expenses for 2020 decreased 44.8% when compared to 2019 due mainly to a $5.0 million increase in the excess tax benefits on stock compensation and a $1.7 million decrease in impairment loss on transportation equipment that occurred in the second quarter of 2019.

Results of Operations
Six months ended June 30, 2020 versus 2019 - Consolidated Results

Our service revenues and sales for the first six months of 2020 increased 8.8% versus services and sales revenues for the first six months of 2019. Of this increase, a $45.9 million increase was attributable to VITAS and $36.5 million increase was attributable to Roto-Rooter. The following chart shows the components of revenue by operating segment (in thousands):

	Six months ended June 30,	
	2020	**2019**
VITAS		
Routine homecare	$ **548,098**	$ 525,312
Continuous care	**75,137**	63,030
General inpatient	**58,350**	45,464
Other	**5,265**	4,242
Medicare cap adjustment	**(8,250)**	(6,598)
Room and board - net	**(7,192)**	(5,252)
Implicit price concessions	**(6,028)**	(6,667)
Roto-Rooter		
Drain cleaning - short term core	**103,475**	90,692
Plumbing - short term core	**68,816**	66,589
Subtotal	**172,291**	157,281
Excavation - short term core	**87,738**	69,960
Water restoration	**60,672**	59,163
Contractor operations	**31,421**	28,627
Outside franchisee fees	**2,400**	3,245
Other - short term core	**936**	1,155
Other	**6,505**	5,980
Implicit price concessions	**(9,346)**	(9,324)
Total	$ **1,017,997**	$ 935,618

Days of care at VITAS during the six months ended June 30 were as follows:

	Days of Care		Increase/(Decrease)
	2020	**2019**	**Percent**
Routine homecare	**2,766,490**	2,599,753	6.4
Nursing home	**582,836**	593,752	(1.8)
Respite	**10,850**	12,970	(16.3)
Subtotal routine homecare and respite	**3,360,176**	3,206,475	4.8
Continuous care	**77,187**	85,727	(10.0)
General inpatient	**57,890**	58,813	(1.6)
Total days of care	**3,495,253**	3,351,015	4.3

The revenue increase at VITAS is comprised primarily of the 4.3% increase in days-of-care, a geographically weighted average Medicare reimbursement rate increase of approximately 5.2%, and acuity mix shift which then decreased the blended Medicare rate increase by approximately 2.0%.

During the first six months ended June 30, 2020, we recorded $8.3 million in net Medicare cap revenue reduction related to five programs for the 2020 government fiscal year. During the first six months ended June 30, 2019, we recorded $5.8 million in net Medicare cap revenue reduction related to four programs for the 2019 government fiscal year. Additionally, we recorded $847,000 related to adjustments of prior year cap liabilities.

The increase in plumbing revenues for the first six months of 2020 versus 2019 is attributable to a 3.9% increase in price and service mix shift and an 0.6% decrease in job count. The increase in excavation revenues for the first six months of 2020 versus 2019 is attributable to a 7.9% increase in price and service mix shift and a 17.5% increase in job count. Drain cleaning revenues for the first six months of 2020 versus 2019 reflect a 5.0% increase in price and service mix shift and a 9.1% increase in job count. The increase in water restoration revenue for the first six months of 2020 versus 2019 is attributable to a 4.2% increase in job count offset by a 1.6% decrease in price. Contractor operations increased 9.8% mainly due to their continued expansion into water restoration.

The consolidated gross margin was 30.9% in the first six months of 2020 as compared with 31.0% in the first six months of 2019. On a segment basis, VITAS' gross margin was 20.9% in the first six months of 2020 as compared with 22.4%, in the first six months of 2019. The decline in VITAS gross margin is attributable mainly to increased costs related to COVID-19. The CARES Act grant amount that offsets these higher costs is recorded in other operating income. The Roto-Rooter segment's gross margin was 49.6% for the first six months of 2020 as compared with 47.9% in the first six months of 2019 primarily due to increased revenue and expense management.

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

	Six months ended June 30,	
	2020	**2019**
SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts	**$ 153,511**	$ 140,504
Long-term incentive compensation	**3,749**	2,874
Impact of market value adjustments related to assets held in deferred compensation trusts	**(2,164)**	2,207
Total SG&A expenses	**$ 155,096**	$ 145,585

SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts for the first six months of 2020 were up 9.3% when compared to the first six months of 2019. This increase was mainly a result of the increase in variable selling and general administrative expenses caused by increased revenue.

Depreciation for the first six months of 2020, increased 17.6% when compared to the first six months of 2019, primarily due to new equipment purchased at Roto-Rooter related to the acquisitions completed in the second half of 2019.

Amortization for the first six months of 2020, increased 436.8% when compared to the first six months of 2019 due to the amortization of reacquired franchise rights related to acquisitions completed in the second half of 2019.

Other operating (income)/expenses comprise the following:

	Six months ended June 30,	
	2020	**2019**
CARES Act grant	**$ (40,989)**	$ -
(Gain)/loss on disposal of fixed assets	**(153)**	657
Transportation equipment held for sale	**-**	2,266
Other	**-**	6,000
Total other operating (income)/expenses	**$ (41,142)**	$ 8,923

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

	Six months ended June 30,	
	2020	**2019**
Market value adjustment on assets held in deferred compensation trusts	**$ (2,164)**	$ 2,207
Interest income	**225**	214
Other	**(13)**	31
Total other income - net	**$ (1,952)**	$ 2,452

Our effective tax rate reconciliation is as follows:

	Six months ended June 30,	
	2020	**2019**
Income tax provision calculated at the statutory federal rate	**$ 35,394**	$ 24,169
Stock compensation tax benefits	**(12,756)**	(9,944)
State and local income taxes	**6,182**	4,538
Other--net	**1,733**	932
Income tax provision	**$ 30,553**	$ 19,695
Effective tax rate	**18.1** %	17.1 %

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
VITAS		
CARES Act grant	**$ 30,537**	$ -
Direct costs related to COVID-19	**(18,828)**	-
COVID-19 Medicare cap	**(1,679)**	-
Medicare cap sequestration adjustment	**(1,097)**	(1,640)
Litigation settlement	-	(4,476)
Non cash ASC 842 benefit	-	(490)
Roto-Rooter		
Amortization of acquired and cancelled franchise agreements	**(3,457)**	(568)
Direct costs related to COVID-19	**(1,455)**	-
Acquisition expenses	-	(71)
Non cash ASC 842 benefit	-	(40)
Corporate		
Excess tax benefits on stock compensation	**12,756**	9,944
Stock option expense	**(8,399)**	(6,524)
Long-term incentive compensation	**(3,324)**	(2,429)
Impairment loss on transportation equipment	-	(1,733)
Non cash ASC 842 benefit	-	124
Acquisition expenses	-	(91)
Total	**$ 5,054**	$ (7,994)

Six months ended June 30, 2020 versus 2019 - Segment Results

Net income/(loss) for the first six months of 2020 versus the first six months of 2019 by segment (in thousands):

	Six months ended June 30, 2020	Six months ended June 30, 2019
VITAS	**$ 101,524**	$ 66,626
Roto-Rooter	**53,790**	50,162
Corporate	**(17,322)**	(21,392)
	$ 137,992	$ 95,396

VITAS' after-tax earnings were positively impacted in 2020 compared to 2019 due to the recognition of $30.5 million of the CARES Act (offset by COVID-19 costs) and to higher revenue and improved labor management and ancillary costs. After-tax earnings as a percent of revenue at VITAS in the first six months of 2020 was 15.3% as compared to 10.7% in the first six months of 2019.

Roto-Rooter's net income was impacted in 2020 compared to 2019 primarily by higher revenue offset by increased depreciation and amortization expense. After-tax earnings as a percent of revenue at Roto-Rooter in the first six months of 2020 was 15.3% as compared to 15.9% in the first six months of 2019.

After-tax Corporate expenses for 2020 decreased 19.0% when compared to 2019 due mainly to a $2.8 million increase in the excess tax benefits on stock compensation.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2020
(in thousands)(unaudited)

2020 (a)	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	$ 327,465	$ 174,734	$ -	$ 502,199
Cost of services provided and goods sold	266,815	85,348	-	352,163
Selling, general and administrative expenses	21,072	44,231	19,210	84,513
Depreciation	5,556	6,069	34	11,659
Amortization	18	2,470	-	2,488
Other operating income	(40,826)	(558)	-	(41,384)
Total costs and expenses	252,635	137,560	19,244	409,439
Income/(loss) from operations	74,830	37,174	(19,244)	92,760
Interest expense	(45)	(90)	(516)	(651)
Intercompany interest income/(expense)	4,739	1,422	(6,161)	-
Other (expense)/income—net	104	(10)	7,420	7,514
Income/(expense) before income taxes	79,628	38,496	(18,501)	99,623
Income taxes	(19,383)	(9,028)	10,889	(17,522)
Net income/(loss)	$ 60,245	$ 29,468	$ (7,612)	$ 82,101

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

Pretax benefit/(cost):	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
CARES Act grant	$ 40,989	$ -	$ -	$ 40,989
Direct costs related to COVID-19	(24,265)	(1,117)	-	(25,382)
Stock option expense	-	-	(5,068)	(5,068)
Amortization of reacquired franchise agreements	-	(2,352)	-	(2,352)
COVID-19 Medicare cap	(2,250)	-	-	(2,250)
Long-term incentive compensation	-	-	(1,929)	(1,929)
Medicare cap sequestration	(796)	-	-	(796)
Total	$ 13,678	$ (3,469)	$ (6,997)	$ 3,212

After-tax benefit/(cost):	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
CARES Act grant	$ 30,537	$ -	$ -	$ 30,537
Direct costs related to COVID-19	(18,101)	(822)	-	(18,923)
Stock option expense	-	-	(4,209)	(4,209)
Amortization of reacquired franchise agreements	-	(1,729)	-	(1,729)
Long-term incentive compensation	-	-	(1,728)	(1,728)
COVID-19 Medicare cap	(1,679)	-	-	(1,679)
Medicare cap sequestration	(594)	-	-	(594)
Excess tax benefits on stock compensation	-	-	8,203	8,203
Total	$ 10,163	$ (2,551)	$ 2,266	$ 9,878

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2019
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2019 (a)				
Service revenues and sales	$ 312,750	$ 160,834	$ -	$ 473,584
Cost of services provided and goods sold	241,104	82,533	-	323,637
Selling, general and administrative expenses	21,682	39,377	10,497	71,556
Depreciation	4,831	5,017	39	9,887
Amortization	18	388	-	406
Other operating expenses	69	235	2,266	2,570
Total costs and expenses	267,704	127,550	12,802	408,056
Income/(loss) from operations	45,046	33,284	(12,802)	65,528
Interest expense	(53)	(100)	(1,084)	(1,237)
Intercompany interest income/(expense)	4,382	2,180	(6,562)	-
Other income—net	101	42	(130)	13
Income/(expense) before income taxes	49,476	35,406	(20,578)	64,304
Income taxes	(12,137)	(8,231)	6,793	(13,575)
Net income/(loss)	$ 37,339	$ 27,175	$ (13,785)	$ 50,729

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$ -	$ -	$ (3,929)	$ (3,929)
Impairment loss on transportation equipment	-	-	(2,266)	(2,266)
Medicare cap sequestration adjustment	(1,689)	-	-	(1,689)
Long-term incentive compensation	-	-	(1,386)	(1,386)
Amortization of reacquired franchise agreements	-	(331)	-	(331)
Acquisition expenses	-	(97)	-	(97)
Total	$ (1,689)	$ (428)	$ (7,581)	$ (9,698)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	$ -	$ -	$ (3,197)	$ (3,197)
Impairment loss on transportation equipment	-	-	(1,733)	(1,733)
Medicare cap sequestration adjustment	(1,253)	-	-	(1,253)
Long-term incentive compensation	-	-	(1,199)	(1,199)
Amortization of reacquired franchise agreements	-	(244)	-	(244)
Acquisition expenses	-	(71)	-	(71)
Non cash ASC 842 expenses	(1)	-	-	(1)
Excess tax benefits on stock compensation		-	3,212	3,212
Total	$ (1,254)	$ (315)	$ (2,917)	$ (4,486)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2020
(in thousands)(unaudited)

2020 (a)	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	$ 665,380	$ 352,617	$ -	$ 1,017,997
Cost of services provided and goods sold	526,244	177,664	-	703,908
Selling, general and administrative expenses	43,341	90,513	21,242	155,096
Depreciation	11,030	11,947	70	23,047
Amortization	36	4,929	-	4,965
Other operating income	(40,712)	(430)	-	(41,142)
Total costs and expenses	539,939	284,623	21,312	845,874
Income/(loss) from operations	125,441	67,994	(21,312)	172,123
Interest expense	(90)	(192)	(1,344)	(1,626)
Intercompany interest income/(expense)	9,125	2,771	(11,896)	-
Other (expense)/income—net	169	30	(2,151)	(1,952)
Income/(expense) before income taxes	134,645	70,603	(36,703)	168,545
Income taxes	(33,121)	(16,813)	19,381	(30,553)
Net income/(loss)	$ 101,524	$ 53,790	$ (17,322)	$ 137,992

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

Pretax benefit/(cost):	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
CARES Act grant	$ 40,989	$ -	$ -	$ 40,989
Direct costs related to COVID-19	(25,238)	(1,978)	-	(27,216)
Stock option expense	-	-	(10,114)	(10,114)
Amortization of reacquired franchise agreements	-	(4,704)	-	(4,704)
Long-term incentive compensation	-	-	(3,749)	(3,749)
COVID-19 Medicare cap	(2,250)	-	-	(2,250)
Medicare cap sequestration adjustment	(1,472)	-	-	(1,472)
Total	$ 12,029	$ (6,682)	$ (13,863)	$ (8,516)

After-tax benefit/(cost):	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
CARES Act grant	$ 30,537	$ -	$ -	$ 30,537
Direct costs related to COVID-19	(18,828)	(1,455)	-	(20,283)
Stock option expense	-	-	(8,399)	(8,399)
Amortization of reacquired franchise agreements	-	(3,457)	-	(3,457)
Long-term incentive compensation	-	-	(3,324)	(3,324)
COVID-19 Medicare cap	(1,679)	-	-	(1,679)
Medicare cap sequestration adjustment	(1,097)	-	-	(1,097)
Excess tax benefits on stock compensation	-	-	12,756	12,756
Total	$ 8,933	$ (4,912)	$ 1,033	$ 5,054

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2019
(in thousands)(unaudited)

2019 (a)	**VITAS**	**Roto-Rooter**	**Corporate**	**Chemed Consolidated**
Service revenues and sales	$ 619,531	$ 316,087	$ -	$ 935,618
Cost of services provided and goods sold	480,847	164,741	-	645,588
Selling, general and administrative expenses	43,218	78,978	23,389	145,585
Depreciation	9,539	9,980	78	19,597
Amortization	35	890	-	925
Other operating expenses	6,423	234	2,266	8,923
Total costs and expenses	540,062	254,823	25,733	820,618
Income/(loss) from operations	79,469	61,264	(25,733)	115,000
Interest expense	(101)	(194)	(2,066)	(2,361)
Intercompany interest income/(expense)	8,777	4,375	(13,152)	-
Other income—net	188	56	2,208	2,452
Income/(expense) before income taxes	88,333	65,501	(38,743)	115,091
Income taxes	(21,707)	(15,339)	17,351	(19,695)
Net income/(loss)	$ 66,626	$ 50,162	$ (21,392)	$ 95,396

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

Pretax benefit/(cost):	**VITAS**	**Roto-Rooter**	**Corporate**	**Chemed Consolidated**
Stock option expense	$ -	$ -	$ (8,018)	$ (8,018)
Litigation settlement	(6,000)	-	-	(6,000)
Long-term incentive compensation	-	-	(2,874)	(2,874)
Impairment loss on transportation equipment	-	-	(2,266)	(2,266)
Medicare cap sequestration adjustment	(2,204)	-	-	(2,204)
Amortization of reacquired franchise agreements	-	(772)	-	(772)
Non cash ASC 842 (expenses)/benefit	(656)	(55)	163	(548)
Acquisition expense	-	(97)	(120)	(217)
Total	$ (8,860)	$ (924)	$ (13,115)	$ (22,899)

After-tax benefit/(cost):	**VITAS**	**Roto-Rooter**	**Corporate**	**Chemed Consolidated**
Stock option expense	$ -	$ -	$ (6,524)	$ (6,524)
Litigation settlement	(4,476)	-	-	(4,476)
Long-term incentive compensation	-	-	(2,429)	(2,429)
Impairment loss on transportation equipment	-	-	(1,733)	(1,733)
Medicare cap sequestration adjustment	(1,640)	-	-	(1,640)
Amortization of reacquired franchise agreements	-	(568)	-	(568)
Non cash ASC 842 (expenses)/benefit	(490)	(40)	124	(406)
Acquisition expense	-	(71)	(91)	(162)
Excess tax benefits on stock compensation	-	-	9,944	9,944
Total	$ (6,606)	$ (679)	$ (709)	$ (7,994)

Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands) For the three months ended June 30, 2020	**VITAS**	**Roto-Rooter**	**Corporate**	**Chemed Consolidated**
Net income/(loss)	**$ 60,245**	**$ 29,468**	**$ (7,612)**	**$ 82,101**
Add/(deduct):				
Interest expense	**45**	**90**	**516**	**651**
Income taxes	**19,383**	**9,028**	**(10,889)**	**17,522**
Depreciation	**5,556**	**6,069**	**34**	**11,659**
Amortization	**18**	**2,470**	**-**	**2,488**
EBITDA	**85,247**	**47,125**	**(17,951)**	**114,421**
Add/(deduct):				
Intercompany interest expense/(income)	**(4,739)**	**(1,422)**	**6,161**	**-**
Interest income	**(113)**	**10**	**(13)**	**(116)**
CARES Act grant	**(40,989)**	**-**	**-**	**(40,989)**
Direct costs related to COVID-19	**24,265**	**1,117**	**-**	**25,382**
Stock option expense	**-**	**-**	**5,068**	**5,068**
COVID-19 related Medicare cap	**2,250**	**-**	**-**	**2,250**
Long-term incentive compensation	**-**	**-**	**1,929**	**1,929**
Medicare cap sequestration adjustment	**796**	**-**	**-**	**796**
Adjusted EBITDA	**$ 66,717**	**$ 46,830**	**$ (4,806)**	**$ 108,741**

For the three months ended June 30, 2019	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$ 37,339	$ 27,175	$ (13,785)	$ 50,729
Add/(deduct):				
Interest expense	53	100	1,084	1,237
Income taxes	12,137	8,231	(6,793)	13,575
Depreciation	4,831	5,017	39	9,887
Amortization	18	388	-	406
EBITDA	54,378	40,911	(19,455)	75,834
Add/(deduct):				
Intercompany interest expense/(income)	(4,382)	(2,180)	6,562	-
Interest income	(69)	(43)	-	(112)
Stock option expense	-	-	3,929	3,929
Impairment loss on transportation equipment	-	-	2,266	2,266
Medicare cap sequestration adjustment	1,689	-	-	1,689
Long-term incentive compensation	-	-	1,386	1,386
Acquisition expenses	-	97	-	97
Adjusted EBITDA	$ 51,616	$ 38,785	$ (5,312)	$ 85,089

Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands) **For the six months ended June 30, 2020**	**VITAS**	**Roto-Rooter**	**Corporate**	**Chemed Consolidated**
Net income/(loss)	**$ 101,524**	**$ 53,790**	**$ (17,322)**	**$ 137,992**
Add/(deduct):				
Interest expense	**90**	**192**	**1,344**	**1,626**
Income taxes	**33,121**	**16,813**	**(19,381)**	**30,553**
Depreciation	**11,030**	**11,947**	**70**	**23,047**
Amortization	**36**	**4,929**	**-**	**4,965**
EBITDA	**145,801**	**87,671**	**(35,289)**	**198,183**
Add/(deduct):				
Intercompany interest expense/(income)	**(9,125)**	**(2,771)**	**11,896**	**-**
Interest income	**(181)**	**(31)**	**(13)**	**(225)**
CARES Act grant	**(40,989)**	**-**	**-**	**(40,989)**
Direct costs related to COVID-19	**25,238**	**1,978**	**-**	**27,216**
Stock option expense	**-**	**-**	**10,114**	**10,114**
Long-term incentive compensation	**-**	**-**	**3,749**	**3,749**
COVID-19 related Medicare cap	**2,250**	**-**	**-**	**2,250**
Medicare cap sequestration adjustment	**1,472**	**-**	**-**	**1,472**
Adjusted EBITDA	**$ 124,466**	**$ 86,847**	**$ (9,543)**	**$ 201,770**

For the six months ended June 30, 2019	**VITAS**	**Roto-Rooter**	**Corporate**	**Chemed Consolidated**
Net income/(loss)	$ 66,626	$ 50,162	$ (21,392)	$ 95,396
Add/(deduct):				
Interest expense	101	194	2,066	2,361
Income taxes	21,707	15,339	(17,351)	19,695
Depreciation	9,539	9,980	78	19,597
Amortization	35	890	-	925
EBITDA	98,008	76,565	(36,599)	137,974
Add/(deduct):				
Intercompany interest expense/(income)	(8,777)	(4,375)	13,152	-
Interest income	(157)	(56)	-	(213)
Stock option expense	-	-	8,018	8,018
Litigation settlement	6,000	-	-	6,000
Long-term incentive compensation	-	-	2,874	2,874
Impairment loss on transportation equipment	-	-	2,266	2,266
Medicare cap sequestration adjustment	2,204	-	-	2,204
Non cash ASC 842 expenses/(benefit)	656	55	(163)	548
Acquisition expense	-	97	120	217
Adjusted EBITDA	$ 97,934	$ 72,286	$ (10,332)	$ 159,888

RECONCILIATION OF ADJUSTED NET INCOME
(in thousands, except per share data)(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Net income as reported	**$ 82,101**	$ 50,729	**$ 137,992**	$ 95,396
Add/(deduct) pre-tax cost of:				
CARES Act grant	**(40,989)**	-	**(40,989)**	-
Direct costs related to COVID-19	**25,382**	-	**27,216**	-
Stock option expense	**5,068**	3,929	**10,114**	8,018
Amortization of reacquired franchise agreements	**2,352**	331	**4,704**	772
COVID-19 related Medicare cap	**2,250**	-	**2,250**	-
Long-term incentive compensation	**1,929**	1,386	**3,749**	2,874
Medicare cap sequestration adjustment	**796**	1,689	**1,472**	2,204
Impairment loss on transportation equipment	**-**	2,266	**-**	2,266
Litigation settlement	**-**	-	**-**	6,000
Acquisition expense	**-**	97	**-**	217
Non cash ASC 842 expense	**-**	-	**-**	548
Add/(deduct) tax impacts:				
Tax impact of the above pre-tax adjustments (1)	**1,537**	(2,000)	**(814)**	(4,961)
Excess tax benefits on stock compensation	**(8,203)**	(3,212)	**(12,756)**	(9,944)
Adjusted net income	**$ 72,223**	$ 55,215	**$ 132,938**	$ 103,390
Diluted Earnings Per Share As Reported				
Net income	**$ 5.01**	$ 3.08	**$ 8.39**	$ 5.79
Average number of shares outstanding	**16,373**	16,449	**16,445**	16,489
Adjusted Diluted Earnings Per Share				
Adjusted net income	**$ 4.41**	$ 3.36	**$ 8.08**	$ 6.27
Adjusted average number of shares outstanding	**16,373**	16,449	**16,445**	16,489

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

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

OPERATING STATISTICS	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Net revenue ($000)				
Homecare	**$ 276,345**	$ 266,461	**$ 548,098**	$ 525,312
Inpatient	**25,868**	22,894	**58,350**	45,464
Continuous care	**34,582**	30,786	**75,137**	63,030
Other	**2,109**	2,237	**5,265**	4,242
Subtotal	**$ 338,904**	$ 322,378	**$ 686,850**	$ 638,048
Room and board, net	**(2,647)**	(3,710)	**(6,028)**	(5,252)
Contractual allowances	**(3,042)**	(3,720)	**(7,192)**	(6,667)
Medicare cap allowance	**(5,750)**	(3,198)	**(8,250)**	(6,598)
Total	**$ 327,465**	$ 311,750	**$ 665,380**	$ 619,531
Net revenue as a percent of total before Medicare cap allowances				
Homecare	**81.5%**	82.7%	**79.8%**	82.3%
Inpatient	**7.6**	7.1	**8.5**	7.1
Continuous care	**10.2**	9.5	**10.9**	9.9
Other	**0.7**	0.7	**0.8**	0.7
Subtotal	**100.0**	100.0	**100.0**	100.0
Room and board, net	**(0.8)**	(0.8)	**(0.9)**	(0.8)
Contractual allowances	**(0.9)**	(1.2)	**(1.0)**	(1.0)
Medicare cap allowance	**(1.7)**	(1.0)	**(1.2)**	(1.0)
Total	**96.6%**	97.0%	**96.9%**	97.2%
Days of care				
Homecare	**1,401,744**	1,317,854	**2,766,490**	2,599,753
Nursing home	**279,462**	303,983	**582,836**	593,752
Respite	**4,158**	6,669	**10,850**	12,970
Subtotal routine homecare and respite	**1,685,364**	1,628,506	**3,360,176**	3,206,475
Inpatient	**25,542**	29,663	**57,890**	58,813
Continuous care	**35,814**	41,804	**77,187**	85,727
Total	**1,746,720**	1,699,973	**3,495,253**	3,351,015
Number of days in relevant time period	**91**	91	**182**	181
Average daily census (days)				
Homecare	**15,404**	14,482	**15,201**	14,363
Nursing home	**3,071**	3,340	**3,202**	3,280
Respite	**46**	73	**60**	72
Subtotal routine homecare and respite	**18,521**	17,895	**18,463**	17,715
Inpatient	**281**	327	**318**	325
Continuous care	**394**	459	**424**	474
Total	**19,196**	18,681	**19,205**	18,514
Total Admissions	**16,822**	17,491	**35,425**	35,249
Total Discharges	**17,000**	17,008	**35,208**	34,350
Average length of stay (days)	**90.9**	91.1	**90.8**	91.2
Median length of stay (days)	**14.0**	16.0	**14.0**	15.0
ADC by major diagnosis				
Cerebro	**35.2%**	35.7%	**35.7%**	35.8%
Neurological	**21.7**	20.4	**21.6**	20.2
Cancer	**12.8**	12.7	**12.7**	12.7
Cardio	**16.1**	17.0	**15.9**	16.9
Respiratory	**8.2**	8.2	**8.3**	8.2
Other	**6.0**	6.0	**5.8**	6.2
Total	**100.0%**	100.0%	**100.0%**	100.0%
Admissions by major diagnosis				
Cerebro	**20.9**	20.6%	**21.0%**	20.7%
Neurological	**13.4**	12.2	**12.9**	12.5
Cancer	**27.6**	29.2	**28.0**	28.6
Cardio	**14.6**	16.0	**14.9**	16.1
Respiratory	**9.8**	11.7	**10.9**	11.8
Other	**13.7**	10.3	**12.3**	10.3
Total	**100.0%**	100.0%	**100.0%**	100.0%
Estimated uncollectible accounts as a percent of revenues	**0.9%**	1.2%	**1.1%**	1.1%
Accounts receivable --				
Days of revenue outstanding- excluding unapplied Medicare payments	**31.9**	32.7	**n.a.**	n.a.
Days of revenue outstanding- including unapplied Medicare payments	**26.7**	27.7	**n.a.**	n.a.

<u>Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995 Regarding Forward-Looking Information</u>

Certain statements contained in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe”, “expect”, “hope”, “anticipate”, “plan” and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. These forward-looking statements are based on current expectations and assumptions and involve various known and unknown risks, uncertainties, contingencies and other factors, which could cause Chemed’s actual results to differ from those expressed in such forward-looking statements. Variances in any or all of the risks, uncertainties, contingencies, and other factors from our assumptions could cause actual results to differ materially from these forward-looking statements and trends. In addition, our ability to deal with the unknown outcomes of these events, many of which are beyond our control, may affect the reliability of projections and other financial matters. Investors are cautioned that such forward-looking statements are subject to inherent risk and there are no assurances that the matters contained in such statements will be achieved. Chemed does not undertake and specifically disclaims any obligation to publicly update or revise any forward-looking statements, whether as a result of a new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company’s primary market risk exposure relates to interest rate risk exposure through its variable interest line of credit. At June 30, 2020, the Company had no variable rate debt outstanding. For each $10 million dollars borrowed under the credit facility, an increase or decrease of 100 basis points (1% point), increases or decreases the Company’s annual interest expense by $100,000.

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

Item 4. Controls and Procedures

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding the Company’s legal proceedings, see note 11, Legal and Regulatory Matters, under Part I, Item I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

The recent COVID-19 pandemic could have a material adverse effect on our business operations, results of operations, cash flows and financial position.

We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business and geographies, including how it will impact our customers, team members, suppliers, vendors, business partners and distribution channels. The COVID-19 pandemic has created significant volatility, uncertainty and economic disruption, which will adversely affect our business operations and may materially and adversely affect our results of operations, cash flows and financial position.

For additional information regarding specific risk factors related to the COVID-19 pandemic, see Management’s Discussion and Analysis of Financial Condition and Results of Operation under Part I., Item 2 of this Quarterly Report on Form 10-Q. There have been no other material changes from the risk factors previously disclosed in the Company’s most recent Annual Report on Form 10-K.

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

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

The following table shows the activity related to our share repurchase program for the first six months of 2020:

	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share	Cumulative Shares Repurchased Under the Program	Dollar Amount Remaining Under The Program
February 2011 Program				
January 1 through January 31, 2020	-	$ -	8,645,873	$ 104,018,683
February 1 through February 29, 2020	110,497	457.73	8,756,370	53,440,502
March 1 through March 31, 2020	114,503	433.67	8,870,873	$ 253,783,766
First Quarter Total	225,000	$ 445.49		
April 1 through April 30, 2020	-	$ -	8,870,873	$ 253,783,766
May 1 through May 31, 2020	-	-	8,870,873	253,783,766
June 1 through June 30, 2020	50,000	438.27	8,920,873	$ 231,870,234
Second Quarter Total	50,000	$ 438.27		

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.
31.2	Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.
31.3	Certification by 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	The following materials from Chemed Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) The Condensed Consolidated Balance Sheet, (ii) The Condensed Consolidated Statement of Income, (iii) The Condensed Consolidated Statement of Cash Flows, (iv) The Condensed Statement of Equity, and (v) Notes to the Condensed Consolidated Financial Statements.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in iXBRL and contained in Exhibit 101.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			Chemed Corporation (Registrant)
Dated:	July 31, 2020	By:	*/s/ Kevin J. McNamara* Kevin J. McNamara (President and Chief Executive Officer)
Dated:	July 31, 2020	By:	*/s/ David P. Williams* David P. Williams (Executive Vice President and Chief Financial Officer)
Dated:	July 31, 2020	By:	*/s/ Michael D. Witzeman* Michael D. Witzeman (Vice President and Controller)

EXHIBIT 31.1

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 quarterly report on Form 10-Q of Chemed Corporation (“registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a 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 report, fairly present in all material respects the financial condition, results of operations, and cash flows 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 and 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 others 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 the 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.

Date: July 31, 2020

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

EXHIBIT 31.2

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 quarterly report on Form 10-Q of Chemed Corporation (“registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a 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 report, fairly present in all material respects the financial condition, results of operations, and cash flows 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 and 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 others 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 the 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.

Date: July 31, 2020

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

EXHIBIT 31.3

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 quarterly report on Form 10-Q of Chemed Corporation (“registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a 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 report, fairly present in all material respects the financial condition, results of operations, and cash flows 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 and 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 others 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 the 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.

Date: July 31, 2020

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

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

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

1) the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2020 ("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.

Date: July 31, 2020

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

EXHIBIT 32.2

CERTIFICATION BY 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 Quarterly Report on Form 10-Q for the quarter ending June 30, 2020 ("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.

Date: July 31, 2020

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

EXHIBIT 32.3

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 Quarterly Report on Form 10-Q for the quarter ending June 30, 2020 (“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.

Date: July 31, 2020

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