
FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For Quarter Ended June 30, 2002

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.)

2600 Chemed Center, 255 E. Fifth Street, Cincinnati, Ohio 45202
(Address of principal executive offices)

(Zip
code)

(513) 762-6900

(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

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	9,795,700 Shares	July 31, 2002

**CHEMED CORPORATION AND
SUBSIDIARY COMPANIES**

Index

	<u>Page No.</u>
PART I. FINANCIAL INFORMATION:	
Item 1. Financial Statements	
Consolidated Balance Sheet - June 30, 2002 and December 31, 2001	3
Consolidated Statement of Income - Three months and six months ended June 30, 2002 and 2001	4
Consolidated Statement of Cash Flows - Six months ended June 30, 2002 and 2001	5
Notes to Unaudited Financial Statements	6 - 10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11 - 15
PART II. OTHER INFORMATION	16 - 17

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)

	<u>June 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,456	\$ 9,008
Accounts receivable, less allowances of \$5,201 (2001 - \$4,971)	50,792	49,238
Inventories	10,070	10,424
Statutory deposits	12,282	13,331
Prepaid expenses	<u>16,583</u>	<u>18,052</u>
Total current assets	101,183	100,053
Other investments	37,692	38,492
Properties and equipment, at cost less accumulated depreciation of \$72,687 (2001 - \$69,738)	62,349	67,588
Identifiable intangible assets less accumulated amortization of \$8,426 (2001 - \$8,024)	3,685	4,037
Goodwill less accumulated amortization of \$35,548 (2001 - \$35,541)	161,852	161,075
Other assets	<u>27,174</u>	<u>25,266</u>
Total Assets	<u>\$ 393,935</u>	<u>\$ 396,511</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 9,097	\$ 11,651
Current portion of long-term debt	366	353
Income taxes	4,433	1,262
Deferred contract revenue	21,202	22,194
Other current liabilities	<u>46,676</u>	<u>49,650</u>
Total current liabilities	81,774	85,110
Long-term debt	55,810	61,037
Other liabilities	<u>26,545</u>	<u>27,842</u>
Total Liabilities	<u>164,129</u>	<u>173,989</u>
MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF THE CHEMED CAPITAL TRUST	<u>14,186</u>	<u>14,239</u>
STOCKHOLDERS' EQUITY		
Capital stock-authorized 15,000,000 shares \$1 par; issued 13,460,755 shares (2001 - 13,437,781 shares)	13,461	13,438
Paid-in capital	168,448	167,542
Retained earnings	146,240	139,163
Treasury stock - 3,665,835 shares (2001 - 3,606,085 shares), at cost	(112,568)	(110,424)
Unearned compensation	(5,480)	(7,436)
Deferred compensation payable in company stock	2,253	3,288
Accumulated other comprehensive income	4,205	4,214
Notes receivable for shares sold	<u>(939)</u>	<u>(1,502)</u>
Total Stockholders' Equity	<u>215,620</u>	<u>208,283</u>
Total Liabilities and Stockholders' Equity	<u>\$ 393,935</u>	<u>\$ 396,511</u>

See accompanying notes to unaudited financial statements.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Continuing Operations				
Service revenues and sales	\$116,569	\$120,789	\$233,604	\$241,989
Cost of services provided and cost of goods sold	69,565	73,433	140,643	146,880
Selling and marketing expenses	10,832	11,353	22,869	22,253
General and administrative expenses	24,575	25,648	48,798	50,972
Depreciation	3,996	4,015	7,990	8,027
Total costs and expenses	<u>108,968</u>	<u>114,449</u>	<u>220,300</u>	<u>228,132</u>
Income from operations	7,601	6,340	13,304	13,857
Interest expense	(763)	(1,466)	(1,536)	(2,952)
Distributions on preferred securities	(271)	(278)	(541)	(555)
Other income - net	<u>720</u>	<u>845</u>	<u>3,049</u>	<u>2,604</u>
Income before income taxes	7,287	5,441	14,276	12,954
Income taxes	<u>(2,718)</u>	<u>(2,111)</u>	<u>(5,035)</u>	<u>(5,010)</u>
Income from continuing operations	4,569	3,330	9,241	7,944
Discontinued operations	<u>-</u>	<u>(1,869)</u>	<u>-</u>	<u>(1,973)</u>
Net Income	<u>\$ 4,569</u>	<u>\$ 1,461</u>	<u>\$ 9,241</u>	<u>\$ 5,971</u>
Earnings Per Share				
Income from continuing operations	\$.46	\$.34	\$.94	\$.82
Net income	<u>\$.46</u>	<u>\$.15</u>	<u>\$.94</u>	<u>\$.61</u>
Diluted Earnings Per Share				
Income from continuing operations	\$.46	\$.34	\$.93	\$.80
Net income	<u>\$.46</u>	<u>\$.16</u>	<u>\$.93</u>	<u>\$.60</u>
Earnings Excluding Goodwill Amortization				
Adjusted Income				
Income from continuing operations	\$ 4,569	\$ 4,485	\$ 9,241	\$ 10,258
Net income	<u>\$ 4,569</u>	<u>\$ 2,616</u>	<u>\$ 9,241</u>	<u>\$ 8,285</u>
Adjusted Earnings Per Share				
Income from continuing operations	\$.46	\$.46	\$.94	\$ 1.05
Net income	<u>\$.46</u>	<u>\$.27</u>	<u>\$.94</u>	<u>\$.85</u>
Adjusted Diluted Earnings Per Share				
Income from continuing operations	\$.46	\$.45	\$.93	\$ 1.04
Net income	<u>\$.46</u>	<u>\$.27</u>	<u>\$.93</u>	<u>\$.84</u>
Average number of shares outstanding				
Earnings Per Share	<u>9,857</u>	<u>9,728</u>	<u>9,850</u>	<u>9,737</u>
Diluted Earnings Per Share	<u>10,282</u>	<u>10,257</u>	<u>10,274</u>	<u>9,885</u>
Cash Dividends Paid Per Share	<u>\$.11</u>	<u>\$.11</u>	<u>\$.22</u>	<u>\$.22</u>

See accompanying notes to unaudited financial statements.

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

	Six Months Ended	
	June 30,	
	<u>2002</u>	<u>2001</u>
Cash Flows From Operating Activities		
Net income	\$ 9,241	\$ 5,971
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,471	12,113
Provision for uncollectible accounts receivable	1,295	1,266
Gains on sale of investments	(1,141)	(993)
Provision for deferred income taxes	922	774
Discontinued Operations	-	1,973
Changes in operating assets and liabilities, excluding amounts acquired in business combinations		
(Increase)/decrease in accounts receivable	(2,789)	1,809
(Increase)/decrease in inventories	354	(587)
(Increase)/decrease in other current assets	1,067	(3,293)
Decrease in statutory deposits	1,049	416
Decrease in accounts payable, deferred contract revenue and other current liabilities	(5,847)	(1,736)
Increase in income taxes	3,882	102
Other - net	<u>1,298</u>	<u>(842)</u>
Net cash provided by continuing operations	17,802	16,973
Net cash provided by discontinued operations	-	484
Net cash provided by operating activities	<u>17,802</u>	<u>17,457</u>
Cash Flows From Investing Activities		
Capital expenditures	(6,072)	(7,202)
Proceeds from sale of investments	1,917	1,377
Net outflows from discontinued operations	(1,852)	(2,536)
Business combinations--net of cash acquired	(1,229)	-
Other - net	<u>1,613</u>	<u>(809)</u>
Net cash used by investing activities	<u>(5,623)</u>	<u>(9,170)</u>
Cash Flows From Financing Activities		
Retirement of long-term debt	(10,214)	(3,231)
Proceeds from issuances of long-term debt	5,000	-
Purchase of treasury stock	(3,181)	(1,197)
Dividends paid	(2,168)	(2,200)
Other - net	<u>832</u>	<u>685</u>
Net cash provided/(used) by financing activities	<u>(9,731)</u>	<u>(5,943)</u>
Increase/(Decrease) In Cash and Cash Equivalents	2,448	2,344
Cash and cash equivalents at beginning of period	<u>9,008</u>	<u>10,280</u>
Cash and cash equivalents at end of period	<u>\$ 11,456</u>	<u>\$ 12,624</u>

See accompanying notes to unaudited financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

Notes to Unaudited Financial Statements

1. The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, they do not include all the disclosures required under generally accepted accounting principles for complete financial statements. However, in the opinion of the management of Chemed Corporation (the "Company"), the financial statements presented herein contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows of the Company and its consolidated subsidiaries ("Chemed"). For further information regarding Chemed's accounting policies, refer to the consolidated financial statements and notes included in Chemed's Annual Report on Form 10-K for the year ended December 31, 2001.

2. Sales and service revenues and aftertax earnings by business segment follow (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2002	2001	2002	2001
<u>Service Revenues and Sales</u>				
Roto-Rooter	\$ 63,095	\$ 67,098	\$ 128,374	\$ 135,554
Patient Care	37,487	35,839	73,669	70,780
Service America	15,987	17,852	31,561	35,655
Total	\$ 116,569	\$ 120,789	\$ 233,604	\$ 241,989
<u>Aftertax Earnings</u>				
Roto-Rooter	\$ 4,413	\$ 3,581	\$ 7,892	\$ 7,662
Patient Care	1,124	715	1,991	1,295
Service America	59	483	386	945
Total segment earnings	5,596	4,779	10,269	9,902
Corporate				
Gains on sales of investments	-	-	775	703
Overhead	(1,206)	(1,418)	(2,178)	(2,631)
Net investing and financing income/ (expense)	179	(31)	375	(30)
Discontinued operations	-	(1,869)	-	(1,973)
Net income	\$ 4,569	\$ 1,461	\$ 9,241	\$ 5,971
<u>Adjusted Aftertax Segment Earnings (a)</u>				
Roto-Rooter	\$ 4,413	\$ 4,350	\$ 7,892	\$ 9,203
Patient Care	1,124	899	1,991	1,662
Service America	59	685	386	1,351
Adjusted segment earnings	\$ 5,596	\$ 5,934	\$ 10,269	\$ 12,216

(a) Adjusted to exclude amortization of goodwill in 2001.

3. Earnings per common share are computed using the weighted average number of shares of capital stock outstanding. Diluted earnings per common share are computed below (in thousands except per share data):

	Income from Continuing Operations			Net Income		
	Income (Numerator)	Shares (Denominator)	Income Per Share	Income (Numerator)	Shares (Denominator)	Income Per Share
For the Three Months Ended June 30,						
2002						
Earnings	\$ 4,569	9,857	\$ <u>.46</u>	\$ 4,569	9,857	\$ <u>.46</u>
Conversion of trust securities	176	384		176	384	
Dilutive stock options	-	41		-	41	
Diluted Earnings	\$ <u>4,745</u>	<u>10,282</u>	\$ <u>.46</u>	\$ <u>4,745</u>	<u>10,282</u>	\$ <u>.46</u>
2001						
Earnings	\$ 3,330	9,728	\$ <u>.34</u>	\$ 1,461	9,728	\$ <u>.15</u>
Conversion of trust securities	181	394		181	394	
Nonvested stock awards	-	110		-	110	
Dilutive stock options	-	25		-	25	
Diluted Earnings	\$ <u>3,511</u>	<u>10,257</u>	\$ <u>.34</u>	\$ <u>1,642</u>	<u>10,257</u>	\$ <u>.16</u>
For the Six Months Ended June 30,						
2002						
Earnings	\$ 9,241	9,850	\$ <u>.94</u>	\$ 9,241	9,850	\$ <u>.94</u>
Conversion of trust securities	352	384		352	384	
Dilutive stock options	-	40		-	40	
Diluted Earnings	\$ <u>9,593</u>	<u>10,274</u>	\$ <u>.93</u>	\$ <u>9,593</u>	<u>10,274</u>	\$ <u>.93</u>
2001						
Earnings	\$ 7,944	9,737	\$ <u>.82</u>	\$ 5,971	9,737	\$ <u>.61</u>
Conversion of trust securities(b)	-	-		-	-	
Nonvested stock awards	-	115		-	115	
Dilutive stock options	-	33		-	33	
Diluted Earnings	\$ <u>7,944</u>	<u>9,885</u>	\$ <u>.80</u>	\$ <u>5,971</u>	<u>9,885</u>	\$ <u>.60</u>
Adjusted Earnings (a) For the Three Months Ended June 30, 2001						
Earnings	\$ 4,485	9,728	\$ <u>.46</u>	\$ 2,616	9,728	\$ <u>.27</u>
Conversion of trust securities	181	394		181	394	
Nonvested stock awards	-	110		-	110	
Dilutive stock options	-	25		-	25	
Diluted Earnings	\$ <u>4,666</u>	<u>10,257</u>	\$ <u>.45</u>	\$ <u>2,797</u>	<u>10,257</u>	\$ <u>.27</u>
Adjusted Earnings (a) For the Six Months Ended June 30, 2001						
Earnings	\$10,258	9,737	\$ <u>1.05</u>	\$ 8,285	9,737	\$ <u>.85</u>
Conversion of trust securities(b)	-	-		-	-	
Nonvested stock awards	-	115		-	115	
Dilutive stock options	-	33		-	33	
Diluted Earnings	\$ <u>10,258</u>	<u>9,885</u>	\$ <u>1.04</u>	\$ <u>8,285</u>	<u>9,885</u>	\$ <u>.84</u>

(a) Adjusted to exclude amortization of goodwill in 2001.

(b) The impact of the Trust Securities on earnings per share from continuing operations is anti-dilutive for the six months ended June 30, 2001. Therefore, the Trust Securities are excluded from all diluted earnings per share computations for the six months ended June 30, 2001.

4. The Company had total comprehensive income of \$4,472,000, \$1,352,000, \$9,232,000 and \$4,731,000 for the three months and six months ended June 30, 2002 and 2001, respectively. The income relates to the cumulative unrealized appreciation/depreciation on its available-for-sale securities.
5. During the first six months of 2002, one purchase business combination was completed within the Roto-Rooter segment for a purchase price of \$1,229,000 in cash. The purchase price was allocated as follows: \$1,104,000 to goodwill, \$50,000 to identifiable intangible assets and \$75,000 to other assets. The business acquired provides drain cleaning and plumbing services under the Roto-Rooter name. The results of operations of this business in 2002 are not material.
6. Accruals relating to restructuring charges recorded in 2001 totaled approximately \$2.2 million at June 30, 2002 compared with \$3.5 million at December 31, 2001. The changes relate primarily to payments made during the current year.
7. On May 8, 2002, Chemed announced it entered into an agreement to sell its wholly owned Patient Care subsidiary to an investor group led by Schroder Ventures Life Sciences Group. Chemed expects to receive gross cash payments of approximately \$70 million and to recognize an aftertax loss of approximately \$1 million on the sale.

Completion of the sale is not presently considered probable because it is contingent upon regulatory approvals and the purchaser's receipt of financing commitments by September 1, 2002. If these uncertainties are resolved, the sale is expected to close before the end of 2002.

Patient Care's net income was as follows (in thousands):

	<u>Reported</u>	<u>Adjusted (a)</u>
For the three months ended June 30, 2002	\$ 1,124	\$1,124
For the three months ended June 30, 2001	715	899
For the six months ended June 30, 2002	1,991	1,991
For the six months ended June 30, 2001	1,295	1,662
For the year ended December 31, 2001	526	3,325

(a) Adjusted to exclude the amortization of goodwill for 2001 and to exclude restructuring and similar expenses and other nonrecurring charges in the fourth quarter of 2001.

8. The Company is party to lawsuits in the normal course of business, none of which is expected to have a material impact on operating results. This includes a class action lawsuit filed in the Third Judicial Circuit Court of Madison County, Illinois in June of 2000 by Robert Harris, alleging certain Roto-Rooter plumbing was performed by unlicensed employees. The Company contests these allegations and believes them baseless. Due to the complex legal and other issues involved, it is not presently possible to estimate the amount of liability, if any, related to this matter.

9. Effective July 1, 2001, Chemed adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, for all business combinations initiated after June 30, 2001. Effective January 1, 2002, Chemed adopted the provisions of SFAS No. 141 for all purchase business combinations initiated prior to July 1, 2001. Effective January 1, 2002, Chemed adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. The adoption of the provisions of SFAS No. 141 did not materially impact the Company's financial statements.

The adoption of SFAS No. 142 eliminates the amortization of goodwill as of the effective date of adoption. Amortization of goodwill for the second quarter of 2001 is \$1,250,000 (\$1,155,000 net of income tax benefit), and was included in cost of services and cost of goods sold in the consolidated statement of income. For the first six months of 2001 amortization of goodwill is \$2,505,000 (\$2,314,000 net of income tax benefit).

In addition, SFAS No. 142 requires that goodwill be evaluated annually for impairment beginning in 2002 for each component of its operating segments. The first, or transition, evaluation must be done as of January 1, 2002 and must be completed by June 30, 2002. For the purpose of impairment testing, the Company has determined its reporting components are Service America, Patient Care, Roto-Rooter Services (plumbing and drain cleaning services), Roto-Rooter Franchising and Products (manufacturing, sale and franchising of Roto-Rooter products and services) and Roto-Rooter HVAC/non-Roto-Rooter brands (heating, ventilating and air-conditioning repair services and non-Roto-Rooter-branded drain cleaning and plumbing services). The Company's impairment tests indicate that none of the goodwill for any of its reporting components is impaired.

10. On January 1, 2002, Chemed adopted the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The adoption of SFAS No. 144 did not materially impact the Company's financial statements.
11. In August 2001, the Financial Accounting Standards Board approved the issuance of SFAS No. 143, Accounting for Asset Retirement Obligations. This statement becomes effective for fiscal years beginning after June 15, 2002, and requires recognizing legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. Since the Company has no material asset retirement obligations, the adoption of SFAS No. 143 in 2003 will not have a material impact on Chemed's financial statements.

In April 2002, the FASB approved the issuance of SFAS No. 145, Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections. This statement is generally effective for transactions occurring after May 15, 2002. The adoption of SFAS No. 145 is not expected to have a material impact on Chemed's financial statements.

In July 2002, the FASB approved the issuance of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Generally, SFAS No. 146 stipulates that defined exit costs (including restructuring and employee termination costs) are to be recorded on an incurred basis rather than on a commitment basis as is presently required. This statement is effective for exit or disposal activities initiated after December 31, 2002. The Company currently anticipates that adoption of this statement in 2003 will not have a material impact on its financial statements.

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

Financial Condition

The decline in other current liabilities from \$49.7 million at December 31, 2001 to \$46.7 million at June 30, 2002 is due largely to the payment of liabilities for 2001 supplemental thrift and profit-sharing contributions and incentive compensation. The decline in accounts payable from \$11.7 million at December 31, 2001 to \$9.1 million at June 30, 2002 is primarily due to the timing of cash payments at the end of the periods. Income taxes increased from \$1.3 million at December 31, 2001 to \$4.4 million at June 30, 2002 primarily due to the refund of overpaid estimated federal taxes for 2001 in March 2002 and to the accrual of current income taxes in 2002.

At June 30, 2002, Chemed had approximately \$27.7 million of unused lines of credit with various banks. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future. Proceeds from the pending sale of the Company's Patient Care subsidiary will be used for acquisitions, debt repayment and other corporate purposes.

Results of Operations

Data relating to (a) the increase or decrease in service revenues and sales and (b) aftertax earnings as a percent of service revenues and sales for each segment are set forth below:

	Service Revenues and Sales - % Increase/(Decrease) 2002 vs. 2001	Aftertax Earnings as a % of Revenues (Aftertax Margin)		
		2002	2001	2001
			Reported	Adjusted(a)
Three Months Ended				
June 30,				
Roto-Rooter	(6)%	7.0%	5.3%	6.5%
Patient Care	5	3.0	2.0	2.5
Service America	(10)	0.4	2.7	3.8
Total	(3)	4.8	4.0	4.9
Six Months Ended				
June 30,				
Roto-Rooter	(5)%	6.1%	5.7%	6.8%
Patient Care	4	2.7	1.8	2.3
Service America	(11)	1.2	2.7	3.8
Total	(3)	4.4	4.1	5.0

(a) Adjusted to exclude amortization of goodwill in 2001.

Second Quarter 2002 versus Second Quarter 2001

Service revenues and sales of the Roto-Rooter segment for the second quarter of 2002 totaled \$63,095,000, a decline of 6% versus the \$67,098,000 recorded in the second quarter of 2001. Revenues of the drain cleaning business and the plumbing services business declined

1% and 6%, respectively, for the second quarter of 2002, as compared with revenues for 2001. Each of these businesses' revenues accounts for 44% and 42%, respectively, of Roto-Rooter's total revenues and sales. Excluding revenues of businesses acquired or divested in 2001 or 2002, revenues of this segment for the second quarter of 2002 declined 4% versus revenues for the second quarter of 2001. The aftertax margin of this segment during the second quarter of 2002 was 7.0% as compared with 6.5% on an adjusted basis (excluding amortization of goodwill) during the second quarter of 2001. Most of this increase is attributable to a higher gross profit margin in the 2002 quarter.

Service revenues of the Patient Care segment increased 5% from \$35,839,000 in the second quarter of 2001 to \$37,487,000 in the second quarter of 2002. The aftertax margin of this segment increased from 2.5% on an adjusted basis (excluding goodwill amortization) in the second quarter of 2001 to 3.0% in the second quarter of 2002, largely as the result of a higher gross profit margin in 2002, partially offset by higher general and administrative expenses (as a percent of revenues) in the 2002 quarter.

Service revenues and sales of the Service America segment declined 10% from \$17,852,000 in the second quarter of 2001 to \$15,987,000 in the second quarter of 2002. This decline is attributable to lower contract renewals in 2002, lower retail sales in 2002 and the divestment of the Tucson branch in the fourth quarter of 2001. The aftertax margin of this segment was .4% in the second quarter of 2002 as compared with 3.8% on an adjusted basis (excluding goodwill amortization) in the second quarter of 2001. This decline is attributable to a lower gross profit margin in the 2002 quarter, primarily as the result of higher labor costs (as a percent of revenues) in 2002.

Income from operations increased from \$6,340,000 in the second quarter of 2001 to \$7,601,000 in the second quarter of 2002. On an adjusted basis, excluding goodwill amortization in 2001 (\$1,250,000), income from operations was \$7,590,000. Earnings before interest, taxes, depreciation and amortization before capital gains ("EBITDA") declined slightly from \$12,813,000 in the second quarter of 2001 to \$12,518,000 in the second quarter of 2002.

Interest expense declined from \$1,466,000 in the second quarter of 2001 to \$763,000, as a result of refinancing long-term debt at lower interest rates in December 2001. Lower debt levels during the year 2002 also contributed to this decline.

Other income-net declined from \$845,000 in the second quarter of 2001 to \$720,000 in the second quarter of 2002 primarily as the result of lower interest rates on invested cash in the second quarter of 2002 as compared with interest rates in 2001.

The effective income tax rate during the second quarter of 2002 was 37.3% as compared with 38.8% during the second quarter of 2001. Excluding the amortization of goodwill in 2001, the effective tax rate

for the second quarter of 2001 was 33.0%. The higher rate in 2002 (versus the adjusted rate in 2001) is primarily attributable to favorable tax adjustments in the 2001 quarter and to a slightly higher effective state and local tax rate in 2002.

Income from continuing operations increased from \$3,330,000 (\$.34 per share) in the second quarter of 2001 to \$4,569,000 (\$.46 per share) in the second quarter of 2002. Excluding amortization of goodwill (\$1,155,000 aftertax), adjusted income from continuing operations for the second quarter of 2001 was \$4,485,000 (\$.46 per share and \$.45 per diluted share).

Net income increased from \$1,461,000 (\$.15 per share and \$.16 per diluted share) in the second quarter of 2001 to \$4,569,000 (\$.46 per share) in the second quarter of 2002. The results for 2001 include a loss on discontinued operations of \$1,869,000 (\$.19 per share and \$.18 per diluted share) and goodwill amortization of \$1,155,000 aftertax (\$.12 per share and \$.11 per diluted share). Beginning January 1, 2002, goodwill is not amortized.

Six Months Ended June 30, 2002 Versus June 30, 2001

Service revenues and sales of the Roto-Rooter segment for the first six months of 2002 totaled \$128,374,000, a decline of 5% versus the \$135,554,000 recorded in the first six months of 2001. Revenues of the drain cleaning business and the plumbing services business declined 2% and 6%, respectively, for the first six months of 2002, as compared with revenues for 2001. Excluding revenues of businesses acquired or divested in 2001 or 2002, revenues of this segment for the first six months of 2002 declined 4% versus revenues for the first six months of 2001. The aftertax margin of this segment during the first six months of 2002 was 6.1% as compared with 6.8% on an adjusted basis (excluding amortization of goodwill) during the first six months of 2001. Most of this decline is attributable to a lower gross profit margin as the result of labor costs being a higher percent of revenues in the 2002 period.

Service revenues of the Patient Care segment increased 4% from \$70,780,000 in the first six months of 2001 to \$73,669,000 in the first six months of 2002. The aftertax margin of this segment increased from 2.3% on an adjusted basis (excluding goodwill amortization) in the first six months of 2001 to 2.7% in the first six months of 2002, largely as the result of a higher gross profit margin in 2002, partially offset by higher general and administrative expenses (as a percent of revenues) in the 2002 period.

Service revenues and sales of the Service America segment declined 11% from \$35,655,000 in the first six months of 2001 to \$31,561,000 in the first six months of 2002. This decline is attributable to lower contract renewals in 2002, lower retail sales in 2002 and the divestment of the Tucson branch in the fourth quarter of 2001. The aftertax margin of this segment was 1.2% in the first six months of 2002 as compared with 3.8% on an adjusted

basis (excluding goodwill amortization) in the first six months of 2001. This decline is attributable to a lower gross profit margin in the 2002 quarter, primarily as the result of higher labor costs (as a percent of revenues) in 2002.

Income from operations declined from \$13,857,000 in the first six months of 2001 to \$13,304,000 in the first six months of 2002. On an adjusted basis, excluding goodwill amortization in 2001 (\$2,505,000), income from operations was \$16,362,000. Also, earnings before interest, taxes, depreciation and amortization before capital gains ("EBITDA") declined 11% from \$26,515,000 in the first six months of 2001 to \$23,603,000 in the first six months of 2002. These declines are primarily attributable to the decline in Roto-Rooter's operating profit during the first six months of 2002.

Interest expense declined from \$2,952,000 in the first six months of 2001 to \$1,536,000, as a result of refinancing long-term debt at lower interest rates in December 2001. Lower debt levels during the year 2002 also contributed to this decline.

Other income-net increased from \$2,604,000 in the first six months of 2001 to \$3,049,000 in the first six months of 2002 as the result of higher capital gains and higher gains on investments held in deferred compensation trusts in the 2002 period.

The effective income tax rate during the first six months of 2002 was 35.3% as compared with 38.7% during the first six months of 2001. Excluding the amortization of goodwill in 2001, the effective tax rate for the first six months of 2001 was 33.6%. The higher rate in 2002 (versus the adjusted rate in 2001) is primarily attributable to larger favorable tax adjustments in the 2001 period.

Income from continuing operations increased from \$7,944,000 (\$.82 per share and \$.80 per diluted share) in the first six months of 2001 to \$9,241,000 (\$.94 per share and \$.93 per diluted share) in the first six months of 2002. Excluding amortization of goodwill (\$2,314,000 aftertax) adjusted income from operations was \$10,258,000 (\$1.05 per share and \$1.04 per diluted share) in the first six months of 2001 as compared with \$9,241,000 (\$.94 per share and \$.93 per diluted share) in the first six months of 2002. Income from continuing operations for the first six months of 2002 and 2001 includes aftertax capital gains of \$775,000 (\$.08 per share and \$.07 per diluted share) and \$703,000 (\$.08 per share and \$.06 per diluted share), respectively.

Net income increased from \$5,971,000 (\$.61 per share and \$.60 per diluted share) in the first six months of 2001 to \$9,241,000 (\$.94 per share and \$.93 per diluted share) in the first six months of 2002. Net income for the first six months of 2002 and 2001 includes aftertax capital gains of \$775,000 (\$.08 per share and \$.07 per diluted share) and \$703,000 (\$.08 per share and \$.06 per diluted share), respectively. In addition, the results for 2001 include a loss on discontinued operations of \$1,973,000 (\$.21 per share and \$.20 per diluted share) and goodwill amortization of \$2,314,000 aftertax (\$.24 per share).

Recent Accounting Statements

In August 2001, the Financial Accounting Standards Board approved the issuance of SFAS No. 143, Accounting for Asset Retirement Obligations. This statement becomes effective for fiscal years beginning after June 15, 2002, and requires all entities to recognize legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction or development and/or normal operation of a long-lived asset. Since the Company has no material asset retirement obligations, the adoption of SFAS No. 143 in 2003 will not have a material impact on Chemed's financial statements.

In April 2002, the FASB approved the issuance of SFAS No. 145, Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections. This statement is generally effective for transactions occurring after May 15, 2002. The adoption of SFAS No. 145 is not expected to have a material impact on Chemed's financial statements.

In July 2002, the FASB approved the issuance of SFAS No. 146, Accounting for Costs Associated with Exit of Disposal Activities. Generally, SFAS No. 146 stipulates that defined exit costs (including restructuring and employee termination costs) are to be recorded on an incurred basis rather than on a commitment basis as is presently required. This statement is effective for exit or disposal activities initiated after December 31, 2002. The Company currently anticipates that adoption of this statement in 2003 will not have a material impact on its financial statements.

Safe harbor Statement under the Private Securities Litigation Reform Act of 1995 Regarding Forward-Looking Information

This report contains statements which are subject to certain known and unknown risks, uncertainties, contingencies and other factors that could cause actual results to differ materially from these statements and trends. The Company's ability to deal with the unknown outcomes of these events, many of which are beyond its control, may affect the reliability of its projections and other financial matters.

PART II -- OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

- (a) Chemed held its Annual Meeting of Shareholders on May 20, 2002.
- (b) The names of directors elected at this Annual Meeting are as follows:
- | | |
|------------------------|----------------------|
| Edward L. Hutton | Sandra E. Laney |
| Kevin J. McNamara | Spencer S. Lee |
| Rick L. Arquilla | John M. Mount |
| Charles H. Erhart, Jr. | Timothy S. O'Toole |
| Joel F. Gemunder | Donald E. Saunders |
| Patrick P. Grace | George J. Walsh, III |
| Thomas C. Hutton | Frank E. Wood |
| Walter L. Krebs | |
- (c) The stockholders ratified the Board of Directors' selection of PricewaterhouseCoopers LLP as independent accountants for the Company and its consolidated subsidiaries for the year 2002. 8,809,683 votes were cast in favor of the proposal, 89,472 votes were cast against it, 20,266 votes abstained, and there were no broker non-votes.
- (d) The stockholders then voted on the approval and adoption of the 2002 Executive Long-Term Incentive Plan: 7,837,040 votes were cast in favor of the proposal, 897,422 were cast against it, 184,959 votes abstained, and there were no broker non-votes.
5. The stockholders then voted on the approval and adoption of the 2002 Stock Incentive Plan: 7,172,729 votes were cast in favor of the proposal, 1,602,340 votes were cast against it, 144,352 votes abstained, and there were no broker non-votes.

With respect to the election of directors, the number of votes cast for each nominee was as follows:

	<u>Votes For</u>	<u>Votes Withheld</u>
Edward L. Hutton	7,690,268	1,229,152
Kevin J. McNamara	7,708,560	1,210,861
Rick L. Arquilla	7,715,379	1,204,041
Charles H. Erhart, Jr.	7,669,143	1,220,278
Joel F. Gemunder	7,712,533	1 206,887
Patrick P. Grace	7,704,008	1 215,413
Thomas C. Hutton	7,708,832	1,210,588
Walter L. Krebs	7,712,627	1 206,794
Sandra E. Laney	7,708,837	1 210,583
Spencer S. Lee	7,714,560	1,204,860
John M. Mount	7,713,155	1,206,265
Timothy S. O'Toole	7,716,535	1,202,885
Donald E. Saunders	7,705,574	1,213,847

George J. Walsh, III	7,713,305	1,206,116
Frank E. Wood	7,710,762	1,208,658

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None required.

(b) Reports on Form 8-K

None were filed in the quarter ended June 30, 2002.

CERTIFICATION AND SIGNATURES

The undersigned hereby certify that this report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, 15 U.S.C. section 78m or 78(o)(d) and that information contained herein fairly presents, in all material respects, the financial condition and results of operations of Registrant.

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

Chemed Corporation
(Registrant)

Dated: August 12, 2002

By Kevin J. McNamara
Kevin J. McNamara
(President and Chief
Executive Officer)

Dated: August 12, 2002

By Timothy S. O'Toole
Timothy S. O'Toole
(Executive Vice President
And Treasurer - Principal
Financial Officer)

Dated: August 12, 2002

By Arthur V. Tucker, Jr.
Arthur V. Tucker, Jr.
(Vice President and
Controller - Principal
Accounting Officer)