CHEMED CORP
Form 10-Q
November 01, 2013

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 September 30, 2013

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

(513) 762-6500
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes 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

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.

Class	Amount	Date
Capital Stock $1 Par Value	17,634,176 Shares	September 30, 2013

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

Index

EX – 32.2
EX – 32.3
EX – 101.INS
EX – 101.SCH
EX – 101.CAL
EX – 101.DEF
EX – 101.LAB
EX – 101.PRE

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

UNAUDITED CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 83,204	$ 69,531
Accounts receivable less allowances of $12,555 (2012 - $10,892)	80,117	93,333
Inventories	6,729	7,058
Current deferred income taxes	25,101	13,659
Prepaid income taxes	3,538	2,643
Prepaid expenses	17,684	11,447
Total current assets	216,373	197,671
Investments of deferred compensation plans	40,683	36,089
Properties and equipment, at cost, less accumulated depreciation of $178,720 (2012 - $164,607)	89,800	91,934
Identifiable intangible assets less accumulated amortization of $31,633 (2012 - $30,414)	56,979	57,177
Goodwill	466,940	465,832
Other assets	10,765	10,923
Total Assets	$ 881,540	$ 859,626
LIABILITIES		
Current liabilities		
Accounts payable	$ 44,523	$ 48,472
Current portion of long-term debt	181,340	-
Income taxes	5,529	4,938
Accrued insurance	41,737	40,654
Accrued compensation	46,689	45,457
Other current liabilities	56,536	17,301
Total current liabilities	376,354	156,822
Deferred income taxes	27,454	27,662
Long-term debt	-	174,890

Deferred compensation liabilities		39,406		35,599
Other liabilities		11,499		11,362
Total Liabilities		454,713		406,335
Commitments and contingencies				
STOCKHOLDERS' EQUITY				
Capital stock - authorized 80,000,000 shares $1 par; issued 32,085,561 shares (2012 - 31,589,366 shares)		32,086		31,589
Paid-in capital		469,934		437,364
Retained earnings		666,894		623,035
Treasury stock - 14,548,735 shares (2012 - 13,057,270)		(744,210)		(640,732)
Deferred compensation payable in Company stock		2,123		2,035
Total Stockholders' Equity		426,827		453,291
Total Liabilities and Stockholders' Equity	$	881,540	$	859,626

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Service revenues and sales	$ 340,886	$ 354,353	$ 1,064,725	$ 1,061,466
Cost of services provided and goods sold (excluding depreciation)	243,184	256,610	762,850	771,423
Selling, general and administrative expenses	48,870	52,955	157,537	155,892
Depreciation	6,971	6,557	20,665	19,178
Amortization	1,190	1,135	3,498	3,375
Other operating expenses	11,461	1,126	26,221	1,126
Total costs and expenses	311,676	318,383	970,771	950,994
Income from operations	29,210	35,970	93,954	110,472
Interest expense	(3,500)	(3,743)	(11,291)	(11,032)
Other income/(expense) - net	(90)	1,840	3,312	2,965
Income before income taxes	25,620	34,067	85,975	102,405
Income taxes	(8,188)	(13,222)	(31,657)	(39,841)
Net income	$ 17,432	$ 20,845	$ 54,318	$ 62,564
Earnings Per Share				
Net income	$ 0.96	$ 1.10	$ 2.95	$ 3.30
Average number of shares outstanding	18,184	18,960	18,436	18,977
Diluted Earnings Per Share				
Net income	$ 0.94	$ 1.07	$ 2.89	$ 3.23
Average number of shares outstanding	18,522	19,404	18,824	19,382
Cash Dividends Per Share	$ 0.20	$ 0.18	$ 0.56	$ 0.50

See accompanying notes to unaudited consolidated financial statements.

-4-

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

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash Flows from Operating Activities		
Net income	$54,318	$62,564
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,163	22,553
Deferred income taxes	(11,681)	(6,808)
Provision for uncollectible accounts receivable	8,211	7,303
Amortization of discount on convertible notes	6,450	6,028
Stock option expense	4,732	6,709
Amortization of debt issuance costs	1,421	940
Noncash long-term incentive compensation	1,161	-
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:		
Decrease/(increase) in accounts receivable	5,293	(30,409)
Decrease in inventories	329	1,029
Decrease/(increase) in prepaid expenses	(6,183)	1,554
Increase in accounts payable and other current liabilities	48,967	4,454
Increase in income taxes	1,923	1,292
Increase in other assets	(5,002)	(3,944)
Increase in other liabilities	3,978	6,648
Excess tax benefit on share-based compensation	(2,507)	(2,714)
Other sources	285	138
Net cash provided by operating activities	135,858	77,337
Cash Flows from Investing Activities		
Capital expenditures	(18,887)	(26,489)
Business combinations, net of cash acquired	(2,210)	(5,900)
Other sources	139	528
Net cash used by investing activities	(20,958)	(31,861)
Cash Flows from Financing Activities		
Purchases of treasury stock	(89,611)	(11,724)
Dividends paid	(10,459)	(9,641)
Capital stock surrendered to pay taxes on stock-based compensation	(4,280)	(3,236)
Proceeds from exercise of stock options	13,125	10,483
Excess tax benefit on share-based compensation	2,507	2,714
Decrease in cash overdrafts payable	(10,928)	(3,299)
Debt issuance costs	(1,108)	-
Other sources/(uses)	(473)	442
Net cash used by financing activities	(101,227)	(14,261)
Increase in Cash and Cash Equivalents	13,673	31,215
Cash and cash equivalents at beginning of year	69,531	38,081
Cash and cash equivalents at end of period	$83,204	$69,296

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2012 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 Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

2. Revenue Recognition

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

As of September 30, 2013, VITAS has approximately $224,000 in unbilled revenue included in accounts receivable (December 31, 2012 - $457,000). The unbilled revenue at VITAS relates to hospice programs currently undergoing various patient file reviews. Surveyors working on behalf of the various payers review certain patient files for compliance with applicable regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. We make appropriate provisions to reduce our accounts receivable balance for any governmental or other payer reviews resulting in denials of patient service revenue. We believe our hospice programs comply with all payer requirements. However, we cannot predict whether future billing reviews or similar audits by payers will result in material denials or reductions in revenue.

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

During the three and nine month periods ended September 30, 2013, we reversed Medicare cap liability of $873,000 for amounts recorded in the fourth quarter of 2012 for three programs' projected 2013 measurement period liability. We reversed these amounts as improving admissions trends in these programs indicate that the liability had been eliminated. During 2013 this reversal was offset by a $4.0 million Medicare cap liability for one program's projected 2013 measurement period liability.

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

	September 30,	
	2013	2012
Beginning balance January 1,	$1,261	$2,965
2013 measurement period	3,161	-
2012 measurement period	-	(2,577)
Ending balance September 30,	$4,422	$388

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

Three months ended September 30,		Nine months ended September 30,	
2013	2012	2013	2012
$1,909	$1,983	$5,793	$6,021

3. Segments

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

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Service Revenues and Sales				
VITAS	$ 254,001	$ 267,990	$ 788,896	$ 794,050
Roto-Rooter	86,885	86,363	275,829	267,416
Total	$ 340,886	$ 354,353	$ 1,064,725	$ 1,061,466
After-tax Earnings				
VITAS	$ 14,608	$ 21,940	$ 55,237	$ 61,999
Roto-Rooter	8,181	6,145	19,218	21,715
Total	22,789	28,085	74,455	83,714
Corporate	(5,357) *	(7,240)	(20,137) *	(21,150)
Net income	$ 17,432	$ 20,845	$ 54,318	$ 62,564

*Corporate includes a credit of $1.8 million related to the expiration of tax statutes for uncertain tax positions recorded in prior years.

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

4. Earnings per Share

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

For the Three Months Ended September 30,	Income	Net Income Shares	Earnings per Share
2013			
Earnings	$ 17,432	18,184	$ 0.96
Dilutive stock options	-	235	

Nonvested stock awards		-	103		
Diluted earnings	$	17,432	18,522	$	0.94
2012					
Earnings	$	20,845	18,960	$	1.10
Dilutive stock options		-	341		
Nonvested stock awards		-	103		
Diluted earnings	$	20,845	19,404	$	1.07

For the Nine Months Ended September 30,	Income	Net Income Shares	Earnings per Share
2013			
Earnings	$ 54,318	18,436	$ 2.95
Dilutive stock options	-	287	
Nonvested stock awards	-	101	
Diluted earnings	$ 54,318	18,824	$ 2.89
2012			
Earnings	$ 62,564	18,977	$ 3.30
Dilutive stock options	-	313	
Nonvested stock awards	-	92	
Diluted earnings	$ 62,564	19,382	$ 3.23

For the three and nine-month periods ended September 30, 2013, 434,000 and 31,000, respectively, stock options were excluded from the computation of diluted earnings per share because they would have been anti-dilutive. For the three and nine-month period ended September 30, 2012, 1.4 million stock options were excluded from the computation of diluted earnings per share.

Diluted earnings per share may be impacted in the future as the result of the issuance of our 1.875% Senior Convertible Notes (the "Notes") and related purchased call options and sold warrants. Per FASB's authoritative guidance on the effect of contingently convertible instruments on diluted earnings per share and convertible bonds with an issuer option to settle for cash upon conversion, we will not include any shares related to the Notes in our calculation of diluted earnings per share until our average stock price for a quarter exceeds the current conversion price. We would then include in our diluted earnings per share calculation those shares issuable using the treasury stock method. The amount of shares issuable is based upon the amount by which the average stock price for the quarter exceeds the conversion price. The purchased call option does not impact the calculation of diluted earnings per share as it is always anti-dilutive. The sold warrants become dilutive when our average stock price for a quarter exceeds the strike price of the warrant.

The following table provides examples of how changes in our stock price impact the number of shares that would be included in our diluted earnings per share calculation at September 30, 2013. It also shows the impact on the number of shares issuable upon conversion of the Notes and settlement of the purchased call options and sold warrants:

Share Price	Shares Underlying 1.875% Convertible Notes	Warrant Shares	Total Treasury Method Incremental Shares (a)	Shares Due to the Company under Notes Hedges	Incremental Shares Issued/ (Received) by the Company upon Conversion (b)
$ 80.73	61,766	-	61,766	(66,076)	(4,310)
$ 90.73	317,009	-	317,009	(339,127)	(22,118)
$ 100.73	521,573	-	521,573	(557,964)	(36,391)
$ 110.73	689,189	121,511	810,700	(737,274)	73,426
$ 120.73	829,038	322,121	1,151,159	(886,880)	264,279
$ 130.73	947,492	492,040	1,439,532	(1,013,599)	425,933

a) Represents the number of incremental shares that must be included in the calculation of fully diluted shares under U.S. GAAP.
b) Represents the number of incremental shares to be issued by the Company upon conversion of the 1.875% Convertible Notes, assuming concurrent settlement of the note hedges and warrants.

5. Long-Term Debt

On January 18, 2013, we replaced our existing credit agreement with our Revolving Credit Facility ("2013 Credit Agreement"). Terms of the 2013 Credit Agreement consist of a five-year, $350 million revolving credit facility. This 2013 Credit Agreement has a floating interest rate that is currently LIBOR plus 125 basis points. The 2013 Credit Agreement also includes a $150 million expansion feature. Debt issuance costs associated with the existing credit agreement were not material. With respect to the 2013 Credit Agreement, deferred financing costs are immaterial. The 2013 Credit Agreement contains the following quarterly financial covenants:

Description	Requirement
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00
Annual Operating Lease Commitment	< $30.0 million

We are in compliance with all debt covenants as of September 30, 2013. We have issued $32.9 million in standby letters of credit as of September 30, 2013 for insurance purposes. Issued letters of credit reduce our available credit under the 2013 Credit Agreement. As of September 30, 2013, we have approximately $317.1 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the $150 million expansion feature.

The following amounts are included in our consolidated balance sheet related to the Notes:

	September 30, 2013			December 31, 2012		
Principal amount of convertible debentures	$	186,956		$	186,956	
Unamortized debt discount		(5,616	)		(12,066	)
Carrying amount of convertible debentures	$	181,340		$	174,890	
Additional paid in capital (net of tax)	$	31,310		$	31,310	

In the second quarter of 2013, the principal amount of the convertible debentures was reclassified to current as the amounts are due in May 2014.

The following amounts comprise interest expense included in our consolidated income statement (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
		2013		2012		2013		2012
Cash interest expense	$	990	$	1,381	$	3,420	$	4,064
Non-cash amortization of debt discount		2,186		2,043		6,450		6,028
Amortization and write-off of debt costs		324		319		1,421		940
Total interest expense	$	3,500	$	3,743	$	11,291	$	11,032

The unamortized debt discount is being amortized using the effective interest method over the remaining life of the Notes. The effective rate on the Notes is approximately 6.875% as of September 30, 2013.

6. Other Income/(expense) – Net

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

	Three months ended September 30,				Nine months ended September 30,			
	2013		2012		2013		2012	
Market value gains/(losses) on assets held in deferred compensation trust	$	(189)	$	1,576	$	2,346	$	2,761
Loss on disposal of property and equipment		(101)		(80)		(180)		(228)
Interest income		192		291		1,165		401
Other - net		8		53		(19)		31
Total other income/(expense) - net	$	(90)	$	1,840	$	3,312	$	2,965

7. Stock-Based Compensation Plans

On February 20, 2013, the Compensation/Incentive Committee of the Board of Directors (“CIC”) approved a grant of 28,992 shares of restricted stock to certain key employees. The restricted shares cliff vest four years from the date of issuance. The cumulative compensation expense related to the restricted stock award is $2.3 million and will be recognized ratably over the 4 year vesting period. We assumed no forfeitures in determining the cumulative compensation expense of the grant.

8. Independent Contractor Operations

The Roto-Rooter segment sublicenses with 68 independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of September 30, 2013 totaling $1.4 million (December 31, 2012 - $1.3 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from 0% to 8% per annum and the remaining terms of the loans range from 2 months to 5 years at September 30, 2013. We recorded the following from our independent contractors (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2013		2012		2013		2012	
Revenues	$	8,054	$	6,942	$	24,418	$	20,434
Pretax profits		4,243		3,611		13,015		10,424

9. Retirement Plans

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

Three months ended September 30,	Nine months ended September 30,

2013	2012	2013	2012
$ 2,098	$ 2,646	$ 9,796	$ 8,501

10. Legal and Regulatory Matters

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

Regulatory Matters and Litigation

In February 2010, Chemed and Roto-Rooter were named as defendants in a lawsuit filed in the United States District Court for the Eastern District of New York, Anthony Morangelli, et al., v. Chemed Corp. and Roto-Rooter Services Co., No. 10 CV-00876 (BMC). The named plaintiffs, current and former technicians employed by Roto-Rooter who were paid on a commission basis, asserted against Chemed and Roto-Rooter claims for violation of the Fair Labor Standards Act ("FLSA") and claims for violations of the labor laws of multiple states. In June 2013 the parties reached an agreement to settle the case for $14.3 million plus applicable payroll taxes ($9.0 million after tax), which is subject to Court approval. As such, $14.8 million is recorded as other operating expense in the quarter ended June 30, 2013 Statement of Income.

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County in September 2006 by Bernadette Santos, Keith Knoche and Joyce White, Bernadette Santos, et al. v. Vitas Healthcare Corporation of California, BC359356. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs filed an appeal of this decision. In September 2012, in response to an order of reconsideration, the Court of Appeals reiterated its previous rulings. In March 2013, the Court granted summary judgment dismissing the sales representatives' claims as they are exempt employees. In October 2013 we reached agreement, subject to Court approval, to settle the case for $10.3 million plus applicable payroll taxes ($6.5 million aftertax). As such, $10.5 million is recorded as other operating expense in the quarter ended September 30, 2013 Statement of Income.

On January 12, 2012, a putative class action lawsuit was filed in the U.S. District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O'Toole, In re Chemed Corp. Securities Litigation, Civil Action No. 1:12-cv-28 (S.D. Ohio). On June 18, 2012, an amended complaint was filed alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams, and O'Toole. The suit's allegations concern the VITAS hospice segment of the Company's business. Plaintiffs seek, on behalf of a putative class of purchasers of Chemed Capital Stock, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from Defendants' alleged failure to disclose an alleged fraudulent scheme at VITAS to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants filed motions to dismiss the amended complaint on August 17, 2012, which were pending when the parties reached an agreement to settle the action. On June 7, 2013, following the filing of U.S. v. VITAS, discussed below, Plaintiffs filed a motion for leave to file a second amended complaint. Defendants oppose this motion. On September 16, 2013, Plaintiffs, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010, and May 3, 2013, inclusive, executed a Settlement Term Sheet with Defendants ("Settlement"), reaching an agreement in principle to settle this case in full and with prejudice, and to provide Defendants with full releases of all claims that are or could have been asserted by Plaintiffs in exchange for payment of $6.0 million by our insurer into a settlement fund for the benefit of the putative class. The Settlement has been recorded as an accrual and offsetting prepaid in the accompanying Balance Sheet. This Settlement is subject to final documentation by the parties as well as Court approval. Defendants agreed to enter into this Settlement in order to eliminate the burden, expense and distraction of further litigation.

In June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas, United States, et al. ex rel. Urick v. Vitas HME Solutions, Inc. et al., 5:08-cv-0663 ("Urick"). The U.S. Attorney filed a notice in May 2012 stating that it had decided not to intervene in the case at that time but indicating that it continues to investigate the allegations. In June 2012, the complaint was unsealed. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid

Fraud Prevention Act based on allegations of a conspiracy to submit to Medicare and Medicaid false claims involving hospice services for ineligible patients, unnecessary medical supplies, failing to satisfy certain prerequisites for payment, and altering patient records, including backdating patient revocations. The suit was brought by Barbara Urick, a registered nurse in VITAS's San Antonio program, against VITAS, certain of its affiliates, and several former VITAS employees, including physicians Justo Cisneros and Antonio Cavasos and nurses Sally Schwenk, Diane Anest, and Edith Reed. In September 2012 and July 2013, the plaintiff dismissed all claims against the individual defendants. The complaint was served on the VITAS entities on April 12, 2013.

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Northern District of Illinois, United States, et al. ex rel. Spottiswood v. Chemed Corp., 1:07-cv-4566 ("Spottiswood"). In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. Plaintiff filed an amended complaint in November 2012. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint was served on the defendants on April 12, 2013. On May 29 and June 4, 2013, respectively, the Court granted the government's motion to partially intervene in Spottiswood and in Urick on the allegations that Vitas submitted or caused to be submitted false or fraudulent claims for continuous care and routine home care on behalf of certain ineligible Medicare beneficiaries. The Court also transferred them to the U.S. District Court for the Western District of Missouri under docket Nos. 4:13-cv-505 and 4:13-cv-563, respectively.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, United States v. VITAS Hospice Services, LLC, et al., 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. On August 1, 2013, the government filed its First Amended Complaint in the 2013 Action. The First Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. The defendants filed a motion to dismiss on September 24, 2013.

On May 6, 2013, the U.S. District Court for the Western District of Missouri, at the request of the government, unsealed a qui tam complaint against VITAS and VITAS Healthcare Corporation of California, United States ex rel. Charles Gonzales v. Vitas Healthcare Corporation, et al., CV 12-0761-R ("Gonzales"). The case was transferred from the Central District of California to the Western District of Missouri under docket No. 4:13-cv-344. The government has filed a notice of election to intervene in the Gonzales complaint. The Gonzales complaint alleges that VITAS' Los Angeles program falsely certified and recertified patients as eligible for the Medicare Hospice Benefit. It alleges violations of the False Claims Act and seeks treble damages, civil penalties, recovery of costs, attorneys' fees and expenses, and pre- and post-judgment interest.

On September 25, 2013, the Court granted a joint motion by the government, the relators, and VITAS to consolidate the Spottiswood, Urick, and Gonzales complaints with the 2013 Action. As a result, the First Amended Complaint will govern the consolidated claims brought by the United States and the relators for all purposes. The relators and VITAS have stipulated that certain non-intervened claims will not be pursued by the relators.

VITAS has also received document subpoenas in related state matters. In February 2010, VITAS received a civil investigative demand ("CID") from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with an investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by prior Department of Justice subpoenas, including policy and procedure manuals and information concerning Medicare and Medicaid billing, patient statistics and sales and marketing practices, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees. In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures: information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation.

The Company intends to defend vigorously against the allegations in each of the above lawsuits. The Company had a net recovery for these investigations, due to a one-time insurance reimbursement of $1.0 million for certain legal costs, for the three month period ended September 30, 2013 of $591,000. The net costs to comply with these investigations were $1.4 million for the nine month period ended September 30, 2013. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies and opposing parties can adversely affect us through defense costs, potential payments, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

11. Concentration of Risk

VITAS has pharmacy services agreements ("Agreements") with Omnicare, Inc. and its subsidiaries ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreements renew automatically for three-year terms. Either party may cancel the Agreements at the end of any term by giving 30 days prior written notice. VITAS made purchases from OCR of $9.7 million and $10.6 million for the three months ended September 30, 2013 and 2012, respectively. VITAS made purchases from OCR of $29.3 million and $30.9 million for the nine months ended September 30, 2013 and 2012, respectively For the three and nine month periods ending September 30, 2013 and 2012, respectively, purchases from this vendor represent approximately 90% of all pharmacy services used by VITAS.

12. Cash Overdrafts and Cash Equivalents

Included in accounts payable at September 30, 2013 is cash overdrafts payable of $1.3 million (December 31, 2012 - $12.2 million).

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. We had $41.0 million in cash equivalents as of September 30, 2013. There was $56.6 million in cash equivalents as of December 31, 2012. The weighted average rate of return for our cash equivalents was 0.07% for September 30, 2013 and 0.2% for December 31, 2012.

13. 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 September 30, 2013 (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	$ 40,683	$ 40,683	$ -	$ -
Long-term debt	181,340	195,257	-	-

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2012 (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	$	36,089	$	36,089	$	-	$	-
Long-term debt		174,890		197,874		-		-

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.

14. Capital Stock Repurchase Plan Transactions

We repurchased the following capital stock for the three and nine-months ended September 30, 2013 and 2012:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Shares repurchased	1,032,754	9,334	1,313,455	209,234
Weighted average price per share	$ 68.91	$ 62.75	$ 68.23	$ 56.03

In February 2013, the Board of Directors authorized an additional $100 million for stock repurchase under Chemed's existing share repurchase program. We currently have $25.1 million of authorization remaining under this share repurchase plan.

15. Other Operating Expenses

Other operating expenses comprise (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Litigation settlement of VITAS segment (a)	$ 10,500	$ -	$ 10,500	$ -
Settlements of Roto-Rooter segment (b)	961	-	15,721	-
Severance and other operating costs related to closing Roto-Rooter's HVAC business	-	1,126	-	1,126
Total other operating expenses	$ 11,461	$ 1,126	$ 26,221	$ 1,126

(a) Santos claims discussed in Note 10.

(b) Morganelli claims discussed in Note 10 and estimated cost of certain customer claims currently under negotiation.

16. Guarantor Subsidiaries

Our 1.875% Notes are fully and unconditionally guaranteed on an unsecured, jointly, and severally liable basis by certain of our 100% owned subsidiaries. The following unaudited, condensed, consolidating financial data presents the composition of the parent company (Chemed), the guarantor subsidiaries and the non-guarantor subsidiaries as of September 30, 2013 and December 31, 2012 for the balance sheet, the three and nine months ended September 30, 2013 and September 30, 2012 for the income statement and the nine months ended September 30, 2013 and September 30, 2012 for the statement of cash flows (dollars in thousands):

September 30, 2013	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Cash and cash equivalents	$84,842	$(10,511)	$ 8,873	$ -	$ 83,204
Accounts receivable, including intercompany	960	496,001	741	(417,585)	80,117
Inventories	-	6,175	554	-	6,729
Current deferred income taxes	-	27,237	177	(2,313)	25,101
Prepaid income taxes	6,583	-	218	(3,263)	3,538
Prepaid expenses	7,199	10,245	240	-	17,684
Total current assets	99,584	529,147	10,803	(423,161)	216,373
Investments of deferred compensation plans	-	-	40,683	-	40,683
Properties and equipment, at cost less accumulated depreciation	10,361	76,957	2,482	-	89,800
Identifiable intangible assets less accumulated amortization	-	56,979	-	-	56,979
Goodwill	-	462,489	4,451	-	466,940
Other assets	18,155	1,770	15,177	(24,337)	10,765
Investments in subsidiaries	924,423	27,629	-	(952,052)	-
Total assets	$1,052,523	$1,154,971	$ 73,596	$ (1,399,550)	$ 881,540
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable, including intercompany	$421,662	$35,005	$ 5,441	$ (417,585)	$ 44,523
Current portion of long-term debt	181,340	-	-	-	181,340
Income taxes	5,034	3,349	409	(3,263)	5,529
Accrued insurance	153	41,584	-	-	41,737
Accrued compensation	3,226	43,131	332	-	46,689
Other current liabilities	11,023	47,646	180	(2,313)	56,536
Total current liabilities	622,438	170,715	6,362	(423,161)	376,354
Deferred income taxes	-	51,791	-	(24,337)	27,454
Deferred compensation liabilities	-	-	39,406	-	39,406
Other liabilities	3,258	7,265	976	-	11,499
Stockholders' equity	426,827	925,200	26,852	(952,052)	426,827
Total liabilities and stockholders' equity	$1,052,523	$1,154,971	$ 73,596	$ (1,399,550)	$ 881,540

December 31, 2012	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated

ASSETS					
Cash and cash equivalents	$56,342	$4,674	$ 8,515	$ -	$ 69,531
Accounts receivable, including intercompany	925	427,341	889	(335,822)	93,333
Inventories	-	6,505	553	-	7,058
Current deferred income taxes	-	14,633	173	(1,147)	13,659
Prepaid income taxes	4,043	-	-	(1,400)	2,643
Prepaid expenses	564	10,656	227	-	11,447
Total current assets	61,874	463,809	10,357	(338,369)	197,671
Investments of deferred compensation plans	-	-	36,089	-	36,089
Properties and equipment, at cost less accumulated depreciation	10,984	78,236	2,714	-	91,934
Identifiable intangible assets less accumulated amortization	-	57,177	-	-	57,177
Goodwill	-	461,277	4,555	-	465,832
Other assets	19,025	2,005	13,797	(23,904)	10,923
Investments in subsidiaries	874,692	24,298	-	(898,990)	-
Total assets	$966,575	$1,086,802	$ 67,512	$ (1,261,263)	$ 859,626
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable, including intercompany	$325,916	$53,934	$ 4,444	$ (335,822)	$ 48,472
Income taxes	1,019	3,816	1,503	(1,400)	4,938
Accrued insurance	1,339	39,315	-	-	40,654
Accrued compensation	4,119	40,891	447	-	45,457
Other current liabilities	2,786	13,903	1,759	(1,147)	17,301
Total current liabilities	335,179	151,859	8,153	(338,369)	156,822
Deferred income taxes	-	51,566	-	(23,904)	27,662
Long-term debt	174,890	-	-	-	174,890
Deferred compensation liabilities	-	-	35,599	-	35,599
Other liabilities	3,215	7,352	795	-	11,362
Stockholders' equity	453,291	876,025	22,965	(898,990)	453,291
Total liabilities and stockholders' equity	$966,575	$1,086,802	$ 67,512	$ (1,261,263)	$ 859,626

For the three months ended September 30, 2013	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Service revenues and sales	$-	$333,750	$ 7,136	$ -	$ 340,886
Cost of services provided and goods sold	-	239,122	4,062	-	243,184
Selling, general and administrative expenses	5,562	42,113	1,195	-	48,870
Depreciation	240	6,497	234	-	6,971
Amortization	501	689	-	-	1,190
Other operating expenses	-	11,461	-	-	11,461
Total costs and expenses	6,303	299,882	5,491	-	311,676
Income/ (loss) from operations	(6,303)	33,868	1,645	-	29,210
Interest expense	(3,579)	(131)	210	-	(3,500)
Other (expense)/income - net	3,944	(3,840)	(194)	-	(90)
Income/ (loss) before income taxes	(5,938)	29,897	1,661	-	25,620
Income tax (provision)/ benefit	2,042	(11,393)	1,163	-	(8,188)
Equity in net income of subsidiaries	21,328	2,086	-	(23,414)	-
Net income	$17,432	$20,590	$ 2,824	$ (23,414)	$ 17,432

For the three months ended September 30, 2012	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Service revenues and sales	$-	$347,384	$ 6,969	$ -	$ 354,353
Cost of services provided and goods sold	-	252,688	3,922	-	256,610
Selling, general and administrative expenses	5,991	43,992	2,972	-	52,955
Depreciation	237	6,099	221	-	6,557
Amortization	486	649	-	-	1,135
Other operating expenses	-	1,126	-	-	1,126
Total costs and expenses	6,714	304,554	7,115	-	318,383
Income/ (loss) from operations	(6,714)	42,830	(146)	-	35,970
Interest expense	(3,517)	(211)	(15)	-	(3,743)
Other (expense)/income - net	4,450	(4,184)	1,574	-	1,840
Income/ (loss) before income taxes	(5,781)	38,435	1,413	-	34,067
Income tax (provision)/ benefit	1,877	(14,560)	(539)	-	(13,222)
Equity in net income of subsidiaries	24,749	885	-	(25,634)	-
Net income	$20,845	$24,760	$ 874	$ (25,634)	$ 20,845

For the nine months ended September 30, 2013	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Service revenues and sales	$-	$1,042,449	$ 22,276	$ -	$ 1,064,725
Cost of services provided and goods sold	-	750,230	12,620	-	762,850
	17,290	133,419	6,828	-	157,537

Selling, general and administrative expenses					
Depreciation	718	19,241	706	-	20,665
Amortization	1,480	2,018	-	-	3,498
Other operating expenses	-	26,221	-	-	26,221
Total costs and expenses	19,488	931,129	20,154	-	970,771
Income/ (loss) from operations	(19,488)	111,320	2,122	-	93,954
Interest expense	(11,089)	(384)	182	-	(11,291)
Other (expense)/income - net	12,526	(11,549)	2,335	-	3,312
Income/ (loss) before income taxes	(18,051)	99,387	4,639	-	85,975
Income tax (provision)/ benefit	6,036	(37,755)	62	-	(31,657)
Equity in net income of subsidiaries	66,333	4,057	-	(70,390)	-
Net income	$54,318	$65,689	$ 4,701	$ (70,390)	$ 54,318

For the nine months ended September 30, 2012	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Service revenues and sales	$-	$1,040,015	$ 21,451	$ -	$ 1,061,466
Cost of services provided and goods sold	-	759,549	11,874	-	771,423
Selling, general and administrative expenses	17,124	131,695	7,073	-	155,892
Depreciation	704	17,816	658	-	19,178
Amortization	1,437	1,938	-	-	3,375
Other operating expenses	-	1,126	-	-	1,126
Total costs and expenses	19,265	912,124	19,605	-	950,994
Income/ (loss) from operations	(19,265)	127,891	1,846	-	110,472
Interest expense	(10,437)	(551)	(44)	-	(11,032)
Other (expense)/income - net	13,196	(12,982)	2,751	-	2,965
Income/ (loss) before income taxes	(16,506)	114,358	4,553	-	102,405
Income tax (provision)/ benefit	5,376	(43,442)	(1,775)	-	(39,841)
Equity in net income of subsidiaries	73,694	2,857	-	(76,551)	-
Net income	$62,564	$73,773	$ 2,778	$ (76,551)	$ 62,564

For the nine months ended September 30, 2013	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash Flow from Operating Activities:				
Net cash provided by operating activities	$16,336	$118,998	$ 524	$ 135,858
Cash Flow from Investing Activities:				
Capital expenditures	(96)	(18,297)	(494)	(18,887)
Business combinations, net of cash acquired	-	(2,210)	-	(2,210)
Other sources/(uses) - net	(53)	171	21	139
Net cash used by investing activities	(149)	(20,336)	(473)	(20,958)
Cash Flow from Financing Activities:				
Increase /(decrease) in cash overdrafts payable	5,378	(16,306)	-	(10,928)
Change in intercompany accounts	96,731	(97,541)	810	-
Dividends paid	(10,459)	-	-	(10,459)
Debt issuance costs	(1,108)	-	-	(1,108)
Capital stock surrendered to pay taxes on stock-based compensation	(4,280)	-	-	(4,280)
Purchases of treasury stock	(89,611)	-	-	(89,611)
Proceeds from exercise of stock options	13,125	-	-	13,125
Excess tax benefit on share-based compensation	2,507	-	-	2,507
Other sources/(uses) - net	30	-	(503)	(473)
Net cash provided/(used) by financing activities	12,313	(113,847)	307	(101,227)
Net increase/(decrease) in cash and cash equivalents	28,500	(15,185)	358	13,673
Cash and cash equivalents at beginning of year	56,342	4,674	8,515	69,531
Cash and cash equivalents at end of period	$84,842	$(10,511)	$ 8,873	$ 83,204

For the nine months ended September 30, 2012	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash Flow from Operating Activities:				
Net cash provided by operating activities	$1,486	$74,206	$ 1,645	$ 77,337
Cash Flow from Investing Activities:				
Capital expenditures	(196)	(25,491)	(802)	(26,489)
Business combinations, net of cash acquired	-	(5,900)	-	(5,900)
Other sources/(uses) - net	201	359	(32)	528
Net cash provided/(used) by investing activities	5	(31,032)	(834)	(31,861)
Cash Flow from Financing Activities:				
Increase/(decrease) in cash overdrafts payable	(4,580)	1,281	-	(3,299)
Change in intercompany accounts	40,489	(40,022)	(467)	-
Dividends paid	(9,641)	-	-	(9,641)
Capital stock surrendered to pay taxes on stock-based compensation	(3,236)	-	-	(3,236)
Purchases of treasury stock	(11,724)	-	-	(11,724)
Proceeds from exercise of stock options	10,483	-	-	10,483
Excess tax benefit on share-based compensation	2,714	-	-	2,714
Other sources/(uses) - net	(17)	(1)	460	442
Net cash provided/(used) by financing activities	24,488	(38,742)	(7)	(14,261)
Net increase in cash and cash equivalents	25,979	4,432	804	31,215
Cash and cash equivalents at beginning of year	32,470	(1,422)	7,033	38,081
Cash and cash equivalents at end of period	$58,449	$3,010	$ 7,837	$ 69,296

-17-

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 and drain cleaning services to both residential and commercial customers. Through its network of company-owned branches, independent contractors and franchisees, Roto-Rooter offers plumbing and drain cleaning service to over 90% of the U.S. population.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Service revenues and sales	$ 340,886	$ 354,353	$ 1,064,725	$ 1,061,466
Net income	$ 17,432	$ 20,845	$ 54,318	$ 62,564
Diluted EPS	$ 0.94	$ 1.07	$ 2.89	$ 3.23
Adjusted net income	$ 25,098	$ 24,749	$ 78,470	$ 72,419
Adjusted diluted EPS	$ 1.36	$ 1.28	$ 4.17	$ 3.74
Adjusted EBITDA	$ 49,739	$ 49,020	$ 153,978	$ 143,533
Adjusted EBITDA as a % of revenue	14.6 %	13.8 %	14.5 %	13.5 %

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization ("EBITDA") and Adjusted EBITDA are not measures derived in accordance with GAAP. We use Adjusted EBITDA as a measure of earnings for our long-term incentive plan awards. We provide non-GAAP measures to help readers evaluate our operating results, compare our operating performance with that of similar companies that have different capital structures and help evaluate our ability to meet future debt service, capital expenditure and working capital requirements. 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 are presented on pages 31- 33.

For the three months ended September 30, 2013, the decrease in consolidated service revenues and sales was driven by a 0.6% increase at Roto-Rooter and a 5.2% decrease at VITAS. The increase in service revenues at Roto-Rooter was driven by a 3.7% increase in price and mix shift offset by a 4.9% decrease in job count. The remaining difference relates to increases in contractor and Roto-Rooter Corp. revenues. The decrease in service revenues at VITAS was a result of Medicare reimbursement rates including the effects of sequestration, declining approximately 1.1%, decreased ADC of 0.3%, a $3.2 million Medicare cap charge during the quarter and level of care mix shift. Consolidated net income decreased 16.4% as a result of the lower revenue at VITAS and tentative litigation settlements at Vitas and Roto-Rooter. Diluted EPS decreased 12.1% as a result of the decrease in net income offset by a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue increased 0.8% mainly as a result of improved gross profit margins at Roto-Rooter. See page 34 for additional VITAS operating metrics.

For the nine months ended September 30, 2013, the increase in consolidated service revenues and sales was driven by a 3.1% increase at Roto-Rooter and a 0.6% decrease at VITAS. The increase in service revenues at Roto-Rooter was driven by a 3.2% increase in price and mix shift offset by a 1.2% decrease in job count. The remaining difference relates to increases in contractor and Roto-Rooter Corp. revenues. The decrease in service revenues at VITAS was a result of a decrease in Medicare reimbursement rates, a $3.2 million net Medicare cap charge (compared to a $2.6 million reversal in the same period of 2012) and level of care mix shift offset by increased ADC of 3.0%. Consolidated net income decreased 13.2% primarily as a result of lower revenue at VITAS and tentative litigation settlements at VITAS and Roto-Rooter. Diluted EPS decreased 10.5% as a result of the decrease in net income offset by a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue increased 1.0% mainly as a result of improved gross profit margins at Roto-Rooter. See page 34 for additional VITAS operating metrics.

Effective October 1, 2012, Medicare increased the hospice reimbursement rates by approximately 0.9% and effective April 1, 2013, as a result of sequestration, Medicare reduced hospice reimbursement rates for Medicare beneficiaries 2.0% for a net decline of 1.1% in reimbursement rates. VITAS expects its full-year 2013 revenue, prior to Medicare cap, to be approximately 1% below the prior year. Admissions are estimated to decline approximately 3.0%. Adjusted EBITDA margin, prior to Medicare cap, is estimated to be 14.5% to 15.0%. Medicare cap is estimated to be $1.8 million in the fourth quarter of 2013. Roto-Rooter expects full-year 2013 revenue growth of 2.5%. The revenue estimate is a result of increased pricing of approximately 3.2% and job count essentially equal to the prior year. 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, 2012 to September 30, 2013 include the following:

- A $39.2 million increase in other current liabilities primarily due to tentative litigation settlements and the Medicare cap liability.
- A $13.2 million decrease in accounts receivable related to the timing of receipts.
- A $11.4 million increase in current deferred income taxes due to the accrual of tentative litigation settlements.
- A reclass of our convertible notes from long-term to current as they are due in May 2014.

Net cash provided by operating activities increased $58.5 million primarily as a result of a decrease in accounts receivable and an increase in other current liabilities. Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued $32.9 million in standby letters of credit as of September 30, 2013, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of September 30, 2013, we have approximately $317.1 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the $150 million expansion feature. 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 September 30, 2013 and anticipate remaining in compliance throughout 2013.

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

In February 2010, Chemed and Roto-Rooter were named as defendants in a lawsuit filed in the United States District Court for the Eastern District of New York, Anthony Morangelli, et al., v. Chemed Corp. and Roto-Rooter Services Co., No. 10 CV-00876 (BMC). The named plaintiffs, current and former technicians employed by Roto-Rooter who were paid on a commission basis, asserted against Chemed and Roto-Rooter claims for violation of the Fair Labor Standards Act ("FLSA") and claims for violations of the labor laws of multiple states. In June 2013 the parties reached an agreement to settle the case for $14.3 million plus applicable payroll taxes ($9.0 million after tax), which is subject to Court approval. As such, $14.8 million is recorded as other operating expense in the quarter ended June 30, 2013 Statement of Income.

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County in September 2006 by Bernadette Santos, Keith Knoche and Joyce White, Bernadette Santos, et al. v. Vitas Healthcare Corporation of California, BC359356. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs filed an appeal of this decision. In September 2012, in response to an order of reconsideration, the Court of Appeals reiterated its previous rulings. In March 2013, the Court granted summary judgment dismissing the sales representatives' claims as they are exempt employees. In October 2013 we reached agreement, subject to Court approval, to settle the case for $10.3 million plus applicable payroll taxes ($6.5 million aftertax). As such, $10.5 million is recorded as other operating expense in the quarter ended September 30, 2013 Statement of Income.

On January 12, 2012, a putative class action lawsuit was filed in the U.S. District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O'Toole, In re Chemed Corp. Securities Litigation, Civil Action No. 1:12-cv-28 (S.D. Ohio);. On June 18, 2012, an amended complaint was filed alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams, and O'Toole. The suit's allegations concern the VITAS hospice segment of the Company's business. Plaintiffs seek, on behalf of a putative class of purchasers of Chemed Capital Stock, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from Defendants' alleged failure to disclose an alleged fraudulent scheme at VITAS to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants filed motions to dismiss the amended complaint on August 17, 2012, which were pending when the parties reached an agreement to settle the action. On June 7, 2013, following the filing of U.S. v. VITAS, discussed below, Plaintiffs filed a motion for leave to file a second amended complaint. Defendants oppose this motion. On September 16, 2013, Plaintiffs, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010, and May 3, 2013, inclusive, executed a Settlement Term Sheet with Defendants ("Settlement"), reaching an agreement in principle to settle this case in full and with prejudice, and to provide Defendants with full releases of all claims that are or could have been asserted by Plaintiffs in exchange for payment of $6.0 million by our insurer into a settlement fund for the benefit of the putative class. The Settlement has been recorded as an accrual and offsetting prepaid in the accompanying Balance Sheet. This Settlement is subject to final documentation by the parties as well as Court approval. Defendants agreed to enter into this Settlement in order to eliminate the burden, expense and distraction of further litigation.

In June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas, United States, et al. ex rel. Urick v. Vitas HME Solutions, Inc. et al., 5:08-cv-0663 ("Urick"). The U.S. Attorney filed a notice in May 2012 stating that it had decided not to intervene in the case at that time but indicating that it continues to investigate the allegations. In June 2012, the complaint was unsealed. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid Fraud Prevention Act based on allegations of a conspiracy to submit to Medicare and Medicaid false claims involving hospice services for ineligible patients, unnecessary medical supplies, failing to satisfy certain prerequisites for payment, and altering patient records, including backdating patient revocations. The suit was brought by Barbara Urick, a registered nurse in VITAS's San Antonio program, against VITAS, certain of its affiliates, and several former VITAS employees, including physicians Justo Cisneros and Antonio Cavasos and nurses Sally Schwenk, Diane Anest, and Edith Reed. In September 2012 and July 2013, the plaintiff dismissed all claims against the individual defendants. The complaint was served on the VITAS entities on April 12, 2013.

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Northern District of Illinois, United States, et al. ex rel. Spottiswood v. Chemed Corp., 1:07-cv-4566 ("Spottiswood"). In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. Plaintiff filed an amended complaint in November 2012. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint was served on the defendants on April 12, 2013. On May 29 and June 4, 2013, respectively, the Court granted the government's motion to partially intervene in Spottiswood and in Urick on the allegations that Vitas submitted or caused to be submitted false or fraudulent claims for continuous care and routine home care on behalf of certain ineligible Medicare beneficiaries. The Court also transferred them to the U.S. District Court for the Western District of Missouri under docket Nos. 4:13-cv-505 and 4:13-cv-563, respectively.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, United States v. VITAS Hospice Services, LLC, et al., 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. On August 1, 2013, the government filed its First Amended Complaint in the 2013 Action. The First Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. The defendants filed a motion to dismiss on September 24, 2013.

On May 6, 2013, the U.S. District Court for the Western District of Missouri, at the request of the government, unsealed a qui tam complaint against VITAS and VITAS Healthcare Corporation of California, United States ex rel. Charles Gonzales v. Vitas Healthcare Corporation, et al., CV 12-0761-R ("Gonzales"). The case was transferred from the Central District of California to the Western District of Missouri under docket No. 4:13-cv-344. The government has filed a notice of election to intervene in the Gonzales complaint. The Gonzales complaint alleges that VITAS' Los Angeles program falsely certified and recertified patients as eligible for the Medicare Hospice Benefit. It alleges violations of the False Claims Act and seeks treble damages, civil penalties, recovery of costs, attorneys' fees and expenses, and pre- and post-judgment interest.

On September 25, 2013, the Court granted a joint motion by the government, the relators, and VITAS to consolidate the Spottiswood, Urick, and Gonzales complaints with the 2013 Action. As a result, the First Amended Complaint will govern the consolidated claims brought by the United States and the relators for all purposes. The relators and VITAS have stipulated that certain non-intervened claims will not be pursued by the relators.

VITAS has also received document subpoenas in related state matters. In February 2010, VITAS received a civil investigative demand ("CID") from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with an investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by prior Department of Justice subpoenas, including policy and procedure manuals and information concerning Medicare and Medicaid billing, patient statistics and sales and marketing practices, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees. In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures: information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation.

The Company intends to defend vigorously against the allegations in each of the above lawsuits. The Company had a net recovery for these investigations, due to a one-time insurance reimbursement of $1.0 million for certain legal costs, for the three month period ended September 30, 2013 of $591,000. The net costs to comply with these investigations were $1.4 million for the nine month period ended September 30, 2013. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies can adversely affect us through defense costs, potential payments, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

Results of Operations

Three months ended September 30, 2013 versus 2012 - Consolidated Results

Our service revenues and sales for the third quarter of 2013 decreased 3.8% versus services and sales revenues for the third quarter of 2012. Of this decrease, $14.0 million was attributable to VITAS offset by a $522,000 increase at Roto-Rooter. The following chart shows the components of those changes (in thousands):

	Increase/(Decrease)		
	Amount		Percent
VITAS			
Routine homecare	$	(1,288)	(0.7)
Continuous care		(6,264)	(14.9)
General inpatient		(3,258)	(11.6)
Medicare cap		(3,179)	-
Roto-Rooter			
Plumbing		(346)	(0.8)
Drain cleaning		(155)	(0.5)
Contractor operations		1,112	16.0
HVAC operations		1	100.0
Other		(90)	(1.7)

Total	$	(13,467)	(3.8)

The decrease in VITAS' revenues for the third quarter of 2013 versus the third quarter of 2012 was a combination of Medicare reimbursement rates including the effect of sequestration declining approximately 1.1%, decreased ADC of 0.3%, and level of care mix shift. In the third quarter of 2013, VITAS recorded a Medicare Cap charge of $3.2 million related to one program's projected 2013 Medicare Cap liability. This compares with no Medicare Cap liability recorded in the third quarter of 2012. The ADC decrease was driven by a 0.7% increase in routine homecare, a decrease of 13.0% in continuous care and a decrease of 9.3% in general inpatient. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The decrease in plumbing revenues for the third quarter of 2013 versus 2012 is attributable to a 4.8% decrease in job count offset by a 4.0% increase in price and mix shift. Drain cleaning revenues for the third quarter of 2013 versus 2012 reflect a 4.5% decrease in the number of jobs perfomed offset by a 4.0% increase in price and mix shift. Contractor operations revenue increased 16.0% for the third quarter of 2013 due to four acquisitions that were completed in 2012 as well as improved operating conditions. HVAC revenues were essentially zero as a result of the shut-down of Roto-Rooter's one remaining HVAC operation during the third quarter of 2012.

The consolidated gross margin was 28.7% in the third quarter of 2013 as compared with 27.6% in the third quarter of 2012. On a segment basis, VITAS' gross margin was 22.3% in the third quarter of 2013 and 22.2% in the third quarter of 2012. The Roto-Rooter segment's gross margin was 47.3% for the third quarter of 2013 as compared with 44.3% for the third quarter of 2012. The increase in Roto-Rooter's gross margin is the result of higher revenue, lower health care and casualty insurance costs and reduced field operating expenses.

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

	Three months ended September 30,	
	2013	2012
SG&A expenses before the impact of market gains/(losses) of deferred compensation plans, long-term incentive compensation, and OIG investigation expenses	$49,705	$50,896
Long-term incentive compensation	(55)	-
Expenses/(cost recovery) related to OIG investigation	(591)	483
Impact of market value gains/(losses) on liabilities held in deferred compensation trusts	(189)	1,576
Total SG&A expenses	$48,870	$52,955

SG&A expenses before long-term incentive compensation, expenses related to OIG investigation and the impact of market gains/(losses) of deferred compensation plans for the third quarter of 2013 were down 2.3% when compared to the third quarter of 2012.

	Three months ended September 30,	
	2013	2012
Litigation settlement of VITAS segment (a)	$ 10,500	$ -
Settlements of Roto-Rooter segment (b)	961	-
Severance and other operating costs related to closing Roto-Rooter's HVAC business	-	1,126
Total other operating expenses	$ 11,461	$ 1,126

(a) Santos claims discussed in Note 10.
(b) Estimated cost of certain customer claims currently under negotiation.

Other income - net comprise (in thousands):

	Three months ended September 30,	
	2013	2012
Market value gains/(losses) on assets held in deferred compensation trusts	$ (189)	$ 1,576
Loss on disposal of property and equipment	(101)	(80)
Interest income	192	291

Other	8	53
Total other income/(expense) - net	$ (90)	$ 1,840

Our effective income tax rate was 32.0% in the third quarter of 2013 compared to 38.8% for the third quarter of 2012. This is a result of a $1.8 million credit related to the expiration of tax statutes for uncertain tax positions recorded in prior years.

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

	Three months ended September 30, 2013	Three months ended September 30, 2012
VITAS		
Litigation settlement	$ (6,510)	$ -
Legal expenses of OIG investigation	367	(300)
Acquisition expenses	(11)	(1)
Roto-Rooter		
Litigation settlement	(584)	-
Expenses related to litigation settlements	(269)	(70)
HVAC shut down costs	-	(649)
Acquisition expenses	(1)	(52)
Corporate		
Stock option expense	(1,030)	(1,516)
Noncash impact of change in accounting for convertible debt	(1,375)	(1,272)
Uncertain tax position adjustments	1,782	-
Long-term incentive compensation	(34)	-
Expenses related to securities litigation	(1)	(44)
Total	$ (7,666)	$ (3,904)

Three months ended September 30, 2013 versus 2012 - Segment Results

The change in after-tax earnings for the third quarter of 2013 versus the third quarter of 2012 is due to (in thousands):

	Increase/(Decrease) Amount	Increase/(Decrease) Percent
VITAS	$ (7,332)	(33.4)
Roto-Rooter	2,036	33.1
Corporate	1,883	26.0
	$ (3,413)	(16.4)

-23-

Results of Operations

Nine months ended September 30, 2013 versus 2012 - Consolidated Results

Our service revenues and sales for the first nine months of 2013 increased 0.3% versus services and sales revenues for the first nine months of 2012. Of this increase, $8.4 million was attributable to Roto-Rooter offset by a $5.2 million decrease at VITAS. The following chart shows the components of those changes (in thousands):

	Increase/(Decrease)	
	Amount	Percent
VITAS		
Routine homecare	$ 15,899	2.8
Continuous care	(8,015)	(6.3)
General inpatient	(7,300)	(8.4
Medicare cap	(5,738)	(222.7)
Roto-Rooter		
Plumbing	685	0.5
Drain cleaning	5,242	5.2
Contractor operations	3,984	19.5
HVAC operations	(1,121)	(100.0)
Other	(377)	(2.2)
Total	$ 3,259	0.3

The decrease in VITAS' revenues for the first nine months of 2013 versus the first nine months of 2012 is a result of, increased ADC of 3.0%, offset by a Medicare reimbursement rate decrease and level of care mix shift. In the first nine months, VITAS recorded a net Medicare Cap charge of $3.2 million related to eliminating the Medicare Cap billing limitation recorded in the fourth quarter of 2012 offset by one programs' projected 2013 Medicare Cap liability. This compares to $2.6 million of additional revenue recorded in the first nine months of 2012. The ADC decrease was driven by a 3.7% increase in routine homecare, offset by a decrease of 4.8% in continuous care and a decrease of 5.6% in general inpatient. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the first nine months of 2013 versus 2012 is attributable to a 4.3% decrease in job count offset by a 4.8% increase in price and mix shift. Drain cleaning revenues for the first nine months of 2013 versus 2012 reflect a 1.0% increase in the number of jobs perfomed as well as a 4.2% increase in price and mix shift. Contractor operations revenue increased 19.5% for the first nine months of 2013 due to four acquisitions that were completed in 2012 as well as improved operating conditions. HVAC operations decreased as a result of the shut-down of Roto-Rooter's one remaining HVAC operation during the third quarter of 2012.

The consolidated gross margin was 28.4% for the first nine months of 2013 as compared with 27.3% in the first nine months of 2012. On a segment basis, VITAS' gross margin was 21.9% for the first nine months of 2013 and 21.7% for the first nine months of 2012. The Roto-Rooter segment's gross margin was 46.9% for the first nine months of 2013 as compared with 44.1% for the first nine months of 2012. The increase in Roto-Rooter's gross margin is the result of higher revenue, lower health care and casualty insurance costs and reduced field operating expenses.

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

	Nine months ended September 30,	
	2013	2012

SG&A expenses before long-term incentive compensation and the impact of market gains and losses of deferred compensation plans	$154,908	$152,382
Long-term incentive compensation	(1,161)	-
Expenses related to OIG investigation	1,444	749
Impact of market value gains on liabilities held in deferred compensation trusts	2,346	2,761
Total SG&A expenses	$157,537	$155,892

Normal salary increases and revenue related expense increases between periods account for the 1.7% increase in SG&A expenses before long-term incentive compensation, expenses related to OIG investigation and the impact of market gains of deferred compensation plans.

Interest expense for the first nine months of 2013 increased 2.3% when compared to the first nine months of 2012 as a result of the increase in amortization of bond discount expense and the loss on extinguishment of debt resulting from the replacement of the previous Credit Agreement in January 2013.

Other operating expenses comprise (in thousands):

	Nine months ended September 30,			
		2013		2012
Litigation settlement of VITAS segment (a)	$	10,500	$	-
Settlements of Roto-Rooter segment (b)		15,721		-
Severance and other operating costs related to closing Roto-Rooter's HVAC business		-		1,126
Total other operating expenses	$	26,221	$	1,126

(a) Santos claims discussed in Note 10.
(b) Morangelli claims discussed in Note 10 and estimated cost of certain customer claims currently under negotiation.

Other income - net comprise (in thousands):

	Nine months ended September 30,					
		2013			2012	
Market value gains on assets held in deferred compensation trusts	$	2,346		$	2,761	
Loss on disposal of property and equipment		(180	)		(228	)
Interest income		1,165			401	
Other		(19	)		31	
Total other income - net	$	3,312		$	2,965	

Our effective income tax rate was 36.8% in the third quarter of 2013 compared to 38.9% for the third quarter of 2012. This is a result of a $1.8 million credit related to the expiration of tax statutes for uncertain tax positions recorded in prior years.

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

	Nine Months Ended September 30, 2013	2012
VITAS		
Litigation settlement	$ (6,510)	$ -