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ROTO-ROOTER INC
Form 10-Q/A
December 17, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

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

For Quarter Ended March 31, 2003

Commission File Number 1-8351

ROTO-ROOTER, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

31-0791746
(IRS Employer Identification No.)

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

(513) 762-6900
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period 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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). 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 | 9,824,542 Shares | April 30, 2003 |

EXPLANATORY NOTE

This quarterly report on Form 10-Q/A ("Form 10-Q/A") is being filed to amend and restate in its entirety the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2003, which was filed with the SEC on May 9, 2003 ("Original Form 10-Q"). Accordingly, pursuant to rule 12b-15 under the Securities Exchange Act of 1934, as amended, the Form 10-Q/A contains the complete text of items 1, 2, 4 and 6, as amended, as well as certain currently dated certifications.

In October 2003, Roto-Rooter, Inc. ("Company"), in consultation with its independent accountants, reevaluated its accounting for Yellow Pages costs and concluded 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 lives of the directories, typically 12 months.

Accordingly, the Company's consolidated financial statements as of and for the three months ended March 31, 2003 and 2002 and as of December 31, 2002 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 amendments contained herein reflect changes resulting from the foregoing adjustments with regard to deferred advertising and the related income tax effect. The Company has not updated the information contained herein for events and transactions occurring subsequent to May 9, 2003, the filing date of the Original Form 10-Q, except to reflect the restatement of the Company's financial statements for the periods indicated above and except for the following:

- On May 19, 2003, the shareholders of Chemed Corporation approved changing the Company's name to Roto-Rooter, Inc.
- In the second quarter of 2003, the Company redefined its segments to merge the Roto-Rooter Group and corporate office overhead into a single segment now called the Plumbing and Drain Cleaning segment. All segment data have been reclassified to reflect this change.
- Disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations have been expanded.

Events have taken place that would have been reflected

in the Original Form 10-Q if they had taken place prior to the date of the

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original filing. The Company recommends this report be read in conjunction with the Company's reports filed subsequent to May 9, 2003.

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ROTO-ROOTER, INC. AND SUBSIDIARY COMPANIES

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March 31, 2003 and 2002
 - Consolidated Statement of Cash Flows -
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March 31, 2003 and 2002
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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)

ASSETS

Current assets

Cash and cash equivalents
Accounts receivable, less allowances of \$3,392
(2002-\$3,309)
Inventories
Statutory deposits
Current deferred income taxes
Prepaid expenses and other current assets

Total current assets

Investments of deferred compensation plans held in trust
Other investments
Note receivable
Properties and equipment, at cost less accumulated
depreciation of \$63,496 (2002-\$62,370)
Identifiable intangible assets less accumulated
amortization of \$7,319 (2002-\$7,167)
Goodwill less accumulated amortization
Other assets

Total Assets\$

LIABILITIES

Current liabilities

Accounts payable
Current portion of long-term debt
Income taxes
Deferred contract revenue
Accrued insurance
Other current liabilities

Total current liabilities

Long-term debt
Deferred compensation liabilities
Other liabilities

Total Liabilities

MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES
OF THE CHEMED CAPITAL TRUST

STOCKHOLDERS' EQUITY

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Capital stock-authorized 15,000,000 shares \$1 par;
 issued 13,451,281 shares (2002-13,448,475 shares)
 Paid-in capital
 Retained earnings
 Treasury stock - 3,626,739 shares (2002-3,630,689 shares),
 at cost
 Unearned compensation
 Deferred compensation payable in company stock
 Notes receivable for shares sold
 Accumulated other comprehensive income

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

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

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

Continuing Operations

Service revenues and sales

Cost of services provided and goods sold
 (excluding depreciation)

General and administrative expenses

Selling and marketing expenses

Depreciation

Total costs and expenses

Income from operations

Interest expense

Distributions on preferred securities

Other income - net

Income before income taxes

Th

 20

 (R

 \$ 77

 46
 16
 9
 3

 75

 2

 4

 5

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| | |
|--------------------------------------|------|
| Income taxes | (2) |
| Income from continuing operations | 3 |
| Discontinued operations | |
| Net income | \$ 3 |
| Earnings Per Share | |
| Income from continuing operations | \$ |
| Net income | \$ |
| Average number of shares outstanding | 9 |
| Diluted Earnings Per Share | |
| Income from continuing operations | \$ |
| Net income | \$ |
| Average number of shares outstanding | 9 |
| Cash Dividends Per Share | \$ |

See accompanying notes to unaudited financial statements.

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| | 2003 |
|--|----------|
| | ----- |
| | (REST) |
| Cash Flows From Operating Activities | |
| Net income | \$ 3,557 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Gains on sales of available-for-sale investments | (3,544) |
| Depreciation and amortization | 3,236 |
| Provision for deferred income taxes | (376) |
| Provision for uncollectible accounts receivable | 85 |
| Discontinued operations | - |
| Changes in operating assets and liabilities, excluding amounts acquired in business combinations | |
| Decrease/(increase) in accounts receivable | 1,455 |
| Decrease in inventories | 403 |
| Decrease in statutory deposits | 1,787 |
| Increase in prepaid expenses and other current assets | (266) |
| Decrease in accounts payable, deferred contract revenue and other current liabilities | (6,128) |
| Increase in income taxes | 3,215 |
| Decrease/(increase) in other assets | 7 |
| Increase in other liabilities | 1,335 |
| Noncash expense of internally financed ESOPs | 435 |
| Other sources/(uses) | (16) |
| | ----- |
| Net cash provided by continuing operations | 5,185 |
| Net cash used by discontinued operations | - |
| | ----- |
| Net cash provided by operating activities | 5,185 |
| | ----- |
| Cash Flows From Investing Activities | |
| Proceeds from sales of available-for-sale investments | 4,493 |
| Capital expenditures | (2,062) |
| Net uses by discontinued operations | (524) |
| Business combinations--net of cash acquired | (168) |
| Proceeds from sales of property and equipment | 133 |
| Investing activities of discontinued operations | - |
| Other uses | (133) |
| | ----- |
| Net cash provided/(used) by investing activities | 1,739 |
| | ----- |
| Cash Flows From Financing Activities | |
| Dividends paid | (1,188) |
| Issuance of capital stock | 194 |
| Proceeds from issuance of long-term debt | - |
| Purchases of treasury stock | (58) |
| Repayment of long-term debt | (144) |
| Other sources/(uses) | 166 |
| | ----- |
| Net cash provided/(used) by financing activities | (1,030) |
| | ----- |
| Increase in Cash and Cash Equivalents | 5,894 |
| Cash and Cash Equivalents at Beginning of Period | 37,731 |

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Cash and Cash Equivalents at End of Period

\$ 43,625
=====

See accompanying notes to unaudited financial statements.
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ROTO-ROOTER, INC. AND SUBSIDIARY COMPANIES Notes to Unaudited Financial Statements

1. On May 19, 2003, shareholders of Chemed Corporation approved changing the company's name to Roto-Rooter, Inc. As used herein, the term Company refers to Roto-Rooter, Inc. or Roto-Rooter, Inc. and its subsidiaries.

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 Amendment No. 1 to Form 10-K/A for the year ended December 31, 2002.

The Company uses Accounting Principles Board Opinion No. 25 ("APB 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 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 date):

| | Three Months Ended March 3 | |
|--|----------------------------|---------|
| | 2003 | 2002 |
| Net income as restated | \$ 3,557 | \$ 5,57 |
| Add: stock-based compensation expense included in net income as reported, net of income tax effects | 34 | 3 |
| Deduct: total stock-based employee compensation determined under a fair-value-based method for all stock options and awards, net of income tax effects | (225) | (10 |

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| | | |
|----------------------------|----------------------------|---------------------------|
| Pro forma net income | ----- \$ 3,366 ===== | ----- \$ 5,49 ===== |
| Earnings per share | | |
| As restated | \$.36 ===== | \$.5 ===== |
| Pro forma | \$.34 ===== | \$.5 ===== |
| Diluted earnings per share | | |
| As restated | \$.36 ===== | \$.5 ===== |
| Pro forma | \$.34 ===== | \$.5 ===== |

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2. In October 2003, the Company, in consultation with its independent accountants, reevaluated its accounting for Yellow Pages costs and concluded 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 directories, typically 12 months.

Accordingly, the Company's consolidated financial statements as of and for three months ended March 31, 2003 and 2002 and as of December 31, 2002 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):

| | Reported ----- | Restat ----- |
|--|-------------------|-----------------|
| December 31, 2002: ----- | | |
| Current deferred income taxes | \$ 7,278 | \$ 9,89 |
| Prepaid expenses and other current assets | 13,332 | 7,71 |
| Total assets | 338,929 | 335,92 |
| Other current liabilities | 22,127 | 23,51 |
| Retained earnings | 132,793 | 127,93 |
| Total stockholders' equity | 203,277 | 198,42 |
| Total liabilities and stockholders' equity | 338,929 | 335,92 |
| March 31, 2003: ----- | | |
| Current deferred income taxes | \$ 7,631 | \$ 9,70 |
| Prepaid expenses and other current | | |

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| | | |
|--|---------|--------|
| assets | 12,056 | 6,13 |
| Total assets | 336,583 | 332,73 |
| Retained earnings | 134,160 | 130,30 |
| Total stockholders' equity | 203,090 | 199,23 |
| Total liabilities and stockholders' equity | 336,583 | 332,73 |

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

| | Reported ----- | Restat ----- |
|--|-------------------|-----------------|
| For the three months ended March 31, 2003: ----- | | |
| Selling and marketing expenses | \$ 11,078 | \$ 9,5 |
| Income taxes | (1,742) | (2,2 |
| Income from continuing operations | 2,553 | 3,5 |
| Net income | 2,553 | 3,5 |
| Earnings per share- | | |
| Income from continuing operations | .26 | . |
| Net income | .26 | . |
| Diluted earnings per share- | | |
| Income from continuing operations | .26 | . |
| Net income | .26 | . |

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| | Reported ----- | Restat ----- |
|--|-------------------|-----------------|
| For the three months ended March 31, 2002: ----- | | |
| Selling and marketing expenses | \$ 11,993 | \$ 10,6 |
| Income taxes | (1,947) | (2,4 |
| Income from continuing operations | 3,805 | 4,7 |
| Net income | 4,672 | 5,5 |
| Earnings per share- | | |
| Income from continuing operations | .39 | . |
| Net income | .47 | . |
| Diluted earnings per share- | | |
| Income from continuing operations | .39 | . |
| Net income | .47 | . |

3. During the second quarter of 2003, the administrative functions for employee benefits, retirement services, risk management, public

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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 this administrative function combination 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 business 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 purposes.

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

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2003 | 2002 |
| Service Revenues and Sales ----- | | |
| Plumbing and Drain Cleaning | \$ 64,725 | \$ 65,279 |
| Service America | 12,920 | 15,574 |
| Total | \$ 77,645 | \$ 80,853 |

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| | | |
|--|----------|----------|
| Aftertax Earnings | ===== | ===== |
| (as restated -- see Note 2) | | |
| Plumbing and Drain Cleaning(a) | \$ 1,025 | \$ 3,409 |
| Service America | 40 | 327 |
| | ----- | ----- |
| Total segment earnings | 1,065 | 3,736 |
| Unallocated investing and financing -- net (b) | 2,492 | 971 |
| Discontinued operations | - | 867 |
| | ----- | ----- |
| Net income | \$ 3,557 | \$ 5,574 |
| | ===== | ===== |

(a) Amount for 2003 includes aftertax severance charges of \$2,358,000.

(b) Amounts for 2003 and 2002 include aftertax gains on the sales of available-for-sale investments of \$2,151,000 and \$775,000, respectively.

4. Earnings per common share are computed using the weighted average number of share of capital stock outstanding. Diluted earnings per share are computed as follows (as restated -- see Note 2) (in thousands, except per share data):

| | Income (Numerator) | Shares (Denominator) | Inc Per |
|---|-----------------------|-------------------------|------------|
| | ----- | ----- | ----- |
| Income from Continuing Operations - For the Three Months Ended March 31, | | | |
| ----- | | | |
| 2003 | | | |
| Earnings | \$ 3,557 | 9,890 | \$ |
| Dilutive stock options | - | 13 | |
| | ----- | ----- | |
| Diluted earnings | \$ 3,557 | 9,903 | \$ |
| | ===== | ===== | |
| 2002 | | | |
| Earnings | \$ 4,707 | 9,843 | \$ |
| Conversion of Trust Securities | 176 | 384 | |
| Dilutive stock options | - | 40 | |
| | ----- | ----- | |
| Diluted earnings | \$ 4,883 | 10,267 | \$ |
| | ===== | ===== | |

Net Income -
For the Three Months Ended March 31,

2003

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| | | | |
|--------------------------------|----------|--------|----|
| Earnings | \$ 3,557 | 9,890 | \$ |
| Dilutive stock options | - | 13 | |
| Diluted earnings | \$ 3,557 | 9,903 | \$ |
| 2002 | | | |
| Earnings | \$ 5,574 | 9,843 | \$ |
| Conversion of Trust Securities | 176 | 384 | |
| Dilutive stock options | - | 40 | |
| Diluted earnings | \$ 5,750 | 10,267 | \$ |

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The impact of the convertible preferred securities has been excluded from the computations for 2003 because it is antidilutive on earnings per share from continuing operations.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2003 | 2002 |
| Gains on sales of available-for-sale investments | \$ 3,544 | \$ 1,166 |
| Interest income | 815 | 616 |
| Market value adjustments on trading investments of deferred compensation trusts | (652) | (716) |
| Dividend income | 616 | 616 |
| Other--net | (61) | 216 |
| Total other income--net | \$ 4,262 | \$ 2,500 |

6. In March 2003, the Company and a corporate officer reached agreement providing for termination of the officer's employment in exchange for payment under her employment contract. The 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.
7. The Company had total comprehensive income of \$1,157,000 and \$5,662,000 for the three months ended March 31, 2003 and 2002, respectively. The

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difference between the Company's net income and comprehensive income relates to the cumulative unrealized appreciation/depreciation on its available-for-sale securities.

8. During 2003, one purchase business combination was completed within the Roto-Rooter segment for a purchase price of \$574,000 (\$168,000 in cash and a note payable for \$406,000). The business acquired provides drain cleaning and plumbing services under the Roto-Rooter name. The results of operations of this business are not material to the consolidated operations of the Company.

The purchase price was allocated as follows (in thousands):

| | | |
|--------------|----|-------|
| Goodwill | \$ | 474 |
| Other assets | | 100 |
| | | ----- |
| Total | \$ | 574 |
| | | ===== |

9. 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 would include guarantees of service and product performance. These guarantees and indemnifications would not materially impact the Company's financial condition or results of operations.

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10. 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 the Company's financial statements.
11. 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 previously 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 the Company's financial statements.
12. 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

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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 the Company's financial statements.

13. In January 2003, the FASB approved the issuance of FIN No. 46, Consolidation of Variable Interest Entities. It is effective for variable interest entities created after January 31, 2003, and for variable interest entities in which an enterprise obtains an interest after that date. Because the Company has no such investments, the adoption of this statement did not have a material impact on the Company's financial statements.

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

FINANCIAL CONDITION

The decline in other investments from \$37,326,000 at December 31, 2002 to \$32,789,000 is due to the sale of various available-for-sale securities in the first quarter of 2003. The decline in other current liabilities from \$23,513,000 at December 31, 2002 to \$18,515,000 is primarily due to the payment of incentive compensation, discretionary thrift plan contributions for 2002 and accrued advertising expenses in the first quarter of 2003. There are no other significant changes in the balance sheet accounts during the first three months of 2003.

At March 31, 2003, the Company had cash and cash equivalents of \$43.6 million and approximately \$53.4 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

FIRST QUARTER 2003 VERSUS FIRST QUARTER 2002-CONSOLIDATED RESULTS

The Company's service revenues and sales for the first quarter of 2003 declined 4% versus revenues for the first quarter of 2002. This \$3,208,000 decline comprised the following (dollar amounts in thousands):

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| | Increase/ (Decrease) | |
|-----------------------------|----------------------|------------|
| | Amount | Percentage |
| | ----- | ----- |
| Service America | | |
| Service contracts | \$ (2,001) | () |
| Demand services | (653) | () |
| Plumbing and Drain Cleaning | | |
| Plumbing | (203) | |
| Drain cleaning | (419) | |
| Other | 68 | |
| | ----- | |
| Total | \$ (3,208) | |
| | ===== | |

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 first quarter of 2003 was 17.1% 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 decline in plumbing revenues for the first quarter of 2003 versus 2002 comprises a 1.9% increase in the number of jobs performed and a 2.7% decline in the average price per job. The decrease in drain cleaning revenues for the first quarter of 2003 versus 2002 comprised a 4.1% decrease in the number of jobs combined with a 2.6% increase in the average price per job.

The consolidated gross margin was 40.6% in the first quarter of 2003 and 40.0% in the first quarter of 2002. On a segment basis, the Plumbing and Drain Cleaning segment's gross margin increased .8%

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points and Service America's gross margin declined 3.2% points. Of this decline, approximately 70% is due to higher liability insurance costs (as a percent of sales) in 2003 and 20% is due to higher labor costs (as a percent of sales) in the 2003 first quarter.

General and administrative expense for the first quarter of 2003 increased \$3,870,000 (30.6%) versus first quarter of 2002. This increase is primarily due to higher costs in the Plumbing and Drain Cleaning segment in 2003 as the cost of a severance arrangement with a corporate officer (\$3,627,000) was recorded in March 2003.

Selling and marketing expense ("Selling") for the first quarter of 2003 declined \$1,073,000 (10.1%) versus the first quarter of 2002 (in thousands):

| | |
|-----------------------------|----------|
| Plumbing and Drain Cleaning | \$ 574 |
| Service America | 499 |
| | ----- |
| Total | \$ 1,073 |
| | ===== |

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The decline in Plumbing and Drain Cleaning Selling is due primarily to lower advertising costs in 2003. The decline in Service America's Selling is due primarily to a reduction in employees in 2003.

Depreciation expense declined \$440,000 (12.6%) in the first quarter of 2002 as compared with the first quarter of 2003. Of this decline \$230,000 relates to the Plumbing and Drain Cleaning segment and \$210,000 relates to the Service America segment. Both declines are attributable to lower depreciation on service vans in 2003.

Income from operations declined \$3,209,000 from \$5,593,000 in the first quarter of 2002 to \$2,384,000 in the first quarter of 2003. This decline is largely attributable to charges incurred for the settlement of an employment contract with a corporate officer in March 2003 (\$3,627,000). The amount of the charge represents the present value of payments beginning in March 2003 and ending in May 2007.

Interest expense declined from \$773,000 in the first quarter of 2002 to \$539,000 in 2003, as the result of lower debt levels during 2003.

Other income-net increased from \$2,589,000 in the first quarter of 2002 to \$4,262,000 in the first quarter of 2003 primarily due to higher capital gains on the sales of investments in the 2003 quarter. These gains totaled \$3,544,000 in the 2003 first quarter versus \$1,141,000 in 2002.

Income before income taxes declined \$1,300,000 from \$7,139,000 in the first quarter of 2002 to \$5,839,000 in the first quarter of 2003 due to the following (in thousands):

| | |
|---|----------|
| Severance charges in March 2003 | \$ 3,627 |
| Larger gains on the sales of investments in 2003 | (2,403) |
| Other | 76 |
| | ----- |
| Total | \$ 1,300 |
| | ===== |

The effective income tax rate during the first quarter of 2003 was 39.1% as compared with 34.1% in the first quarter of 2002. The higher

effective rate in 2003 versus the rate for 2002 is primarily attributable to a higher effective state income tax rate in 2003 related to gains on the sales of investments and to favorable tax adjustments in the first quarter of 2002.

Income from continuing operations declined from \$4,707,000 (\$.48 per share) in the first quarter of 2002 to \$3,557,000 (\$.36 per share) in 2003. Income for 2003 included aftertax severance charges of \$2,358,000 (\$.24 per share) and aftertax gains on the sales of investments of \$2,151,000 (\$.22 per share). Income for 2002 included aftertax gains on the sales of investments of \$775,000 (\$.08 per share).

Net income declined from \$5,574,000 (\$.57 per share and \$.56 per diluted share) in the first quarter of 2002 to \$3,557,000 (\$.36 per share) in 2003. Income for 2003 included aftertax severance charges of \$2,358,000 (\$.24 per share) and aftertax gains on the sales of investments of \$2,151,000 (\$.22 per share). Income for 2002 included aftertax gains on the sales of investments of

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\$775,000 (\$.08 per share) and discontinued operations of \$867,000 (\$.09 per share and \$.08 per diluted share).

FIRST QUARTER 2003 VERSUS FIRST QUARTER 2002-SEGMENT RESULTS

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

| THREE MONTHS ENDED MARCH 31, ----- | SERVICE REVENUES AND SALES - PERCENT DECREASE 2003 VS. 2002 ----- | AFTERTAX EARNING OF REVENUES (AF ----- 2003 ----- |
|--|--|---|
| Plumbing and Drain Cleaning | (1)% | 1.6% |
| Service America | (17) | 0.3 |
| Total | (4) | 1.4 |

The aftertax margin of the Plumbing and Drain Cleaning segment during the first quarter of 2003 was 1.6% as compared with 5.2% in the first quarter of 2002. This decline is attributable to severance charges (\$2,358,000 or 3.6% of revenues) incurred in the 2003 quarter.

The aftertax margin of the Service America segment was .3% in the first quarter of 2003 as compared with 2.1% in the first quarter of 2002. This decline is attributable to a decline in the gross profit margin (3.2 percentage points) in the 2003 quarter, partially offset by lower operating expenses as a percent of sales (.6 percentage points). The lower gross margin is primarily due to higher casualty insurance costs and higher labor costs (as a percent of revenues) in 2003.

Unallocated Investing and Financing+net, which includes financing expense and investment income, increased \$1,521,000 from \$971,000 during the first quarter of 2002 to \$2,492,000 in the first quarter of 2003. The increase is due to higher capital gains (\$1,376,000 aftertax) and lower interest expense (\$164,000 aftertax) during the 2003 quarter as compared to the 2002 quarter.

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

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retirement obligations, the adoption of SFAS No. 143 in 2003 did not have a material impact on the Company'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 previously 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 the Company'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 the Company's financial statements.

In January 2003, the FASB approved the issuance of FIN No. 46, Consolidation of Variable Interest Entities. It is effective for variable interest entities created after January 31, 2003, and for variable interest entities in which an enterprise obtains an interest after that date. Because the Company has no such investments, the adoption of this statement did not have a material impact on the Company's financial statements.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 2005 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.

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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 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 Rule 13a-14. Based

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upon the foregoing, the Company's President and Chief Executive Officer, Executive Vice President and Treasurer and Vice President and Controller concluded that 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 March 31, 2003.

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PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| Exhibit No. ----- | Description ----- |
|----------------------|--|
| 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 |
| 32.1 | Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by Timothy S. O'Toole pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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32.3 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 April 17, 2003, was filed April 18, 2003. The report includes the Company's first quarter 2003 earnings release dated April 17, 2003.

-A current Report on Form 8-K, dated April 23, 2003, was filed April 24, 2003. The report includes the Company's First Quarter Report for the period ending March 31, 2003.

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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: December 17, 2003

By Kevin J. McNamara

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

Dated: December 17, 2003

By Timothy S. O'Toole

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

Dated: December 17, 2003

By Arthur V. Tucker, Jr.

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

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