
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, 2001

Commission File Number 1-8351

CHEMED CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|--------------------------------------|
| Delaware | 31-0791746 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

| | |
|---|------------|
| 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 | 9,832,942 Shares | July 31, 2001 |

**CHEMED CORPORATION AND
SUBSIDIARY COMPANIES**

Index

| | <u>Page No.</u> |
|---|------------------------|
| PART I. FINANCIAL INFORMATION: | |
| Item 1. Financial Statements | |
| Consolidated Balance Sheet - June 30, 2001 and December 31, 2000 | 3 |
| Consolidated Statement of Income - Three months and six months ended June 30, 2001 and 2000 | 4 |
| Consolidated Statement of Cash Flows - Six months ended June 30, 2001 and 2000 | 5 |
| Notes to Unaudited Financial Statements | 6 - 8 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 9 - 13 |
| PART II. OTHER INFORMATION | 14 - 15 |

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>2001</u> | <u>December 31,</u> <u>2000</u> |
|---|--------------------------------|------------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 12,624 | \$ 10,280 |
| Accounts receivable, less allowances of \$5,309 (2000 - \$5,137) | 50,900 | 54,571 |
| Inventories | 11,090 | 10,503 |
| Statutory deposits | 13,630 | 14,046 |
| Other current assets | <u>20,390</u> | <u>17,070</u> |
| Total current assets | 108,634 | 106,470 |
| Other investments | 35,217 | 37,099 |
| Properties and equipment, at cost less accumulated depreciation of \$69,294 (2000 - \$64,757) | 73,574 | 75,177 |
| Identifiable intangible assets less accumulated amortization of \$8,115 (2000 - \$7,749) | 11,224 | 11,633 |
| Goodwill less accumulated amortization of \$33,984 (2000 - \$31,524) | 166,466 | 169,083 |
| Other assets | <u>24,204</u> | <u>21,913</u> |
| Total Assets | <u>\$ 419,319</u> | <u>\$ 421,375</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 11,569 | \$ 11,102 |
| Current portion of long-term debt | 11,356 | 14,376 |
| Income taxes | 11,002 | 11,862 |
| Deferred contract revenue | 23,948 | 24,973 |
| Other current liabilities | <u>43,427</u> | <u>44,629</u> |
| Total current liabilities | 101,302 | 106,942 |
| Long-term debt | 58,180 | 58,391 |
| Other liabilities | <u>27,947</u> | <u>27,637</u> |
| Total Liabilities | <u>187,429</u> | <u>192,970</u> |
| MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF THE CHEMED CAPITAL TRUST | <u>14,561</u> | <u>14,641</u> |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock-authorized 700,000 shares without par value; none issued | | |
| Capital stock-authorized 15,000,000 shares \$1 par; issued 13,436,905 shares (2000 - 13,317,906 shares) | 13,437 | 13,318 |
| Paid-in capital | 166,546 | 162,618 |
| Retained earnings | 157,687 | 153,909 |
| Treasury stock - 3,604,710 shares (2000 - 3,467,753 shares), at cost | (110,382) | (105,249) |
| Unearned compensation | (13,770) | (16,683) |
| Deferred compensation payable in company stock | 3,253 | 5,500 |
| Accumulated other comprehensive income | 2,152 | 3,237 |
| Notes receivable for shares sold | <u>(1,594)</u> | <u>(2,886)</u> |
| Total Stockholders' Equity | <u>217,329</u> | <u>213,764</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 419,319</u> | <u>\$ 421,375</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>June 30,</u> | | <u>Six Months Ended</u> <u>June 30,</u> | |
|--|--|-----------------|--|------------------|
| | <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |
| Continuing Operations | | | | |
| Service revenues and sales | \$120,789 | \$122,956 | \$241,989 | \$242,343 |
| Cost of services provided and cost of goods sold | 73,433 | 74,455 | 146,880 | 147,231 |
| Selling and marketing expenses | 11,353 | 11,046 | 22,253 | 22,054 |
| General and administrative expenses | 25,648 | 24,524 | 50,972 | 48,980 |
| Depreciation | 4,015 | 3,852 | 8,027 | 7,526 |
| Total costs and expenses | <u>114,449</u> | <u>113,877</u> | <u>228,132</u> | <u>225,791</u> |
| Income from operations | 6,340 | 9,079 | 13,857 | 16,552 |
| Interest expense | (1,466) | (1,787) | (2,952) | (3,569) |
| Distributions on preferred securities | (278) | (286) | (555) | (574) |
| Other income - net | <u>845</u> | <u>2,792</u> | <u>2,604</u> | <u>5,188</u> |
| Income before income taxes | 5,441 | 9,798 | 12,954 | 17,597 |
| Income taxes | <u>(2,111)</u> | <u>(3,753)</u> | <u>(5,010)</u> | <u>(6,692)</u> |
| Income from continuing operations | 3,330 | 6,045 | 7,944 | 10,905 |
| Discontinued operations | <u>(1,869)</u> | <u>68</u> | <u>(1,973)</u> | <u>110</u> |
| Net Income | <u>\$ 1,461</u> | <u>\$ 6,113</u> | <u>\$ 5,971</u> | <u>\$ 11,015</u> |
| Earnings Per Common Share | | | | |
| Income from continuing operations | \$.34 | \$.62 | \$.82 | \$ 1.10 |
| Net income | \$.15 | \$.62 | \$.61 | \$ 1.11 |
| Average number of shares outstanding | <u>9,728</u> | <u>9,797</u> | <u>9,737</u> | <u>9,931</u> |
| Diluted Earnings Per Common Share | | | | |
| Income from continuing operations | \$.34 | \$.61 | \$.80 | \$ 1.09 |
| Net income | \$.16 | \$.61 | \$.60 | \$ 1.10 |
| Average number of shares outstanding | <u>10,257</u> | <u>10,295</u> | <u>9,885</u> | <u>10,353</u> |
| Cash Dividends Paid Per Share | <u>\$.11</u> | <u>\$.10</u> | <u>\$.22</u> | <u>\$.20</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, | |
|--|------------------------------|-------------------------|
| | 2001 | 2000* |
| Cash Flows From Operating Activities | | |
| Net income | \$ 5,971 | \$ 11,015 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 12,113 | 11,616 |
| Discontinued Operations | 1,973 | (110) |
| Gains on sale of investments | (993) | (2,662) |
| Provision for deferred income taxes | 774 | 539 |
| Provision for uncollectible accounts receivable | 1,266 | 925 |
| Changes in operating assets and liabilities, excluding amounts acquired in business combinations | | |
| (Increase)/decrease in accounts receivable | 1,809 | (519) |
| Increase in inventories | (587) | (721) |
| Increase in other current assets | (3,293) | (2,748) |
| (Increase)/decrease in statutory deposits | 416 | (229) |
| Decrease in accounts payable, deferred contract revenue and other current liabilities | (1,736) | (902) |
| Increase in income taxes | 102 | 1,038 |
| Other - net | (842) | 97 |
| Net cash provided by continuing operations | 16,973 | 17,339 |
| Net cash provided by discontinued operations | 484 | 280 |
| Net cash provided by operating activities | <u>17,457</u> | <u>17,619</u> |
| Cash Flows From Investing Activities | | |
| Capital expenditures | (7,202) | (8,696) |
| Net outflows from discontinued operations | (2,536) | (1,857) |
| Proceeds from sale of investments | 1,377 | 3,424 |
| Business combinations--net of cash acquired | - | (10,696) |
| Other - net | (809) | (882) |
| Net cash used by investing activities | <u>(9,170)</u> | <u>(18,707)</u> |
| Cash Flows From Financing Activities | | |
| Retirement of long-term debt | (3,231) | (84) |
| Dividends paid | (2,200) | (2,020) |
| Purchase of treasury stock | (1,197) | (4,501) |
| Proceeds from issuances of long-term debt | - | 5,000 |
| Other - net | 685 | (67) |
| Net cash used by financing activities | <u>(5,943)</u> | <u>(1,672)</u> |
| Increase/(Decrease) In Cash and Cash Equivalents | 2,344 | (2,760) |
| Cash and cash equivalents at beginning of period | <u>10,280</u> | <u>17,282</u> |
| Cash and cash equivalents at end of period | <u><u>\$ 12,624</u></u> | <u><u>\$ 14,522</u></u> |

See accompanying notes to unaudited financial statements.

* Reclassified to conform to 2001 presentation.

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, 2000.
2. Sales and service revenues and aftertax earnings by business segment follow (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------------|------------------------------|-------------------|
| | 2001 | 2000 | 2001 | 2000 |
| <u>Revenues</u> | | | | |
| Roto-Rooter | \$ 67,098 | \$ 69,806 | \$135,554 | \$ 137,530 |
| Patient Care | 35,839 | 33,689 | 70,780 | 66,598 |
| Service America | 17,852 | 19,461 | 35,655 | 38,215 |
| Total | <u>\$ 120,789</u> | <u>\$ 122,956</u> | <u>\$241,989</u> | <u>\$ 242,343</u> |
| <u>Aftertax Earnings</u> | | | | |
| Roto-Rooter | \$ 3,581 | \$ 4,920 | \$ 7,662 | \$ 9,589 |
| Patient Care | 715 | 549 | 1,295 | 952 |
| Service America | 483 | 521 | 945 | 841 |
| Total segment earnings | 4,779 | 5,990 | 9,902 | 11,382 |
| Corporate | | | | |
| Gains on sales of investments | - | 1,122 | 703 | 1,799 |
| Overhead | (1,418) | (1,209) | (2,631) | (2,572) |
| Net investing and financing income/(expense) | (31) | 142 | (30) | 296 |
| Discontinued operations | (1,869) | 68 | (1,973) | 110 |
| Net income | <u>\$ 1,461</u> | <u>\$ 6,113</u> | <u>\$ 5,971</u> | <u>\$ 11,015</u> |

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 on the following page (in thousands except per share data):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|------------------|
| | June 30, | | June 30, | |
| | 2001 | 2000 | 2001 | 2000 |
| <u>Income from Continuing Operations</u> | | | | |
| Reported income | \$ 3,330 | \$ 6,045 | \$ 7,944 | \$ 10,905 |
| Aftertax interest on Trust Securities | 181 | 190 | - (a) | 379 |
| Adjusted income | <u>\$ 3,511</u> | <u>\$ 6,235</u> | <u>\$ 7,944</u> | <u>\$ 11,284</u> |
| Average number of shares outstanding | 9,728 | 9,797 | 9,737 | 9,931 |
| Effect of conversion of the Trust Securities | 394 | 419 | - (a) | 347 |
| Effect of nonvested stock awards | 110 | 78 | 115 | 74 |
| Effect of unexercised stock options | 25 | 1 | 33 | 1 |
| Average number of shares used to compute diluted earnings per common share | <u>10,257</u> | <u>10,295</u> | <u>9,885</u> | <u>10,353</u> |
| Diluted earnings per common share | <u>\$.34</u> | <u>\$.61</u> | <u>\$.80</u> | <u>\$ 1.09</u> |
| <u>Net Income</u> | | | | |
| Reported income | \$ 1,461 | \$ 6,113 | \$ 5,971 | \$ 11,015 |
| Aftertax interest on Trust Securities | 181 | 190 | - (a) | 379 |
| Adjusted income | <u>\$ 1,642</u> | <u>\$ 6,303</u> | <u>\$ 5,971</u> | <u>\$ 11,394</u> |
| Average number of shares outstanding | 9,728 | 9,797 | 9,737 | 9,931 |
| Effect of conversion of the Trust Securities | 394 | 419 | - (a) | 347 |
| Effect of nonvested stock awards | 110 | 78 | 115 | 74 |
| Effect of unexercised stock options | 25 | 1 | 33 | 1 |
| Average number of shares used to compute diluted earnings per common share | <u>10,257</u> | <u>10,295</u> | <u>9,885</u> | <u>10,353</u> |
| Diluted earnings per common share | <u>\$.16</u> | <u>\$.61</u> | <u>\$.60</u> | <u>\$ 1.10</u> |

(a) 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 diluted earnings per share computations.

4. The Company had total comprehensive income of \$1,352,000, \$4,611,000, \$4,886,000 and \$9,000,000 for the three months and six months ended June 30, 2001 and 2000, respectively. The income relates to the cumulative unrealized appreciation/depreciation on its available-for-sale securities.

5. During the first quarter of 2001, the U.S. Department of Labor ("DOL") initiated an investigation into Roto-Rooter Services Company's ("Roto-Rooter") pay practices for service technicians. The DOL claims Roto-Rooter should pay these commissioned employees overtime for hours worked over forty hours per week. Roto-Rooter has long relied on an overtime exemption covering Retail Service Employees. The DOL now asserts that plumbing services do not qualify, and Roto-Rooter should lose the exemption.

Roto-Rooter's compensation program responds to its employees' desire for flexibility and choices in terms of work schedule and income. Roto-Rooter intends to vigorously defend this matter, but cannot predict its outcome. It is not presently possible to reasonably estimate what liability, if any, may arise from this matter.

6. Effective for the second quarter of 2001, Chemed made a commitment to discontinue its Cadre Computer segment. It is anticipated that the business and assets of Cadre Computer will be sold to a company owned by the Cadre Computer employees, or will otherwise be divested, during the next twelve months. Accordingly, the results of operations of Cadre Computer and the estimated loss on disposal have been classified as discontinued operations in the accompanying statement of income.

Data relating to discontinued operations include the following (in thousands):

| | Three Months Ended | | Six Months Ended | |
|-----------------------------|---------------------------|-----------------|-------------------------|-----------------|
| | June 30, | | June 30, | |
| | 2001 | 2000 | 2001 | 2000 |
| Cadre Computer income/ | | | | |
| (loss) before income | | | | |
| taxes | \$ (391) | \$ 105 | \$ (569) | \$ 171 |
| Income tax benefit/ | | | | |
| (expense) | 135 | (37) | 197 | (61) |
| Minority interest | <u>28</u> | <u>-</u> | <u>40</u> | <u>-</u> |
| Cadre Computer net income | | | | |
| (loss) | (228) | 68 | (332) | 110 |
| Estimated loss on disposal, | | | | |
| net of income tax | | | | |
| benefit of \$883 | <u>(1,641)</u> | <u>-</u> | <u>(1,641)</u> | <u>-</u> |
| Income/(loss) from | | | | |
| discontinued operations | <u>\$ (1,869)</u> | <u>\$ 68</u> | <u>\$ (1,973)</u> | <u>\$ 110</u> |
| Net service revenues and | | | | |
| sales of Cadre Computer | <u>\$ 1,450</u> | <u>\$ 2,262</u> | <u>\$ 3,531</u> | <u>\$ 4,409</u> |

7. Statement of Financial Accounting Standards No. 133 ("SFAS133"), Accounting for Derivative Instruments and Hedging Activities, is effective for calendar year 2001. Since the Company does not invest in derivative or hedging instruments, adoption of SFAS133 has no impact on the Company's financial statements.

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

Financial Condition

There were no significant changes in the Company's balance sheet from December 31, 2000 to June 30, 2001.

Vitas Healthcare Corporation ("Vitas"), the privately-held provider of hospice services to the terminally ill in which the Company carries an investment of \$27 million of redeemable preferred stock, refinanced its debt obligations in April 2001. In connection therewith, the Company and Vitas agreed to extend the maturity of Vitas' redeemable preferred stock to April 1, 2007. In addition, Vitas issued a warrant to the Company for the purchase of approximately 1.6 million shares of its common stock.

Vitas' operating results and net income continue to meet its management's expectations. On the basis of current information, management believes the Company's investment in Vitas is fully recoverable and that no impairment exists.

On June 20, 2001, Chemed's \$85 million revolving line of credit with Bank of America expired. It is anticipated that another line of credit will be established during the third quarter of 2001. As a result, Chemed had approximately \$18.2 million of unused lines of credit with various banks at June 30, 2001. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

Results of Operations

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

| | Service Revenues and Sales - | Aftertax Earnings | |
|---------------------------|---------------------------------|--------------------|------|
| | % Increase/(Decrease) | as a % of Revenues | |
| | 2001 vs. 2000 | (Aftertax Margin) | |
| | | 2001 | 2000 |
| Three Months Ended | | | |
| June 30, | | | |
| Roto-Rooter | (4)% | 5.3% | 7.0% |
| Patient Care | 6 | 2.0 | 1.6 |
| Service America | (8) | 2.7 | 2.7 |
| Total | (2) | 4.0 | 4.9 |

Six Months Ended

| <u>June 30,</u> | | | |
|-----------------|------|------|------|
| Roto-Rooter | (1)% | 5.7% | 7.0% |
| Patient Care | 6 | 1.8 | 1.4 |
| Service America | (7) | 2.7 | 2.2 |
| Total | - | 4.1 | 4.7 |

Second Quarter 2001 versus Second Quarter 2000

Service revenues and sales of the Roto-Rooter segment for the second quarter of 2001 totaled \$67,098,000, a decline of 4% versus the \$69,806,000 recorded in the second quarter of 2000. Revenues of the drain cleaning business and the plumbing services business declined 2% and 5%, respectively, for the second quarter of 2001, as compared with revenues for 2000. Each of these businesses' revenues accounts for 42% of Roto-Rooter's total revenues and sales. These revenue declines can be partially ascribed to the economic slowdown as Roto-Rooter is experiencing lower demand for elective, non-emergency plumbing and drain cleaning services. The aftertax margin of this segment during the second quarter of 2001 was 5.3% as compared with 7.0% during the second quarter of 2000. Most of this decline is attributable to a lower gross profit margin in the 2001 quarter. Higher liability insurance costs during 2001 were a primary factor in the gross margin decline. In addition, higher selling costs, as a percentage of revenues, also contributed to the aftertax margin decline.

Service revenues of the Patient Care segment increased 6% from \$33,689,000 in the second quarter of 2000 to \$35,839,000 in the second quarter of 2001. The aftertax margin of this segment increased from 1.6% in the second quarter of 2000 to 2.0% in the second quarter of 2001, largely as the result of a higher gross profit margin in 2001.

Service revenues and sales of the Service America segment declined 8% from \$19,461,000 in the second quarter of 2000 to \$17,852,000 in the second quarter of 2001. This decline was the result of not selling enough new service contracts to offset the loss of existing service contracts that renew annually. The aftertax margin of this segment was 2.7% in both 2000 and 2001.

Income from operations declined from \$9,079,000 in the second quarter of 2000 to \$6,340,000 in the second quarter of 2001. Similarly, earnings before interest, taxes, depreciation and amortization before capital gains ("EBITDA") declined 18% from \$15,562,000 in the second quarter of 2000 to \$12,813,000 in the second quarter of 2001. Both declines are primarily due to lower operating profit of the Roto-Rooter segment.

Interest expense declined from \$1,787,000 in the second quarter of 2000 to \$1,466,000, largely as the result of lower debt levels during the year 2001.

Other income-net declined from \$2,792,000 in the second quarter of 2000 to \$845,000 in the second quarter of 2001 primarily as the result of \$1,711,000 of capital gains realized in the second quarter of 2000, as compared with a capital loss of \$119,000 in the 2001 quarter.

The effective income tax rate during the second quarter of 2001 was 38.8% as compared with 38.3% during the second quarter of 2000.

Income from continuing operations declined from \$6,045,000 (\$.62 per share and \$.61 per diluted share) in the second quarter of 2000 to \$3,330,000 (\$.34 per share) in the second quarter of 2001. Excluding gains on the sales of investments in 2000, income from continuing operations for the second quarter of 2000 was \$4,923,000 (\$.50 per share) as compared with \$3,330,000 (\$.34 per share) for 2001. This decline is attributable to lower aftertax income of the Roto-Rooter segment in 2001.

Net income during the second quarter of 2000 totaled \$6,113,000 (\$.62 per share and \$.61 per diluted share) as compared with \$1,461,000 (\$.15 per share and \$.16 per diluted share) in the 2000 quarter. Net income for 2001 includes a loss of \$1,641,000 (\$.17 per share and \$.16 per diluted share) from the discontinuance of the Cadre Computer segment effective June 30, 2001.

Six Months Ended June 30, 2001 versus June 30, 2000

Service revenues and sales of the Roto-Rooter segment for the first six months of 2001 totaled \$135,554,000, a decline of 1% versus the \$137,530,000 recorded in the first six months of 2000. During the first six months of 2001, revenues of the drain cleaning business increased 1% and revenues of the plumbing services business declined 1% versus revenues for the first six months of 2000. The aftertax margin of the Roto-Rooter segment for the first six months of 2001 was 5.7% as compared with 7.0% for 2000. This decline is attributable primarily to a lower gross profit margin in the 2001 period.

Service revenues of the Patient Care segment increased 6% from \$66,598,000 in the first six months of 2000 to \$70,780,000 in the first six months of 2001. The aftertax margin of this segment increased from 1.4% in the first six months of 2000 to 1.8% in 2001, largely as the result of a higher gross profit margin in 2001.

Service revenues and sales of the Service America segment declined 7% from \$38,215,000 in the first six months of 2000 to \$35,655,000 in the first six months of 2001. This decline was anticipated and is due, in part, to not renewing less profitable service contracts. The aftertax margin of this segment increased from 2.2% in the 2000 period to 2.7% in the 2001 period, primarily as the result of a higher gross margin in 2001.

Income from operations declined from \$16,552,000 in the first six months of 2000 to \$13,857,000 in the first six months of 2001. Similarly, EBITDA declined 11% from \$29,679,000 in the first six months of 2000 to \$26,515,000 in the first six months of 2001. Both declines are primarily due to lower operating profit of the Roto-Rooter segment.

Interest expense declined from \$3,569,000 during the first six months of 2000 to \$2,952,000 in the first six months of 2001 due to lower debt levels in 2001.

Other income-net declined from \$5,188,000 in the first six months of 2000 to \$2,604,000 in the first six months of 2001 largely due to smaller gains on sales of investments in 2001. Lower interest income during the 2001 period also contributed to this decline.

The effective income tax rate during the first six months of 2001 was 38.7% as compared with 38.0% during the first six months of 2000. The increase is primarily attributable to a higher effective state and local income tax rate in 2001.

Income from continuing operations declined from \$10,905,000 (\$1.10 per share and \$1.09 per diluted share) in the first six months of 2000 to \$7,944,000 (\$.82 per share and \$.80 per diluted share) in the first six months of 2001. Excluding gains on the sales of investments in 2000, income from continuing operations for the first six months of 2000 was \$9,106,000 (\$.92 per share) as compared with \$7,241,000 (\$.74 per share and \$.73 per diluted share) for 2001. This decline is attributable to lower aftertax income of the Roto-Rooter segment in 2001.

Net income during the first six months of 2001 totaled \$5,971,000 (\$.61 per share and \$.60 per diluted share) as compared with \$11,015,000 (\$1.11 per share and \$1.10 per diluted share) in the 2000 period. Net income for 2001 includes a loss of \$1,641,000 (\$.17 per share and \$.16 per diluted share) from the discontinuance of the Cadre Computer segment effective June 30, 2001.

Accounting for Business Combinations and Intangible Assets

During June 2001, the Financial Accounting Standards Board approved the issuance of Statement of Financial Accounting Standards No. 141 ("SFAS141"), Business Combinations, and Statement of Financial Accounting Standards No. 142 ("SFAS142"), Goodwill and Other Intangible Assets. For Chemed these statements will generally become effective January 1, 2002, although business combinations initiated after July 1, 2001 are subject to the non-amortization and purchase accounting provisions.

Specifically, SFAS142 stipulates that goodwill is no longer subject to amortization, but must be evaluated annually for impairment beginning January 1, 2002. Chemed estimates that the non-amortization provision will increase its diluted earnings per share by approximately \$.40 to \$.45 per share in the year 2002. The assessment of goodwill for impairment is a complex issue in which a company must determine, among other things, the fair value of each defined component of its operating segments. It is, therefore, not possible at this time to predict the impact, if any, which the impairment assessment provisions of SFAS142 will have on Chemed's 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 such statements. 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 21, 2001.
- (b) The names of directors elected at this Annual Meeting are as follows:

| | |
|------------------------|----------------------|
| Edward L. Hutton | Sandra E. Laney |
| Rick L. Arquilla | Kevin J. McNamara |
| James H. Devlin | Spencer S. Lee |
| Charles H. Erhart, Jr. | John M. Mount |
| Joel F. Gemunder | Timothy S. O'Toole |
| Patrick P. Grace | Donald E. Saunders |
| Thomas C. Hutton | Paul C. Voet |
| Walter L. Krebs | George J. Walsh, III |

- (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 2001. 8,800,446 votes were cast in favor of the proposal, 64,178 votes were cast against it, 29,215 votes abstained, and three were broker nonvotes.
- (d) With respect to the stockholder proposal concerning the sale of the Company: 1,013,136 votes were cast in favor of the proposal, 6,180,761 votes were cast against it, 114,920 votes abstained, and there were 1,585,022 broker nonvotes.

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 | 8,452,003 | 441,836 |
| Rick L. Arquilla | 8,472,384 | 421,455 |
| James H. Devlin | 8,465,432 | 428,407 |
| Charles H. Erhart, Jr. | 8,456,200 | 437,639 |
| Joel F. Gemunder | 8,466,519 | 427,320 |
| Patrick P. Grace | 8,462,709 | 431,130 |
| Thomas C. Hutton | 8,467,830 | 426,009 |
| Walter L. Krebs | 8,460,546 | 433,293 |
| Sandra E. Laney | 8,467,843 | 425,996 |
| Spencer S. Lee | 8,458,233 | 435,606 |
| Kevin J. McNamara | 8,470,359 | 423,480 |
| John M. Mount | 8,454,632 | 439,207 |
| Timothy S. O'Toole | 8,457,497 | 436,342 |

| | | |
|----------------------|-----------|---------|
| Donald E. Saunders | 8,454,608 | 439,231 |
| Paul C. Voet | 8,454,557 | 439,282 |
| George J. Walsh, III | 8,458,598 | 435,241 |

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, 2001.

SIGNATURES

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 10, 2001

By Naomi C. Dallob
Naomi C. Dallob, Vice
President and Secretary

Dated: August 10, 2001

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