

---

---

**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 September 30, 2003

Commission File Number 1-8351

**ROTO-ROOTER, INC.**

(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	9,882,254 Shares	October 31, 2003
\$1 Par Value		

---

---



**ROTO-ROOTER, INC. AND  
SUBSIDIARY COMPANIES**

**Index**

**Page No.**

**PART I. FINANCIAL INFORMATION:**

Item 1. Financial Statements	
Consolidated Balance Sheet - September 30, 2003 and December 31, 2002	3
Consolidated Statement of Income - Three months and nine months ended September 30, 2003 and 2002	4
Consolidated Statement of Cash Flows - Nine months ended September 30, 2003 and 2002	5
Notes to Unaudited Financial Statements	6
 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	 16
 Item 4. Controls and Procedures	 24

**PART II. OTHER INFORMATION**

Item 6. Exhibits and Reports on Form 8-K	25
--	----



**PART I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**  
**ROTO-ROOTER, INC. AND SUBSIDIARY COMPANIES**  
**UNAUDITED CONSOLIDATED BALANCE SHEET**  
(in thousands except share and per share data)

	<u>September 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002*</u> (restated- see Note 2)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 72,607	\$ 37,731
Accounts receivable, less allowances of \$2,681 (2002 - \$3,309)	13,310	14,643
Inventories	8,548	9,493
Statutory deposits	9,852	12,323
Current deferred income taxes	9,167	9,894
Prepaid expenses and other current assets	<u>8,616</u>	<u>7,716</u>
Total current assets	122,100	91,800
Investments of deferred compensation plans held in trust	16,832	15,176
Other investments	5,546	37,326
Note receivable	12,500	12,500
Properties and equipment, at cost less accumulated depreciation of \$62,917 (2002 - \$62,370)	47,456	48,361
Identifiable intangible assets less accumulated amortization of \$7,609 (2002 - \$7,167)	2,450	2,889
Goodwill less accumulated amortization	113,437	110,843
Other assets	<u>16,907</u>	<u>17,034</u>
Total Assets	<u>\$ 337,228</u>	<u>\$ 335,929</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 5,033	\$ 5,686
Current portion of long-term debt	463	409
Income taxes	7,294	7,348
Deferred contract revenue	16,053	17,321
Accrued insurance	16,844	17,448
Other current liabilities	<u>20,347</u>	<u>23,513</u>
Total current liabilities	66,034	71,725
Long-term debt	25,635	25,603
Mandatorily redeemable convertible preferred securities of the Chemed Capital Trust	14,146	-
Deferred compensation liabilities	16,824	15,196
Other liabilities	<u>10,105</u>	<u>10,797</u>
Total Liabilities	<u>132,744</u>	<u>123,321</u>
<b>MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF THE CHEMED CAPITAL TRUST</b>	<u>-</u>	<u>14,186</u>
<b>STOCKHOLDERS' EQUITY</b>		
Capital stock-authorized 15,000,000 shares \$1 par; issued 13,452,358 (2002 - 13,448,475) shares	13,452	13,448
Paid-in capital	169,406	168,299
Retained earnings	134,143	127,938
Treasury stock - 3,573,604 (2002 - 3,630,689) shares, at cost	(110,492)	(111,582)
Unearned compensation	(3,389)	(4,694)
Deferred compensation payable in Company stock	2,294	2,280
Notes receivable for shares sold	(930)	(952)
Accumulated other comprehensive income	<u>-</u>	<u>3,685</u>
Total Stockholders' Equity	<u>204,484</u>	<u>198,422</u>
Total Liabilities and Stockholders' Equity	<u>\$ 337,228</u>	<u>\$ 335,929</u>

\* Reclassified to conform to 2003 presentation  
See accompanying notes to unaudited financial statements.



**ROTO-ROOTER, INC. AND SUBSIDIARY COMPANIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF INCOME**  
(in thousands except per share data)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
		(restated- see Note 2)		(restated- see Note 2)
<b>Continuing Operations</b>				
Service revenues and sales	\$ 75,172	\$ 75,322	\$230,088	\$235,257
Cost of services provided and goods sold (excluding depreciation)	44,215	44,314	135,978	139,446
General and administrative expenses	14,138	11,537	45,194	36,699
Selling and marketing expenses	11,469	10,677	31,560	31,441
Depreciation	2,983	3,424	9,025	10,402
Total costs and expenses	72,805	69,952	221,757	217,988
Income from operations	2,367	5,370	8,331	17,269
Interest expense	(487)	(709)	(1,625)	(2,245)
Distributions on preferred securities	(268)	(268)	(804)	(809)
Other income - net	3,049	268	9,766	3,810
Income before income taxes	4,661	4,661	15,668	18,025
Income taxes	(1,748)	(1,725)	(5,898)	(6,527)
Income from continuing operations	2,913	2,936	9,770	11,498
Discontinued operations	-	3,929	-	5,920
Net Income	<u>\$ 2,913</u>	<u>\$ 6,865</u>	<u>\$ 9,770</u>	<u>\$ 17,418</u>
<b>Earnings Per Share</b>				
Income from continuing operations	<u>\$ .29</u>	<u>\$ .30</u>	<u>\$ .99</u>	<u>\$ 1.17</u>
Net income	<u>\$ .29</u>	<u>\$ .70</u>	<u>\$ .99</u>	<u>\$ 1.77</u>
Average number of shares outstanding	<u>9,941</u>	<u>9,861</u>	<u>9,913</u>	<u>9,854</u>
<b>Diluted Earnings Per Share</b>				
Income from continuing operations	<u>\$ .29</u>	<u>\$ .30</u>	<u>\$ .98</u>	<u>\$ 1.16</u>
Net income	<u>\$ .29</u>	<u>\$ .70</u>	<u>\$ .98</u>	<u>\$ 1.76</u>
Average number of shares outstanding	<u>9,988</u>	<u>9,867</u>	<u>9,940</u>	<u>9,882</u>
<b>Cash Dividends Per Share</b>	<u>\$ .12</u>	<u>\$ .11</u>	<u>\$ .36</u>	<u>\$ .33</u>

See accompanying notes to unaudited financial statements.



**ROTO-ROOTER, INC. AND SUBSIDIARY COMPANIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in thousands)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2003</b>	<b>2002*</b>
		(restated - see Note 2)
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 9,770	\$ 17,418
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,564	10,954
Gains on sales and redemption of available-for-sale investments	(5,390)	(1,141)
Provision for deferred income taxes	1,403	971
Provision for uncollectible accounts receivable	129	1,335
Discontinued operations	-	(5,920)
Changes in operating assets and liabilities, excluding amounts acquired in business combinations		
Decrease/(increase) in accounts receivable	1,204	(688)
Decrease in inventories	945	313
Decrease in statutory deposits	2,471	1,027
Increase in prepaid expenses and other current assets	(1,077)	(503)
Decrease in accounts payable, deferred contract revenue and other current liabilities	(5,449)	(6,494)
Increase in income taxes	976	4,538
Increase in other assets	(1,253)	(583)
Increase/(decrease) in other liabilities	2,395	(784)
Noncash expense of internally financed ESOPs	1,305	2,349
Other sources/(uses)	(18)	1,142
Net cash provided by continuing operations	16,975	23,934
Net cash provided by discontinued operations	-	5,287
Net cash provided by operating activities	<u>16,975</u>	<u>29,221</u>
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(8,520)	(8,951)
Proceeds from sales of available-for-sale investments	31,763	1,917
Business combinations, net of cash acquired	(2,229)	(1,230)
Net proceeds/(uses) by discontinued operations	(1,119)	569
Proceeds from sales of property and equipment	511	2,245
Investing activities from discontinued operations	-	(474)
Other uses	(336)	(443)
Net cash provided/(used) by investing activities	<u>20,070</u>	<u>(6,367)</u>
<b>Cash Flows From Financing Activities</b>		
Dividends paid	(3,568)	(3,252)
Issuance of capital stock	1,519	810
Purchases of treasury stock	(274)	(3,196)
Repayment of long-term debt	(320)	(15,296)
Proceeds from issuance of long-term debt	-	5,000
Other sources/(uses)	474	(42)
Net cash used by financing activities	<u>(2,169)</u>	<u>(15,976)</u>
<b>Increase In Cash and Cash Equivalents</b>	34,876	6,878
Cash and cash equivalents at beginning of period	<u>37,731</u>	<u>8,725</u>
Cash and cash equivalents at end of period	<u>\$ 72,607</u>	<u>\$ 15,603</u>

\* Reclassified for operations discontinued in 2002  
See accompanying notes to unaudited financial statements.



# **ROTO-ROOTER, INC. 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 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. For further information regarding the Company's accounting policies, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K/A or the year ended December 31, 2002, to be filed.

The Company uses Accounting Principles Board Opinion No. 25 ("APB No. 25"), Accounting for Stock Issued to Employees, to account for stock-based compensation. Since the Company's stock options qualify as fixed options under APB No. 25 and since the option price equals the market price on the date of grant, there is no compensation expense for stock options. Stock awards are expensed during the period the related services are provided.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair-value-recognition provisions of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation (in thousands, except per share data:)

	Three Months Ended September 30,	
	2003	2002
Net Income	\$ 2,913	\$ 6,865
Add: stock-based compensation expense included in net income as reported, net of income tax effects	28	30
Deduct: total stock-based employee compensation determined under a fair-value-based method for all stock options and awards, net of income tax effects	(249)	(220)
Pro forma net income	<u>\$ 2,692</u>	<u>\$ 6,675</u>
Earnings Per Share		
As restated	<u>\$ .29</u>	<u>\$ .70</u>
Pro forma	<u>\$ .27</u>	<u>\$ .68</u>
Diluted earnings per share		
As restated	<u>\$ .29</u>	<u>\$ .70</u>
Pro forma	<u>\$ .27</u>	<u>\$ .68</u>



	Nine Months Ended September 30,	
	2003	2002
Net Income	\$ 9,770	\$ 17,418
Add: stock-based compensation expense included in net income as reported, net of income tax effects	73	90
Deduct: total stock-based employee compensation determined under a fair-value-based method for all stock options and awards, net of income tax effects	(708)	(547)
Pro forma net income	<u>\$ 9,135</u>	<u>\$ 16,961</u>
Earnings Per Share		
As restated	<u>\$ .99</u>	<u>\$ 1.77</u>
Pro forma	<u>\$ .92</u>	<u>\$ 1.72</u>
Diluted earnings per share		
As restated	<u>\$ .98</u>	<u>\$ 1.76</u>
Pro forma	<u>\$ .92</u>	<u>\$ 1.72</u>

2. In October 2003, the Company, in consultation with its independent accountants, reevaluated its accounting for Yellow Pages costs and concluded that these costs did not qualify for capitalization as direct-response advertising under Statement of Position 93-7, Reporting on Advertising Costs, which for the Company was effective January 1, 1995. In its previously filed financial statements the Company capitalized and amortized these costs over the life of the directory, typically 12 months.

Accordingly, the Company's consolidated statement of operations, consolidated balance sheet and consolidated statement of cash flows for 2000, 2001, 2002 and the six months ended June 30, 2003 have been restated to recognize Yellow Pages advertising expenses when the directories are placed in circulation rather than to capitalize and amortize such costs.

The impact of the restatement on the restated components of the Company's consolidated balance sheet is as follows (in thousands):

	<u>Reported</u>	<u>Restated</u> (unaudited)
<u>December 31, 2002:</u>		
Current deferred income taxes	\$ 7,278	\$ 9,894
Prepaid expenses and other current assets	13,332	7,716
Total assets	338,929	335,929
Other current liabilities	21,657	23,513
Retained earnings	132,793	127,938
Total stockholders' equity	203,277	198,422
Total liabilities and stockholders' equity	338,929	335,929



The impact of the restatement on the restated components of the Company's consolidated statement of income is as follows (in thousands):

	<u>Reported</u>	<u>Restated</u>
For the three months ended <u>March 31, 2003:</u>		
Selling and marketing expenses	\$ 11,078	\$ 9,533
Income taxes	(1,742)	(2,282)
Income from continuing operations	2,553	3,557
Net income	2,553	3,557
Earnings per share-		
Income from continuing operations	.26	.36
Net income	.26	.36
Diluted earnings per share-		
Income from continuing operations	.26	.36
Net income	.26	.36
For the three months ended <u>June 30, 2003:</u>		
Selling and marketing expenses	\$ 11,339	\$ 10,558
Income taxes	(1,594)	(1,868)
Income from continuing operations	2,792	3,300
Net income	2,792	3,300
Earnings per share-		
Income from continuing operations	.28	.33
Net income	.28	.33
Diluted earnings per share-		
Income from continuing operations	.28	.33
Net income	.28	.33
For the six months ended <u>June 30, 2003:</u>		
Selling and marketing expenses	\$ 22,417	\$ 20,091
Income taxes	(3,336)	(4,150)
Income from continuing operations	5,345	6,857
Net income	5,345	6,857
Earnings per share-		
Income from continuing operations	.54	.69
Net income	.54	.69
Diluted earnings per share-		
Income from continuing operations	.54	.69
Net income	.54	.69
For the three months ended <u>March 31, 2002:</u>		
Selling and marketing expenses	\$ 11,993	\$ 10,606
Income taxes	(1,947)	(2,432)
Income from continuing operations	3,805	4,707
Net income	4,672	5,574
Earnings per share-		
Income from continuing operations	.39	.48
Net income	.47	.57
Diluted earnings per share-		
Income from continuing operations	.39	.48
Net income	.47	.56



	<u>Reported</u>	<u>Restated</u>
For the three months ended		
<u>June 30, 2002:</u>		
Selling and marketing expenses	\$ 11,788	\$ 10,158
Income taxes	(2,150)	(2,370)
Income from continuing operations	3,445	3,855
Net income	4,569	4,979
Earnings per share-		
Income from continuing operations	.35	.39
Net income	.46	.51
Diluted earnings per share-		
Income from continuing operations	.35	.39
Net income	.46	.50
For the six months ended		
<u>June 30, 2002:</u>		
Selling and marketing expenses	\$ 22,781	\$ 20,764
Income taxes	(4,097)	(4,802)
Income from continuing operations	7,250	8,562
Net income	9,241	10,553
Earnings per share-		
Income from continuing operations	.74	.87
Net income	.94	1.07
Diluted earnings per share-		
Income from continuing operations	.73	.87
Net income	.93	1.07
For the three months ended		
<u>September 30, 2002:</u>		
Selling and marketing expenses	\$ 10,304	\$ 10,677
Income taxes	(1,856)	(1,725)
Income from continuing operations	3,178	2,936
Net income	7,107	6,865
Earnings per share-		
Income from continuing operations	.32	.30
Net income	.72	.70
Diluted earnings per share-		
Income from continuing operations	.32	.30
Net income	.72	.70
For the nine months ended		
<u>September 30, 2002:</u>		
Selling and marketing expenses	\$ 33,085	\$ 31,441
Income taxes	(5,953)	(6,527)
Income from continuing operations	10,428	11,498
Net income	16,348	17,418
Earnings per share-		
Income from continuing operations	1.06	1.17
Net income	1.66	1.77
Diluted earnings per share-		
Income from continuing operations	1.06	1.16
Net income	1.65	1.76



3. During the second quarter of 2003, the administrative functions for employee benefits, retirement services, risk management, public relations, cash management and taxation of the corporate office and the Plumbing and Drain Cleaning business were combined to enable the Company to benefit from economies of scale. In May 2003 the shareholders of the Company approved changing the corporation's name from Chemed Corporation to Roto-Rooter, Inc. Due to these changes and the changing composition of businesses comprising the Company over the past several years, management re-evaluated the Company's segment reporting as it relates to corporate office administrative expenses. The discontinuance of businesses in 1997 (Omnia Group and National Sanitary Supply), 2001 (Cadre Computer) and 2002 (Patient Care), results in more than 80% of the Company's revenues and aftertax earnings being represented by Roto-Rooter's Plumbing and Drain Cleaning business.

To better reflect how executive management evaluates its operations, the costs of the administrative functions of the corporate office have been combined with the operating results of the Plumbing and Drain Cleaning business (formerly the Roto-Rooter Group) to form the Plumbing and Drain Cleaning segment. The Service America segment remains essentially unchanged. Data for the former Roto-Rooter Group and corporate office overhead for all prior periods have been restated for comparability.

As in the past, unallocated investing and financing income and expense-net includes interest income and expense, dividend income and other nonoperating income and expense related to unallocated corporate assets and liabilities.

Service revenues and sales and aftertax earnings by business segment follow (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
<u>Service Revenues and Sales</u>				
Plumbing and Drain Cleaning	\$ 63,342	\$ 60,234	\$ 192,659	\$ 188,608
Service America	11,830	15,088	37,429	46,649
Total	<u>\$ 75,172</u>	<u>\$ 75,322</u>	<u>\$ 230,088</u>	<u>\$ 235,257</u>
<u>Aftertax Earnings</u>				
Plumbing and Drain Cleaning	\$ 1,610	\$ 2,128 (a)	\$ 5,589 (b)	\$ 9,154 (a)
Service America	50	166	125	552
Total Segment Earnings	1,660	2,294	5,714	9,706
Unallocated Investing and Financing				
Income and Expense-Net	1,253 (c)	642	4,057 (d)	1,792 (e)
Income from Continuing				
Operations	2,913	2,936	9,770	11,498
Discontinued Operations	-	3,929	-	5,920
Net Income	<u>\$ 2,913</u>	<u>\$ 6,865</u>	<u>\$ 9,770</u>	<u>\$ 17,418</u>

(a) Amounts for 2002 include effect of restatements discussed in Note 2.

(b) Amount includes aftertax severance charges of \$2,358,000 (\$.24 per share).

(c) Amount includes aftertax gain of \$1,200,000 (\$.12 per share) on redemption of investment in redeemable preferred stock.

(d) Amount includes aftertax capital gain on the sales and redemption of investments of \$3,351,000 (\$.34 per share).

(e) Amount includes aftertax capital gain on sales of investments of \$775,000 (\$.08 per share).



4. Other income--net from continuing operations comprises the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Gains on sales and redemption of available-for-sale investments	\$1,846	\$ -	\$5,390	\$1,141
Interest income	648	1,281	2,166	2,538
Dividend income	317	614	1,540	1,845
Market value adjustments on trading investments of deferred compensation trusts	282	(1,239)	847	(1,324)
Other	(44)	(388)	(177)	(390)
Total	<u>\$3,049</u>	<u>\$ 268</u>	<u>\$9,766</u>	<u>\$ 3,810</u>

5. In March 2003, the Company and a corporate officer reached agreement providing for termination of the officer's employment in exchange for payment provided under her employment contract. The contractual payments comprise a \$1,000,000 lump sum payment made in March 2003 and monthly payments of \$52,788 beginning March 2003 and ending May 2007. The present value of these payments (\$3,627,000) is included in general and administrative expenses.
6. On August 18, 2003, Vitas Healthcare Corporation ("Vitas") retired the Company's investment in the 9% Redeemable Preferred Stock Of Vitas. Cash proceeds to the Company totaled \$27.3 million and the Company realized a pretax gain of \$1,846,000 (\$1,200,000 aftertax or \$.12 per share) in the third quarter of 2003. During 2003, the dividends on this investment contributed \$628,000 per quarter to the aftertax earnings of the Company. Dividends ceased to accrue on August 17, 2003.

On October 14, 2003, the Company exercised two of its three warrants (Warrants A and B) to purchase 4,158,000 common shares of Vitas for \$18.0 million in cash. The Company's common stock ownership in Vitas has a carrying value of \$19.5 million and now represents 37% of Vitas' outstanding common stock. The Company is party to an Amended and Restated Investor Agreement with Vitas that restricts in a number of ways its full ownership rights in the shares purchased on exercise of Warrants A and B.



The Company will account for its 37% common stock interest in Vitas using the equity method of accounting including appropriate provisions for deferred income taxes. For the fiscal year ended September 30, 2002, Vitas reported net income of \$13,789,000 and net service revenues of \$359,200,000. For the nine months ended June 30, 2003, Vitas reported net income of \$11,244,000 and net service revenues of \$306,546,000.

The Company's third warrant (Warrant C) provides for the purchase of up to 1,636,000 shares of common stock at a price of \$5.50 per share. Warrant C or the shares acquired upon its exercise are subject to repurchase by Vitas during the 90-day period following Vitas' receipt of notice of exercise. The repurchase price is their market value as determined in good faith by the Vitas Board of Directors. Warrant C has a carrying value of \$2.6 million and expires in April 2005.

Vitas issued Warrant C to the Company in April 2001 in connection with Vitas' refinancing its debt obligations. The carrying value of Warrant C is its estimated fair market value as of April 2001.



7. 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 (Numerator)	Shares (Denominator)	Income Per Share
Income from Continuing Operations -			
<u>For the Three Months Ended September 30,</u>			
2003			
Earnings	\$ 2,913	9,941	\$ .29
Dilutive stock options	-	47	
Diluted earnings	<u>\$ 2,913</u>	<u>9,988</u>	<u>\$ .29</u>
2002			
Earnings	\$ 2,936	9,861	\$ .30
Dilutive stock options	-	6	
Diluted earnings	<u>\$ 2,936</u>	<u>9,867</u>	<u>\$ .30</u>
Net Income -			
<u>For the Three Months Ended September 30,</u>			
2003			
Earnings	\$ 2,913	9,941	\$ .29
Dilutive stock options	-	47	
Diluted earnings	<u>\$ 2,913</u>	<u>9,988</u>	<u>\$ .29</u>
2002			
Earnings	\$ 6,865	9,861	\$ .70
Dilutive stock options	-	6	
Diluted earnings	<u>\$ 6,865</u>	<u>9,867</u>	<u>\$ .70</u>
Income from Continuing Operations -			
<u>For the Nine Months Ended September 30,</u>			
2003			
Earnings	\$ 9,770	9,913	\$ .99
Dilutive stock options	-	27	
Diluted earnings	<u>\$ 9,770</u>	<u>9,940</u>	<u>\$ .98</u>
2002			
Earnings	\$ 11,498	9,854	\$ 1.17
Dilutive stock options	-	28	
Diluted earnings	<u>\$ 11,498</u>	<u>9,882</u>	<u>\$ 1.16</u>
Net Income -			
<u>For the Nine Months Ended September 30,</u>			
2003			
Earnings	\$ 9,770	9,913	\$ .99
Dilutive stock options	-	27	
Diluted earnings	<u>\$ 9,770</u>	<u>9,940</u>	<u>\$ .98</u>
2002			
Earnings	\$ 17,418	9,854	\$ 1.77
Dilutive stock options	-	28	
Diluted earnings	<u>\$ 17,418</u>	<u>9,882</u>	<u>\$ 1.76</u>

The impact of the convertible preferred securities has been excluded from the above computations because it is antidilutive on earnings per share from continuing operations for all periods presented.

8. The Company's total comprehensive income was (in thousands):

	Three Months Ended <u>September 30,</u>		Nine Months Ended <u>September 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Total Comprehensive Income	<u>\$ 1,696</u>	<u>\$ 6,201</u>	<u>\$ 6,085</u>	<u>\$ 16,745</u>

The difference between the Company's net income and comprehensive income is the unrealized appreciation or depreciation on its available-for-sale securities.



9. During 2003, four purchase business combinations were completed within the Plumbing and Drain Cleaning segment for an aggregate purchase price of \$2,635,000 (\$2,229,000 in cash and a note payable for \$406,000). The businesses acquired provide drain cleaning and plumbing services under the Roto-Rooter name. The results of operations of these businesses are not material to the Company's results of operations.

The purchase prices were allocated as follows (in thousands):

Goodwill	\$ 2,369
Other	<u>266</u>
Total purchase price	2,635
Less: Note payable	<u>(406)</u>
Cash outlay	<u>\$ 2,229</u>

10. In the normal course of business the Company enters into various guarantees and indemnifications in its relationships with customers and others. Examples of these arrangements include guarantees of service and product performance. The Company's experience indicates guarantees and indemnifications do not materially impact the Company's financial condition or results of operations.
11. In August 2001, the Financial Accounting Standards Board ("FASB") approved the issuance of Statement of Financial Accounting Standards ("SFAS") No. 143, Accounting for Asset Retirement Obligations. This statement became 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 did not have a material impact on Roto-Rooter, Inc.'s financial statements.
12. 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 adoption of SFAS No. 146 in 2003 did not have a material impact on Roto-Rooter, Inc.'s financial statements.
13. In November 2002, the FASB approved the issuance of FASB Interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The initial recognition and initial measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The adoption of FIN No. 45 in 2003 did not have a material impact on Roto-Rooter, Inc.'s financial statements.



14. In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure. It is effective for annual periods ending, and for interim periods beginning, after December 15, 2002. Because the Company uses Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, to account for stock-based compensation, the adoption of SFAS No. 148 in 2003 did not have a material impact on Roto-Rooter, Inc.'s financial statements.
15. In January 2003, the FASB approved the issuance of FIN No. 46, ("FIN 46"), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin Number 51 ("ARB 51"), "Consolidated Financial Statements." This Interpretation clarifies the application of the majority voting interest requirement of ARB 51 to certain types of variable interest entities ("VIE's") that do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The controlling financial interest may be achieved through arrangements that do not involve voting interests. FIN 46 is effective immediately for variable interests created or obtained after January 31, 2003. As amended by FASB Staff Position ("FSP") Number 46-6, FIN 46 is effective for variable interests in a VIE created before February 1, 2003 at the end of the first interim or annual period ending after December 15, 2003. The Company adopted the disclosure provisions of this Interpretation in the first quarter of 2003 and will adopt the remaining provisions in the fourth quarter of 2003.

The FASB is currently proposing modifications and issuing FSP's that change and clarify FIN 46. These modifications and FSP's, when finalized, could impact the Company's analysis of the applicability of FIN 46 to entities that are franchisees and independent contractors to the Plumbing and Drain Cleaning segment. The Company does not possess ownership interests in its franchisees or independent contractors. While management will continue to monitor and analyze its franchisee and independent contractor relationships, at this time it does not believe that implementation of the remaining provisions of FIN 46 will materially impact the Company's financial statements.

16. In May 2003, the FASB approved the issuance of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. As a result of the issuance of this pronouncement, the Company now reports the mandatorily redeemable convertible preferred securities of the Chemed Capital Trust as a noncurrent liability rather than in the "mezzanine" (i.e., between liabilities and equity) as reported previously. This reclassification does not affect the Company's compliance with its debt covenants. The adoption of this statement did not impact the statement of income.



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

### **Financial Condition**

The increase in cash equivalents from \$37,731,000 at December 31, 2002 to \$72,607,000 at September 30, 2003 is primarily attributable to the sales and redemption of available-for-sale investments in 2003. The decline in other investments from \$37,326,000 at December 31, 2002 to \$5,546,000 at September 30, 2003 and the decline in accumulated other comprehensive income from \$3,685,000 at December 31, 2002 to nil at September 30, 2003 are due to the sales of investments during the first quarter of 2003 and to the redemption by Vitas of its preferred stock held by the Company. There are no other significant changes in the balance sheet accounts during the first nine months of 2003.

At September 30, 2003, Roto-Rooter, Inc. had approximately \$51.4 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.

### **Results of Operations**

#### **Third Quarter 2003 versus Third Quarter 2002-Consolidated Results**

The Company's service revenues and sales for the third quarter of 2003 declined slightly versus revenues for the third quarter of 2002. This \$150,000 decline comprised the following (dollar amounts in thousands):

	<u>Increase/ (Decrease)</u>	
	<u>Amount</u>	<u>Percent</u>
Service America		
Service contracts	\$ (2,356)	(20.7) %
Demand services	(902)	(24.4)
Plumbing and Drain Cleaning		
Plumbing	1,057	4.4
Drain cleaning	475	1.9
Other	<u>1,576</u>	13.7
Total	<u>\$ (150)</u>	(.2) %

The decline in Service America's service contract revenues is attributable to selling insufficient new service contracts to replace contracts canceled or not renewed. The annualized value of contracts in place during the third quarter of 2003 was 20.7% lower than the 2002 quarter. As revenues from demand services are largely dependent upon service contract customers, the decline in service contracts was largely responsible for the decline in demand services in 2003.

The increase in plumbing revenues for the third quarter of 2003 versus 2002 comprises a 3.3% increase in the number of jobs performed, and a 1.1% increase in the average price per job. The increase in drain cleaning revenues for the third quarter of 2003 versus 2002 comprised a 1.4% decrease in the number of jobs combined with a 3.4% increase in the average price per job. The increase in other revenues for the third quarter of 2003 versus 2002 is attributable to increases in product sales, industrial and municipal sales and license revenues from independent contractor operations.



The consolidated gross margin was 41.2% in the third quarters of 2003 and 2002. On a segment basis, the Plumbing and Drain Cleaning segment's gross margin declined 1.6% points, primarily due to increased labor costs. Service America's gross margin increased 2.9% points due to reduced labor costs as a result of recent reductions in service technician headcount and to lower material costs (as a percent of revenues) in 2003.

General and administrative expenses for the third quarter of 2003 were \$14,138,000, an increase of \$2,601,000 (22.5%) versus the third quarter of 2002. Of this increase, \$1,521,000 was attributable to market gains on assets of deferred compensation trusts in the third quarter of 2003 versus a small loss in such assets in 2002 (all within the Plumbing and Drain Cleaning segment). These gains and losses are included in other income with an equivalent charge or credit to general and administrative expenses for the change in the related deferred compensation liability. Most of the remainder of the increase is attributable to higher expenses in the Plumbing and Drain cleaning segment as the result of higher legal expenses during the 2003 quarter.

Selling and marketing expenses for the third quarter of 2003 were \$11,469,000, an increase of \$792,000 (7.4%) versus the restated third quarter of 2002. Selling and marketing expenses of the Plumbing and Drain Cleaning segment increased \$1,042,000 (11.2%) in the 2003 quarter, largely as the result of higher advertising expenses and higher wages and benefits for centralized call centers. For Service America, selling and marketing expenses declined \$251,000 (18.0%) in 2003, primarily as the result of the reduction in the number of employees.

Depreciation expense for the third quarter of 2003 declined \$441,000 (12.9%) from \$3,424,000 in the third quarter of 2002 to \$2,983,000 in the 2003 quarter. Of this decline, \$163,000 relates to the Service America segment and \$278,000 relates to the Plumbing and Drain Cleaning segment. Both reductions were primarily attributable to reduced depreciation on service vehicles, resulting from recent declines in capital outlays.

Income from operations declined \$3,003,000 (55.9%) from \$5,370,000 in the third quarter of 2002 to \$2,367,000 in the third quarter of 2003. Substantially all of this decline occurred within the Plumbing and Drain Cleaning segment. Of this decline, \$1,521,000 was attributable to the increase in deferred compensation expense (which is completely offset in the "other income" line of the statement of income). Higher advertising expenses, higher call center expenses and higher legal fees in the 2003 quarter contributed significantly to the decline in income from operations.

Interest expense, substantially all of which is incurred as Unallocated Investing and Financing Income and Expense-net, declined from \$709,000 in the third quarter of 2002 to \$487,000 in the 2003 quarter. This decline is primarily attributable to lower debt levels in 2003 as the result of using cash proceeds from the sale of Patient Care late in 2002 to pay down the Company's revolving line of credit.



Other income, which includes a \$1,846,000 gain on the redemption of Vitas preferred stock in 2003, increased \$2,781,000 in the third quarter of 2003 versus the third quarter of 2002. Of this increase, \$1,521,000 is attributable to the increase in market adjustments for assets held in deferred compensation trusts in the 2003 quarter (which is entirely offset in the "general and administrative expense" category of the statement of income). Interest income during the third quarter of 2003 declined \$633,000 versus 2002 primarily due to the receipt of \$816,000 interest on a tax refund in 2002.

Income from continuing operations for the third quarter declined \$23,000 from \$2,936,000 (\$.30 per share) in 2002 to \$2,913,000 (\$.29 per share) in 2003. Income for 2003 included \$1,200,000 (\$.12 per share) aftertax gain on the redemption of Vitas preferred stock and \$328,000 (\$.03 per share) aftertax dividend and amortization income from Vitas. Income for 2002 included \$629,000 (\$.06 per share) aftertax dividend and amortization income from Vitas.

Net income for the third quarter declined \$3,952,000 from \$6,865,000 (\$.70 per share) in 2002 to \$2,913,000 (\$.29 per share) in 2003. Discontinued operations for the 2002 quarter totaled \$3,929,000 (\$.40 per share), comprising \$2,861,000 (\$.29 per share) from a tax refund relating to operations discontinued in 1997 and \$1,068,000 (\$.11 per share) from the operations of Patient Care sold in October 2002.

### **Third Quarter 2003 versus Third Quarter 2002-Segment Results**

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

Three Months Ended <u>September 30,</u>	Service Revenues and Sales Percent Increase/ (Decrease) <u>2003 vs. 2002</u>	Aftertax Earnings as a Percent of Revenues <u>(Aftertax Margin)</u>	
		<u>2003</u>	<u>2002</u>
Plumbing and Drain Cleaning	5%	2.5%	3.5%
Service America	(22)	0.4	1.1
Total	-	2.2	3.0

The change in aftertax earnings for the third quarter of 2003 versus 2002 is summarized below (in thousands):

	<u>Increase/ (Decrease)</u>
Service America	\$ (116)
Plumbing and Drain Cleaning	(518)
Unallocated Investing and Financing	<u>611</u>
Income from continuing operations	<u><u>\$ (23)</u></u>



The decline in the aftertax earnings and the related decline in the aftertax margin of the Plumbing and Drain Cleaning segment is primarily attributable to higher labor costs, higher call center costs and higher legal expenses during the 2003 quarter. The increase in Unallocated Investing and Financing income/expense is attributable to (in thousands):

Gain on the redemption of Vitas preferred stock in August 2003	\$ 1,200
Interest income on prior year's tax refund in September 2002	(530)
Lower dividend income from Vitas preferred stock in 2003	(315)
Interest income in 2003 on the note receivable from the sale of Patient Care in October 2002	176
Other	80
Total	<u>\$ 611</u>

#### **Nine Months 2003 versus Nine Months 2002 - Consolidated Results**

The Company's service revenues and sales for the first nine months of 2003 declined 2% versus revenues for the first nine months of 2002. This \$5.2 million decline was attributable to the following (dollar amounts in thousands):

	Increase/ (Decrease)	
	<u>Amount</u>	<u>Percent</u>
Service America		
Service contracts	\$ (6,669)	(19.2)%
Demand services	(2,551)	(21.3)
Plumbing and Drain Cleaning		
Plumbing	1,661	2.3
Drain cleaning	(333)	(0.4)
Other	<u>2,723</u>	7.5
Total	<u>\$ (5,169)</u>	(2.2)%

The decline in Service America's revenues is attributable to selling insufficient new service contracts to replace contracts canceled or not renewed. The annualized value of contracts in place during the first nine months of 2003 was 20% lower than the 2002 period. The decline in service contracts in place was largely responsible for the decline in demand services in 2003.

The increase in the plumbing revenues for the first nine months of 2003 versus 2002 is entirely attributable to an increase in the number of jobs performed. The decline in drain cleaning revenues for the first nine months of 2003 versus 2002 comprise a 3.2% decrease in the number of jobs partially offset by a 2.9% increase in the average price per job. The increase in other revenues for the first nine months of 2003 versus 2002 is attributable to increases in industrial and municipal sales and contractor operations.



The consolidated gross margin was 40.9% in the first nine months of 2003 and 40.7% in the 2002 period. On a segment basis, the Plumbing and Drain Cleaning segment's gross margin declined from 44.5% in the first nine months of 2002 to 43.8% in the first nine months of 2003, primarily as the result of high wages in 2003. Service America's gross margin increased slightly from 25.5% in the 2002 nine-month period to 25.7% in the 2003 nine-month period.

General and administrative expenses for the first nine months of 2003 were \$45,194,000, an increase of \$8,495,000 (23.1%) versus the first nine months of 2002. Expenses for the 2003 period include a \$3,627,000 charge from severance for a corporate officer in March 2003. In addition, \$2,171,000 of this increase was attributable to recording market gains on assets of deferred compensation trusts in the first nine months of 2003 versus a small loss in such assets in 2002 (all within the Plumbing and Drain Cleaning segment). These gains and losses are included in other income with an equivalent charge or credit to general and administrative expenses for the change in the related deferred compensation liability. The remainder of the increase is primarily attributable to higher expenses in the Plumbing and Drain cleaning segment as the result of higher legal expenses during the 2003 period and normal salary and wage increases during 2003.

Selling and marketing expenses for the first nine months of 2003 were \$31,560,000, an increase of \$119,000 (0.4%) versus the restated expense for the first nine months of 2002. Selling and marketing expenses of the Plumbing and Drain Cleaning segment increased \$1,256,000, 4.7% in the 2003 period, largely as the result of higher call center expenses in 2003. Service America's selling and marketing expenses declined \$1,138,000 (24.0%) in 2003, primarily as the result of the reduction in the number of employees.

Depreciation expense for the first nine months of 2003 declined \$1,377,000 (13.2%) from \$10,402,000 in the first nine months of 2002 to \$9,025,000 in the 2003 period. \$621,000 of this decline relates to the Service America segment and \$756,000 relates to the Plumbing and Drain Cleaning segment. Both reductions were primarily attributable to reduced depreciation on service vehicles, resulting from recent declines in capital outlays.

Income from operations declined \$8,938,000 (51.8%) from \$17,269,000 in the first nine months of 2002 to \$8,331,000 in the first nine months of 2003. Most of this decline occurred within the Plumbing and Drain Cleaning segment. The previously mentioned severance charge in the first quarter of 2003 accounted for \$3,627,000 of the decline while \$2,171,000 of the decline was attributable to the increase in deferred compensation expense (which is completely offset in the "other income" line of the statement of income). Higher call center expenses and higher legal fees in the 2003 period contributed significantly to the decline in income from operations.

Interest expense, substantially all of which is included in Unallocated Investing and Financing Income and Expense-net, declined from \$2,245,000 in the first nine months of 2002 to \$1,625,000 in the 2003 period. This is primarily attributable to lower debt levels in 2003 as the result of using cash proceeds from the sale of Patient Care in 2002 to pay down the Company's revolving line of credit.



Other income increased \$5,956,000 in the first nine months of 2003 versus the first nine months of 2002. This increase is primarily attributable to larger capital gains on the sales and redemption of available-for-sale investments (\$5,390,000 in the first nine months of 2003 versus \$1,141,000 in 2002) and the increase in market adjustments for assets held in deferred compensation trusts (\$2,171,000) in the 2003 period (which is entirely offset in the "general and administrative expense" category of the statement of income).

The Company's effective income tax rate increased from 36.2% in the first nine months of 2002 to 37.6% in the first nine months of 2003. This is primarily attributable to the lack of a state income tax benefit on the severance charges incurred in 2003.

Income from continuing operations for the first nine months declined \$1,728,000 from \$11,498,000 (\$1.17 per share and \$1.16 per diluted share) in 2002 to \$9,770,000 (\$.99 per share and \$.98 per diluted share) in 2003. Earnings for the first nine months of 2003 included an aftertax severance charge of \$2,358,000 (\$.24 per share), aftertax capital gains on the sales and redemptions of investments of \$3,351,000 (\$.34 per share) and aftertax dividend and amortization income of \$1,585,000 (\$.16 per share). Earnings for 2002 included aftertax dividend and amortization income of \$1,886,000 (\$.19 per share) and aftertax capital gains on the sales of investments of \$775,000 (\$.08 per share).

Net income for the first nine months declined \$7,648,000 from \$17,418,000 (\$1.77 per share and \$1.76 per diluted share) in 2002 to \$9,770,000 (\$.99 per share and \$.98 per diluted share) in 2003. Discontinued operations for the 2002 period totaled \$5,920,000 (\$.60 per share), comprising \$2,861,000 (\$.29 per share) from a tax refund relating to operations discontinued in 1997 and \$3,059,000 (\$.31 per share) from the operations of Patient Care sold in October 2002.

#### **Nine Months 2003 versus Nine Months 2002 - Segment Results**

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

Nine Months Ended <u>September 30,</u>	Service Revenues and Sales Percent Increase/(Decrease) <u>2003 vs. 2002</u>	Aftertax Earnings as a Percent of Revenues (Aftertax Margin)	
		<u>2003</u>	<u>2002</u>
Plumbing and Drain Cleaning	2 %	2.9%	4.9%
Service America	(20)	0.3	1.2
Total	(2)	2.5	4.1

The change in aftertax earnings for the first nine months of 2003 versus 2002 is summarized below (in thousands):

	Increase/ (Decrease)
Service America	\$ (427)
Plumbing and Drain Cleaning	(3,566)
Unallocated Investing and Financing	<u>2,265</u>
Income from continuing operations	<u>\$ (1,728)</u>



The decline in the aftertax earnings of Service America during the first nine months of 2003 versus 2002 is attributable largely to the negative impact of leverage (relatively fixed general and administrative expenses during a period of declining revenues). The decline in the aftertax earnings and the related decline in the aftertax margin of the Plumbing and Drain Cleaning segment is primarily attributable to a severance charge incurred in the first quarter of 2003 for a corporate officer (\$2,358,000). The remainder of the decline in this segment's earnings is attributable to higher call center costs and higher legal expenses during the 2003 period. The increase in Unallocated Investing and Financing income/expense-net is attributable to larger aftertax capital gains in the 2003 period (\$3,351,000 in 2003 versus \$775,000 in 2002).

### **Recent Accounting Statements**

In August 2001, the Financial Accounting Standards Board ("FASB") approved the issuance of Statement of Financial Accounting Standards ("SFAS") No. 143, Accounting for Asset Retirement Obligations. This statement became 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 did not have a material impact on Roto-Rooter, Inc.'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 adoption of SFAS No. 146 in 2003 did not have a material impact on Roto-Rooter, Inc.'s financial statements.

In November 2002, the FASB approved the issuance of FASB interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The initial recognition and initial measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The adoption of FIN No. 45 in 2003 did not have a material impact on Roto-Rooter, Inc.'s financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure. It is effective for annual periods ending, and for interim periods beginning, after December 15, 2002. Because the Company uses Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, to account for stock-based compensation, the adoption of SFAS No. 148 in 2003 did not have a material impact on Roto-Rooter, Inc.'s financial statements.



In January 2003, the FASB approved the issuance of FIN No. 46 ("FIN 46"), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin Number 51 ("ARB 51"), "Consolidated Financial Statements." This Interpretation clarifies the application of the majority voting interest requirement of ARB 51 to certain types of variable interest entities ("VIE's") that do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The controlling financial interest may be achieved through arrangements that do not involve voting interests. FIN 46 is effective immediately for variable interests created or obtained after January 31, 2003. As amended by FASB Staff Position ("FSP") Number 46-6, FIN 46 is effective for variable interests in a VIE created before February 1, 2003 at the end of the first interim or annual period ending after December 15, 2003. The Company adopted the disclosure provisions of this Interpretation in the first quarter of 2003 and will adopt the remaining provisions in the fourth quarter of 2003.

The FASB is currently proposing modifications and issuing FSP's that change and clarify FIN 46. These modifications and FSP's, when finalized, could impact the Company's analysis of the applicability of FIN 46 to entities that are franchisees and independent contractors to the Plumbing and Drain Cleaning segment. The Company does not possess ownership interests in its franchisees or independent contractors. While management will continue to monitor and analyze its franchisee and independent contractor relationships, at this time it does not believe that implementation of the remaining provisions of FIN 46 will materially impact the Company's financial statements.

In May 2003, the FASB approved the issuance of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. As a result of the issuance of this pronouncement, the Company now reports the mandatorily redeemable convertible preferred securities of the Chemed Capital Trust as a noncurrent liability rather than in the "mezzanine" (i.e., between liabilities and equity) as reported previously. This reclassification does not affect the Company's compliance with its debt covenants. The adoption of this statement did not impact the statement of income.

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

In addition to historical information, this report contains forward-looking statements and performance trends that are based upon assumptions subject to certain known and unknown risks, uncertainties, contingencies and other factors. Variances in any or all of the risks, uncertainties, contingencies, and other factors from the Company's assumptions could cause actual results to differ materially from these forward-looking statements and trends. The Company's ability to deal with the unknown outcomes of these events, many of which are beyond the control of the Company, may affect the reliability of its projections and other financial matters.



#### **Item 4. Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management to allow timely decisions regarding required disclosure.

The Company recently carried out an evaluation, under the supervision of the Company's President and Chief Executive Officer, and with the participation of the Executive Vice President and Treasurer and the Vice President and Controller, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-14/15d-14(a). Based upon the foregoing, the Company's President and Chief Executive Officer, Executive Vice President and Treasurer and Vice President and Controller concluded that as of the date of this report the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company and its consolidated subsidiaries required to be included in the Company's Exchange Act reports. There have been no significant changes in internal control over financial reporting during the quarter ended September 30, 2003.



## PART II OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification by Kevin J. McNamara pursuant to Rule 13A - 14 of the Exchange Act of 1934.
31.2	Certification by Timothy S. O'Toole pursuant to Rule 13A - 14 of the Exchange Act of 1934.
31.3	Certification by Arthur V. Tucker, Jr. pursuant to Rule 13A - 14 of the Exchange Act of 1934.
99.1	Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification by Timothy S. O'Toole pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.3	Certification by Arthur V. Tucker, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



(b) Reports on Form 8-K

-A Current Report on Form 8-K, dated August 29, 2003, was filed August 29, 2003. The report includes the Company's announcement of signing a letter of intent to acquire the franchise operations in Orange County and San Diego, California; Eugene, Portland, and Salem, Oregon; Salt Lake City, Provo, and Park City, Utah; Phoenix and Tucson, Arizona; and Dallas and El Paso, Texas.

-A Current Report on Form 8-K, dated October 16, 2003, was filed October 21, 2003. The report includes the Company's earnings announcement for the third quarter.

-A Current Report on Form 8-K, dated October 14, 2003, was filed October 29, 2003. The report disclosed the Company's exercise of Warrants A and B to purchase 4,158,000 shares of Vitas for \$18.0 million in cash.

-A Current Report on Form 8-K, dated October 31, 2003, was filed November 3, 2003. The report includes the Company's press release announcing its intent to restate earnings for the period January 1, 1998 through September 30, 2003 to recognize Yellow Pages advertising expense when the directories are first placed in circulation.

**SIGNATURES**

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

Roto-Rooter, Inc.  
(Registrant)

Dated: November 14, 2003

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

Dated: November 14, 2003

By /s/ Timothy S. O'Toole  
Timothy S. O'Toole  
(Executive Vice President  
and Treasurer)

Dated: November 14, 2003

By /s/ Arthur V. Tucker, Jr.  
Arthur V. Tucker, Jr.  
(Vice President and  
Controller)



**EXHIBIT 31.1**

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

I, Kevin J. McNamara, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Roto-Rooter, Inc. ("registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial report to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;



c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

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



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

I, Timothy S. O'Toole, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Roto-Rooter, Inc. ("registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial report to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;



c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

/s/ Timothy S. O'Toole  
Timothy S. O'Toole  
(Executive Vice President  
and Treasurer)



**EXHIBIT 31.3**

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

I, Arthur V. Tucker, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Roto-Rooter, Inc. ("registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial report to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;



c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

/s/ Arthur V. Tucker, Jr.  
Arthur V. Tucker, Jr.  
(Vice President and  
Controller)



**EXHIBIT 99.1**

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

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

- 1) the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2003 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2003

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



**EXHIBIT 99.2**

CERTIFICATION BY TIMOTHY S. O'TOOLE  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Executive Vice President and Treasurer of Roto-Rooter, Inc. ("Company"), does hereby certify that:

- 1) the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2003 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2003

/s/ Timothy S. O'Toole  
Timothy S. O'Toole  
(Executive Vice President  
and Treasurer)



**EXHIBIT 99.3**

CERTIFICATION BY ARTHUR V. TUCKER, JR.  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Vice President and Controller of Roto-Rooter, Inc. ("Company"), does hereby certify that:

- 1) the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2003 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2003

/s/ Arthur V. Tucker, Jr.  
Arthur V. Tucker, Jr.  
(Vice President and  
Controller)