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CHEMED CORP
Form 8-K
October 18, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (date of earliest event reported):
October 11, 2002

CHEMED CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

1-8351
(Commission File Number)

31-0791746
(I.R.S. Employer
Identification Number)

2600 Chemed Center, 255 East 5th Street, Cincinnati, OH
(Address of principal executive offices)

45202
(Zip Code)

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

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On October 11, 2002, Patient Care Inc. (Patient Care), a wholly owned subsidiary of Chemed Corporation (Company), sold all of the issued and outstanding stock of National Home Care Inc. (NHC), a wholly owned subsidiary of Patient Care, to PCI Holding Corp. (PCI-H), a Delaware corporation. Immediately thereafter, the Company sold all of the issued and outstanding stock of Patient Care to PCI-A Holding Corp. (PCI-A), a Delaware corporation. PCI-H and PCI-A are owned by an investor group that includes Schroder Ventures Life Sciences Group, Oak Investment Partners, Prospect Partners and Salix Ventures.

The cash proceeds to the Company from the sale of Patient Care totaled \$57.5 million, of which \$5 million was placed in escrow pending settlement of specified contingencies. In addition, the Company received a senior subordinated note receivable (Note) in the amount of \$12.5 million and a common stock purchase warrant for the purchase of 2% of the outstanding stock of PCI-H. The Note is due October 11, 2007 and bears interest at the annual rate of 7.5% through September 30, 2004, 8.5% from October 1, 2004 through September 30, 2005 and 9.5% thereafter. The warrant has an estimated fair value of \$1.4 million.

Patient Care provides home-healthcare services primarily in the New York-New Jersey-Connecticut area. Services provided include skilled nursing; home health aide; physical, speech, occupational therapy; and medical social work. There is no material relationship between PCI-H, PCI-A, Patient Care, NHC, the Company, any of the Company's affiliates, any Company director or officer or any associate of any such directors or officers.

The proceeds will be used to fund future acquisitions and general corporate purposes.

The Company anticipates that a portion of the cash proceeds from this transaction will be used to retire borrowings under its revolving credit agreement with Bank One, N.A. At September 30, 1997 the Company had borrowings of \$25 million outstanding under this agreement. The balance of the proceeds will be available for the funding of future acquisitions and general corporate purposes.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial Statements of Businesses Acquired.

Not applicable.

(b) Pro Forma Financial Information (Unaudited). The following assumptions have been made in preparing the unaudited Pro Forma Consolidated Statements of Operations of Chemed Corporation and Subsidiary Companies (Chemed) for the year ended December 31, 2001 and for the six months ended June 30, 2001 and 2002 and the unaudited Pro Forma Consolidated Balance Sheet of Chemed as of June 30, 2002:

- (i) For purposes of preparing the unaudited Pro Forma Condensed Consolidated Statements of Operations, the dispositions of NHC and Patient Care were assumed to have occurred at the beginning of each fiscal period presented.
- (ii) For purposes of preparing the unaudited Pro Forma Consolidated Balance Sheet, the dispositions of NHC and Patient Care were assumed to have occurred on June 30, 2002.

- (iii) The unaudited pro forma consolidated financial statements presented herein are shown for illustrative purposes only and are not necessarily indicative of the future financial position or future results of operations of Chemed, or of the financial position or results of operations that would have actually occurred had the transactions been in effect as of the date or for the periods presented.
- (iv) The unaudited pro forma consolidated financial statements should be read in conjunction with the historical financial statements and related notes of Chemed.

The unaudited pro forma consolidated financial statements of Chemed follow on the next page:

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CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
 JUNE 30, 2002
 (in thousands except share and per share data)

| | Adjustments Add/(Deduct) | | | Pro Forma |
|---|-----------------------------|--------------------|------------------|-------------------|
| | Historical | Patient Care (a) | Other | |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 11,456 | \$ 458 | \$ 52,071(b) | \$ 63,985 |
| Accounts receivable less allowances of \$5,201 (pro forma \$4,281) | 50,792 | (35,998) | | 14,794 |
| Inventories | 10,070 | | | 10,070 |
| Statutory deposits | 12,282 | | | 12,282 |
| Prepaid expenses | 16,583 | (2,286) | | 14,297 |
| Total current assets | 101,183 | (37,826) | 52,071 | 115,428 |
| Other investments | 37,692 | | | 37,692 |
| Properties and equipment, at cost less accumulated depreciation of \$72,687 (pro forma \$63,957) | 62,349 | (12,360) | | 49,989 |
| Identifiable intangible assets less accumulated amortization of \$8,426 (pro forma \$6,859) | 3,685 | (488) | | 3,197 |
| Goodwill less accumulated amortization of \$35,541 (pro forma \$30,450) | 161,852 | (30,673) | | 131,179 |
| Other assets | 27,174 | 1,494 | 19,951(b) | 48,619 |
| Total Assets | \$ 393,935 | \$ (79,853) | \$ 72,022 | \$ 386,104 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts Payable | \$ 9,097 | \$ (1,588) | \$ | \$ 7,509 |
| Current portion of long-term debt | 366 | | | 366 |
| Income taxes | 4,433 | 22 | 540(c) | 4,995 |
| Deferred contract revenue | 21,202 | | | 21,202 |
| Other current liabilities | 46,676 | (9,759) | 2,450(c) | 39,367 |
| Total current liabilities | 81,774 | (11,325) | 2,990(c) | 73,439 |
| Long-term debt | 55,810 | | | 55,810 |
| Other liabilities | 26,545 | | | 26,545 |
| Total Liabilities | 164,129 | (11,325) | 2,990 | 155,794 |
| MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF THE CHEMED CAPITAL TRUST | 14,186 | | | 14,186 |
| STOCKHOLDERS EQUITY | | | | |
| Capital stock authorized 15,000,000 shares \$1 par; issued 13,460,755 shares | 13,461 | | | 13,461 |
| Paid in capital | 168,448 | | | 168,448 |
| Retained earnings | 146,240 | (68,528) | 69,032(b) | 146,744 |
| Treasury stock 3,665,835 shares, at cost | (112,568) | | | (112,568) |
| Unearned compensation | (5,480) | | | (5,480) |
| Deferred compensation payable in company stock | 2,253 | | | 2,253 |

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| | | | | |
|--|-------------------|-------------|-----------|-------------------|
| Accumulated other comprehensive income | 4,205 | | | 4,205 |
| Notes receivable for shares sold | (939) | | | (939) |
| | <u> </u> | | | <u> </u> |
| Total Stockholders' Equity | 215,620 | (68,528) | 69,032 | 216,124 |
| | <u> </u> | | | <u> </u> |
| Total Liabilities and Stockholders' Equity | \$ 393,935 | \$ (79,853) | \$ 72,022 | \$ 386,104 |
| | <u> </u> | | | <u> </u> |

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- (a) Historical balance sheet of Patient Care
 - (b) Proceeds from sale of Patient Care
 - (c) Accrual of expenses and income taxes on sale of Patient Care

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED DECEMBER 31, 2001
 (in thousands except share and per share data)

| | Adjustments | | Add/(Deduct) | Pro Forma |
|--|-------------|------------------|--------------|------------|
| | Historical | Patient Care (a) | | |
| Continuing Operations | | | | |
| Service revenues and sales | \$ 477,116 | \$ (139,208) | \$ | \$ 337,908 |
| Cost of services provided and cost of goods sold | 295,477 | (89,862) | | 205,615 |
| General and administrative expenses | 101,141 | (44,769) | | 56,372 |
| Selling and marketing expenses | 45,569 | | | 45,569 |
| Depreciation | 16,109 | (1,715) | | 14,394 |
| Restructuring and similar expenses | 26,126 | (1,392) | | 24,734 |
| Total costs and expenses | 484,422 | (137,738) | | 346,684 |
| Income/(loss) from operations | (7,306) | (1,470) | | (8,776) |
| Interest expense | (5,424) | | | (5,424) |
| Distributions on preferred securities | (1,113) | | | (1,113) |
| Other income net | 3,780 | 1,208 | 938 | 5,926 |
| Income/(loss) before income taxes | (10,063) | (262) | 938 | (9,387) |
| Income taxes | 3,362 | (264) | (328) | 2,770 |
| Income/(loss) from continuing operations | \$ (6,701) | \$ (526) | \$ 610 | \$ (6,617) |
| Earnings/(Loss) Per Share | | | | |
| Income/(loss) from continuing operations | \$ (0.69) | | | \$ (0.68) |
| Average number of shares outstanding | 9,714 | | | 9,714 |
| Diluted Earnings/(Loss) Per Share | | | | |
| Income/(loss) from continuing operations | \$ (0.69) | | | \$ (0.68) |
| Average number of shares outstanding | 9,714 | | | 9,714 |
| Earnings Excluding Goodwill Amortization | | | | |
| Income/(loss) from continuing operations | \$ (2,080) | | | \$ (2,729) |
| Earnings/(loss) per share | | | | |
| Income/(loss) from continuing operations | \$ (0.21) | | | \$ (0.28) |
| Average number of shares outstanding | 9,714 | | | 9,714 |
| Diluted earnings/(loss) per share | | | | |
| Income/(loss) from continuing operations | \$ (0.21) | | | \$ (0.28) |
| Average number of shares outstanding | 9,714 | | | 9,714 |

(a) Historical income statement of Patient Care.

(b) Interest income on note receivable from the sale of Patient care, computed at 7.5% per annum.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE SIX MONTHS ENDED JUNE 30, 2001
 (in thousands except share and per share data)

| | Adjustments | | Add/(Deduct) | Pro Forma |
|--|-------------|------------------|--------------|------------|
| | Historical | Patient Care (a) | | |
| Continuing Operations | | | | |
| Service revenues and sales | \$ 241,989 | \$ (70,780) | \$ | \$ 171,209 |
| Cost of services provided and cost of goods sold | 146,880 | (45,066) | | 101,814 |
| General and administrative expenses | 50,972 | (22,493) | | 28,479 |
| Selling and marketing expenses | 22,253 | | | 22,253 |
| Depreciation | 8,027 | (859) | | 7,168 |
| Total costs and expenses | 228,132 | (68,418) | | 159,714 |
| Income/(loss) from operations | 13,857 | (2,362) | | 11,495 |
| Interest expense | (2,952) | | | (2,952) |
| Distributions on preferred securities | (555) | | | (555) |
| Other income net | 2,604 | 708 | 469 | 3,781 |
| Income/(loss) before income taxes | 12,954 | (1,654) | 469 | 11,769 |
| Income taxes | (5,010) | 359 | (164) | (4,815) |
| Income/(loss) from continuing operations | \$ 7,944 | \$ (1,295) | \$ 305 | \$ 6,954 |
| Earnings/(Loss) Per Share | | | | |
| Income/(loss) from continuing operations | \$ 0.82 | | | \$ 0.71 |
| Average number of shares outstanding | 9,737 | | | 9,737 |
| Diluted Earnings/(Loss) Per Share | | | | |
| Income/(loss) from continuing operations | \$ 0.80 | | | \$ 0.70 |
| Average number of shares outstanding | 9,885 | | | 9,885 |
| Earnings Excluding Goodwill Amortization | | | | |
| Income/(loss) from continuing operations | \$ 10,258 | | | \$ 8,901 |
| Earnings/(loss) per share | | | | |
| Income/(loss) from continuing operations | \$ 1.05 | | | \$ 0.91 |
| Average number of shares outstanding | 9,737 | | | 9,737 |
| Diluted earnings/(loss) per share | | | | |
| Income/(loss) from continuing operations | \$ 1.04 | | | \$ 0.90 |
| Average number of shares outstanding | 9,885 | | | 9,885 |

(a) Historical income statement of Patient Care.

(b) Interest income on note receivable from the sale of Patient care, computed at 7.5% per annum.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE SIX MONTHS ENDED JUNE 30, 2002
 (in thousands except share and per share data)

| | Adjustments Add/(Deduct) | | | Pro Forma |
|--|--------------------------|------------------|-----------|------------|
| | Historical | Patient Care (a) | Other (b) | |
| Continuing Operations | | | | |
| Service revenues and sales | \$ 233,604 | \$ (73,669) | \$ | \$ 159,935 |
| Cost of services provided and cost of goods sold | 140,643 | (45,511) | | 95,132 |
| General and administrative expenses | 48,798 | (23,724) | | 25,074 |
| Selling and marketing expenses | 22,869 | | | 22,869 |
| Depreciation | 7,990 | (1,012) | | 6,978 |
| Total costs and expenses | 220,300 | (70,247) | | 150,053 |
| Income/(loss) from operations | 13,304 | (3,422) | | 9,882 |
| Interest expense | (1,536) | | | (1,536) |
| Distributions on preferred securities | (541) | | | (541) |
| Other income net | 3,049 | 493 | 469 | 4,011 |
| Income/(loss) before income taxes | 14,276 | (2,929) | 469 | 11,816 |
| Income taxes | (5,035) | 938 | (164) | (4,261) |
| Income/(loss) from continuing operations | \$ 9,241 | \$ (1,991) | \$ 305 | \$ 7,555 |
| Earnings/(Loss) Per Share | | | | |
| Income/(loss) from continuing operations | \$ 0.94 | | | \$ 0.77 |
| Average number of shares outstanding | 9,850 | | | 9,850 |
| Diluted Earnings/(Loss) Per Share | | | | |
| Income/(loss) from continuing operations | \$ 0.93 | | | \$ 0.77 |
| Average number of shares outstanding | 10,274 | | | 10,274 |
| Earnings Excluding Goodwill Amortization | | | | |
| Income/(loss) from continuing operations | \$ 9,241 | | | \$ 7,555 |
| Earnings/(loss) per share | | | | |
| Income/(loss) from continuing operations | \$ 0.94 | | | \$ 0.77 |
| Average number of shares outstanding | 9,850 | | | 9,850 |
| Diluted earnings/(loss) per share | | | | |
| Income/(loss) from continuing operations | \$ 0.93 | | | \$ 0.77 |
| Average number of shares outstanding | 10,274 | | | 10,274 |

(a) Historical income statement of Patient Care.

(b) Interest income on note receivable from the sale of Patient care, computed at 7.5% per annum.

(c) EXHIBITS

| SK 601 Ref. No. | Description |
|----------------------------|--|
| 2.1 | Stock Purchase Agreement dated as of May 8, 2002 by and between PCI Holding Corp. and Chemed Corporation. |
| 2.2 | Amendment No. 1 to Stock Purchase Agreement dated as of October 11, 2002 by and among PCI Holding Corp., PCI-A Holding Corp. and Chemed Corporation. |
| 2.3 | Senior Subordinated Promissory Note dated as of October 11, 2002 by and among PCI Holding Corp. and Chemed Corporation. |
| 2.4 | Common Stock Purchase Warrant dated as of October 11, 2002 by and between PCI Holding Corp. and Chemed Corporation. |
| 99.1 | Press release, dated October 11, 2002. |

CERTIFICATION AND SIGNATURES

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

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

CHEMED CORPORATION
(Registrant)

Dated: October 11, 2002

By /s/ Kevin J. McNamara

Kevin J. McNamara
(President and Chief Executive Officer)

Dated: October 11, 2002

By /s/ Timothy S. O Toole

Timothy S. O Toole
(Executive Vice President and Treasurer
Principal Financial Officer)

Dated: October 11, 2002

By /s/ Arthur V. Tucker, Jr.

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