

ROLLINS INC
Form 10-Q
October 25, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the quarterly period ended September 30, 2013

Commission File Number 1-4422

ROLLINS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

51-0068479

(I.R.S. Employer Identification No.)

2170 Piedmont Road, N.E., Atlanta, Georgia

(Address of principal executive offices)

30324

(Zip Code)

(404) 888-2000

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Rollins, Inc. had 145,878,996 shares of its \$1 par value Common Stock outstanding as of October 15, 2013.

ROLLINS, INC. AND SUBSIDIARIESPART 1
FINANCIAL
INFORMATION
ITEM 1.
FINANCIAL
STATEMENTSCONDENSED
CONSOLIDATED
STATEMENTS OF
FINANCIAL
POSITION
AS OF
SEPTEMBER 30,
2013 AND
DECEMBER 31,
2012
(in thousands
except share data)

| | September 30, 2013 (unaudited) | December 31, 2012 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 116,734 | \$ 65,082 |
| Trade receivables, short-term, net of allowance for doubtful accounts of \$8,137 and \$8,211, respectively | 80,902 | 68,920 |
| Financed receivables, short-term, net of allowance for doubtful accounts of \$1,741 and \$1,842, respectively | 12,740 | 11,823 |
| Materials and supplies | 11,836 | 11,847 |
| Deferred income taxes, net | 34,665 | 33,338 |
| Other current assets | 19,804 | 14,982 |
| Total Current Assets | 276,681 | 205,992 |
| Equipment and property, net | 85,348 | 82,263 |
| Goodwill | 212,201 | 212,477 |
| Customer contracts and other intangible assets, net | 134,763 | 141,789 |

Edgar Filing: ROLLINS INC - Form 10-Q

| | | |
|---|------------|------------|
| Deferred income taxes, net | 25,903 | 26,841 |
| Financed receivables, long-term, net of allowance for doubtful accounts of \$1,459 and \$1,309, respectively | 12,722 | 11,681 |
| Other assets | 13,246 | 11,463 |
| Total Assets | \$ 760,864 | \$ 692,506 |
| LIABILITIES | | |
| Accounts payable | \$ 26,106 | \$ 24,854 |
| Accrued insurance | 26,551 | 24,164 |
| Accrued compensation and related liabilities | 63,695 | 60,042 |
| Unearned revenues | 100,114 | 87,753 |
| Other current liabilities | 32,093 | 31,603 |
| Total current liabilities | 248,559 | 228,416 |
| Accrued insurance, less current portion | 28,094 | 31,283 |
| Accrued pension | 41,509 | 43,271 |
| Long-term accrued liabilities | 35,410 | 34,580 |
| Total Liabilities | 353,572 | 337,550 |
| Commitments and Contingencies | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, without par value; 500,000 shares authorized, zero shares issued | — | — |
| Common stock, par value \$1 per share; 250,000,000 shares authorized, 145,878,996 and 146,015,082 shares issued and outstanding, respectively | 145,879 | 146,015 |
| Paid in capital | 50,964 | 45,156 |
| Accumulated other comprehensive loss | (58,218) | (56,967) |
| Retained earnings | 268,667 | 220,752 |
| Total Stockholders' Equity | 407,292 | 354,956 |
| Total Liabilities and Stockholders' Equity | \$ 760,864 | \$ 692,506 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ROLLINS, INC. AND SUBSIDIARIES

CONDENSED
CONSOLIDATED
STATEMENTS OF
INCOME
FOR THE THREE
AND NINE
MONTHS ENDED
SEPTEMBER 30,
2013 AND 2012
(in thousands
except per share
data)
(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| REVENUES | | | | |
| Customer services | \$362,155 | \$340,179 | 1,012,667 | 964,516 |
| COSTS AND EXPENSES | | | | |
| Cost of services provided | 181,135 | 170,478 | 511,102 | 484,553 |
| Depreciation and amortization | 10,076 | 9,465 | 29,738 | 28,845 |
| Sales, general and administrative | 113,028 | 108,520 | 321,680 | 309,412 |
| Interest (income)/expense, net | (101) | 19 | (273) | 90 |
| INCOME BEFORE INCOME TAXES | 58,017 | 51,697 | 150,420 | 141,616 |
| PROVISION FOR INCOME TAXES | 21,817 | 19,486 | 55,047 | 53,198 |
| NET INCOME | \$36,200 | \$32,211 | 95,373 | 88,418 |
| NET INCOME PER SHARE - BASIC AND DILUTED | \$0.25 | \$0.22 | 0.65 | 0.60 |
| DIVIDENDS PAID PER SHARE | \$0.09 | \$0.08 | 0.27 | 0.24 |
| Weighted average participating shares outstanding – basic | 146,007 | 146,059 | 146,151 | 146,390 |
| Dilutive effect of stock options | — | 2 | — | 10 |
| Weighted average participating shares outstanding – assuming dilution | 146,007 | 146,061 | 146,151 | 146,40 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED
CONSOLIDATED

STATEMENTS OF
 COMPREHENSIVE
 EARNINGS
 FOR THE THREE
 AND NINE
 MONTHS ENDED
 SEPTMEBER 30,
 2013 AND 2012
 (in thousands)
 (unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|----------|---------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| NET INCOME | \$36,200 | \$32,211 | 95,373 | \$88,418 |
| Other comprehensive earnings (loss), net of tax | | | | |
| Foreign currency translation adjustments | 861 | 1,339 | (1,251) | 1,136 |
| Other comprehensive earnings (loss) | 861 | 1,339 | (1,251) | 1,136 |
| Comprehensive earnings | \$37,061 | \$33,550 | \$94,122 | 89,554 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ROLLINS, INC. AND SUBSIDIARIES

CONDENSED
CONSOLIDATED
STATEMENTS OF
CASH FLOWS
FOR THE NINE
MONTHS ENDED
SEPTMEBER 30,
2013 AND 2012
(in thousands)
(unaudited)

| | Nine Months Ended September 30, 2013 | 2012 |
|---|--|-----------|
| OPERATING ACTIVITIES | | |
| Net Income | \$ 95,373 | \$ 88,418 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 29,738 | 28,845 |
| Provision for deferred income taxes | 397 | 4,752 |
| Provision for bad debts | 6,656 | 8,411 |
| Stock based compensation expense | 7,809 | 7,125 |
| Excess tax benefits from share-based payments | (3,535) | (3,031) |
| Other, net | (323) | (287) |
| Changes in operating assets and liabilities | (8,596) | (14,121) |
| Net cash provided by operating activities | 127,519 | 120,112 |
| INVESTING ACTIVITIES | | |
| Cash used for acquisitions of companies, net of | (12,143) | (10,485) |

Edgar Filing: ROLLINS INC - Form 10-Q

| | | | | |
|--|------------|---|-----------|---|
| cash acquired | | | | |
| Purchases of equipment and property | (13,294 |) | (11,754 |) |
| Other | 428 | | 511 | |
| Net cash used in investing activities | (25,009 |) | (21,728 |) |
| FINANCING ACTIVITIES | | | | |
| Cash paid for common stock purchased | (13,705 |) | (19,938 |) |
| Dividends paid | (39,432 |) | (35,108 |) |
| Proceeds received upon exercise of stock options | 6 | | — | |
| Excess tax benefits from share-based payments | 3,535 | | 3,031 | |
| Net cash used in financing activities | (49,596 |) | (52,015 |) |
| Effect of exchange rate changes on cash | (1,262 |) | 1,069 | |
| Net increase in cash and cash equivalents | 51,652 | | 47,438 | |
| Cash and cash equivalents at beginning of period | 65,082 | | 46,275 | |
| Cash and cash equivalents at end of period | \$ 116,734 | | \$ 93,713 | |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ROLLINS, INC. AND SUBSIDIARIES

NOTE 1. BASIS OF PREPARATION AND OTHER

Basis of Preparation -The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. There has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of Rollins, Inc. (the "Company") for the year ended December 31, 2012. Accordingly, the quarterly condensed consolidated financial statements and related disclosures herein should be read in conjunction with the 2012 Annual Report on Form 10-K.

The preparation of interim financial statements requires management to make estimates and assumptions for the amounts reported in the condensed consolidated financial statements. Specifically, the Company makes estimates in its interim condensed consolidated financial statements for the termite accrual which includes future costs including termiticide life expectancy and government regulations, the insurance accrual which includes self insurance and worker's compensation, inventory adjustments, discounts and volume incentives earned, among others.

In the opinion of management, all adjustments necessary for a fair presentation of the Company's financial results for the interim periods have been made. These adjustments are of a normal recurring nature. The results of operations for the three and nine month periods ended September 30, 2013 are not necessarily indicative of results for the entire year.

The Company has only one reportable segment, its pest and termite control business. The Company's results of operations and its financial condition are not reliant upon any single customer, or a few customers, or the Company's foreign operations.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Standards

Recently issued accounting standards to be adopted

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Topic 740, Income Taxes, does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances. The objective of the amendments in this Update is to eliminate that diversity in practice. This guidance is effective for the Company beginning in the first quarter of 2014; we do not expect the new guidance to have a material effect on our financial statements.

ROLLINS, INC. AND SUBSIDIARIES

NOTE 3. EARNINGS PER SHARE

The Company follows ASC 260, *Earnings Per Share* (ASC 260) that requires the reporting of both basic and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income available to participating common stockholders by the weighted average number of participating common shares outstanding for the period. The calculation of diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In accordance with ASC 260, any anti-dilutive effects on net earnings (loss) per share, of which there were none are excluded at September 30, 2013 and September 30, 2012.

Basic and diluted earnings per share attributable to common and restricted shares of common stock for the period were as follows:

| | Three Months Ended September 30, 2013 | | Nine Months Ended September 30, 2012 | |
|-----------------------------------|--|--------|---|--------|
| Basic earnings per share | | | | |
| Common stock | \$0.25 | \$0.22 | \$0.65 | \$0.60 |
| Restricted shares of common stock | \$0.24 | \$0.22 | \$0.64 | \$0.59 |
| Total shares of common stock | \$0.25 | \$0.22 | \$0.65 | \$0.60 |
| Diluted earnings per share | | | | |
| Common stock | \$0.25 | \$0.22 | \$0.65 | \$0.60 |
| Restricted shares of common stock | \$0.24 | \$0.22 | \$0.64 | \$0.59 |
| Total shares of common stock | \$0.25 | \$0.22 | \$0.65 | \$0.60 |

NOTE 4. CONTINGENCIES

In the normal course of business, certain of the Company's subsidiaries are defendants in a number of lawsuits or arbitrations which allege that plaintiffs have been damaged as a result of the rendering of services by the defendant subsidiary. The subsidiaries are actively contesting these actions. In addition, the Company defends employment related cases from time to time. John Maciel v. Orkin, Inc., et al. is a wage and hour related matter in which the plaintiffs are seeking certification of a class. The Maciel lawsuit was filed in the Superior Court of Los Angeles County, California, and a class certification hearing has not been scheduled. The Company intends to vigorously contest certification.

Additionally, the Company and a subsidiary, The Industrial Fumigant Company, LLC, are named defendants in Severn Peanut Co. and Meherrin Agriculture & Chemical Co. v. Industrial Fumigant Co., et al. The Severn lawsuit, a matter related to a fumigation service, has been filed in the Northern Division of the United States District Court for the Eastern District of North Carolina. The plaintiffs are seeking damages for breach of contract and negligence. The Industrial Fumigant Company, LLC is also a named defendant in Insurance Company of the State of Pennsylvania as Subrogee of Archer-Daniels-Midland Company, Agrinational Insurance Company, Inc. as Subrogee of Archer-Daniels-Midland Company, and Archer-Daniels-Midland Company v. The Industrial Fumigant Co., The Industrial Fumigant Company, LLC, and James Miller. The ADM lawsuit, a matter related to a fumigation service, has been filed in the State Court in Lucas County, Ohio. The plaintiffs are seeking damages for breach of contract and negligence. The Company intends to vigorously defend itself through trial or arbitration, if necessary. Management does not believe that any pending claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or liquidity; however, it is possible that an unfavorable outcome of some or all of the matters, however unlikely, could result in a charge that might be material to the results of an individual quarter or year.

Orkin, LLC is involved in certain environmental matters primarily arising in the normal course of business. In the opinion of management, the Company's liability under any of these matters would not and did not materially affect its financial condition, results of operations or liquidity.

ROLLINS, INC. AND SUBSIDIARIES

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short-term investments, trade receivables, notes receivables, accounts payable and other short-term liabilities. The carrying amounts of these financial instruments approximate their fair values. The Company has a Revolving Credit Agreement with SunTrust Bank and Bank of America, N.A. for an unsecured line of credit of up to \$175.0 million, which includes a \$75.0 million letter of credit subfacility and a \$25.0 million swingline subfacility. There were no outstanding borrowings at September 30, 2013 and September 30, 2012.

NOTE 6. STOCKHOLDERS' EQUITY

During the nine months ended September 30, 2013 the Company paid \$39.4 million or \$0.27 per share in cash dividends compared to \$35.1 million or \$0.24 per share during the same period in 2012. During the third quarter ended September 30, 2013, the Company repurchased 168,110 shares from the open market of its \$1 par value common stock at a weighted average price of \$24.72 per share compared to 713,781 shares purchased at a weighted average price of \$21.06 during the same period in 2012. During the nine months ended September 30, 2013, the Company repurchased 340,699 shares of its \$1 par value common stock at a weighted average price of \$24.56 per share compared to 781,781 shares purchased at a weighted average price of \$20.93 during the same period in 2012. The Company repurchased \$0.4 million of common stock for the three months ended September 30, 2013 and no repurchases were made for the same period in 2012, and repurchased \$5.3 and \$3.6 million of common stock for the nine months ended September 30, 2013 and 2012, respectively, from employees for the payment of taxes on vesting restricted shares.

As more fully discussed in Note 14 of the Company's notes to the consolidated financial statements in its 2012 Annual Report on Form 10-K, stock options, time lapse restricted shares (TLRS's) and restricted stock units have been issued to officers and other management employees under the Company's Employee Stock Incentive Plans. The Company issues new shares from its authorized but unissued share pool. At September 30, 2013, approximately 4.0 million shares of the Company's common stock were reserved for issuance.

Stock Options

Stock options generally vest over a five-year period and expire ten years from the issuance date.

During the third quarter ended September 30, 2013, no shares of common stock were issued upon exercise of stock options by employees compared to approximately 6,000 shares for the same quarter in the prior year. The Company has no outstanding stock options as of September 30, 2013. In total for the nine months ended September 30, 2013, approximately 1,000 shares of common stock were issued upon exercise of stock options by employees and approximately 32,000 shares for the nine months ended September 30, 2012.

Options activity outstanding under the Company's stock option plan as of September 30, 2013 and changes during the nine months ended September 30, 2013, were as follows:

| (in thousands except per share data) | Shares | Weighted-Average Exercise Price | Weighted- Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|--------------------------------------|--------|------------------------------------|--|---------------------------------|
| Outstanding at December 31, 2012 | 1 | \$ 5.52 | 0.08 | \$ 17 |
| Exercised | (1) | 5.52 | | |
| Outstanding at September 30, 2013 | — | \$ — | — | \$ — |
| Exercisable at September 30, 2013 | — | \$ — | — | \$ — |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on that day. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

The aggregate intrinsic value of options exercised during the nine months ended September 30, 2013 and September 30, 2012 was \$20 thousand and \$530 thousand, respectively. Exercise of options for the third quarter ended September 30, 2013 and 2012 resulted in cash receipts of \$6 thousand and less than \$1 thousand, respectively.

ROLLINS, INC. AND SUBSIDIARIES**Time Lapse Restricted Shares and Restricted Stock Units**

The following table summarizes the components of the Company's stock-based compensation programs recorded as expense:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|--|---------|---------------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Time lapse restricted stock: | | | | |
| Pre-tax compensation expense | \$2,717 | \$2,376 | \$7,809 | \$7,125 |
| Tax benefit | (1,046) | (915) | (3,006) | (2,743) |
| Restricted stock expense, net of tax | \$1,671 | \$1,461 | \$4,803 | \$4,382 |

The Company recognized a tax benefit of approximately \$0.4 million and \$0.1 million during the third quarters ended September 30, 2013 and 2012, respectively, and approximately \$3.5 million and \$3.0 million for the nine months ended September 30, 2013 and 2012, respectively related to the amortization of restricted shares which has been recorded as an increase to paid-in capital.

The following table summarizes information on unvested restricted stock outstanding as of September 30, 2013:

| | Number of Shares | Weighted-Average Grant-Date Fair Value |
|---|------------------------|--|
| Unvested Restricted Stock Units at December 31, 2012 | 2,743 | \$ 16.41 |
| Forfeited | (42) | 17.19 |
| Vested | (695) | 13.34 |
| Granted | 463 | 23.75 |
| Unvested Restricted Stock Units at September 30, 2013 | 2,469 | \$ 18.65 |

At September 30, 2013 and December 31, 2012, the Company had \$33.6 million and \$36.7 million of total unrecognized compensation cost, respectively, related to time-lapse restricted shares that are expected to be recognized over a weighted average period of approximately 4.0 years and 4.1 years, respectively.

NOTE 7. PENSION AND POST RETIREMENT BENEFIT PLANS

The following table represents the net periodic pension benefit costs and related components in accordance with FASB ASC 715 “*Compensation - Retirement Benefits*”:

Components of Net Pension Benefit Gain

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|--|---------|---------------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest and service cost | \$2,166 | \$2,337 | \$6,498 | \$7,011 |
| Expected return on plan assets | (2,897) | (2,961) | (8,691) | (8,883) |
| Amortization of net loss | 977 | 632 | 2,931 | 1,896 |
| Net periodic benefit gain/(loss) | \$246 | \$8 | \$738 | \$24 |

During the nine months ended September 30, 2013 and 2012, the Company made contributions of \$2.5 million and \$2.3 million, respectively, to its defined benefit retirement plans (the “Plans”). The Company made \$5.2 million in contributions for the year ended December 31, 2012 and is considering making further contributions to the Plans of approximately \$2.5 million during the fiscal year ending December 31, 2013.

ROLLINS, INC. AND SUBSIDIARIES

NOTE 8. ACQUISITIONS

The Company made several acquisitions during the nine month periods ended September 30, 2013 and 2012, none of which are considered material in nature individually or in total.

Goodwill from acquisitions represents the excess of the purchase price over the fair value of net assets of businesses acquired. The carrying amount of goodwill was \$212.2 million and \$212.5 million at September 30, 2013 and December 31, 2012, respectively. Goodwill generally changes due to acquisitions, finalization of allocation of purchase prices of previous acquisitions and foreign currency translations. The carrying amount of goodwill in foreign countries was \$9.6 million at September 30, 2013 and \$9.8 million at December 31, 2012. The change in carrying amount is due to foreign currency translation.

The Company completed its most recent annual impairment analyses as of September 30, 2013. Based upon the results of these analyses, the Company has concluded that no impairment of its goodwill or other intangible assets was indicated.

The carrying amount of customer contracts and other intangible assets was \$134.8 million at September 30, 2013 and \$141.8 million at December 31, 2012. The carrying amount of customer contracts and other intangible assets in foreign countries was \$7.2 million at September 30, 2013 and \$5.5 million at December 31, 2012.

NOTE 9. SUBSEQUENT EVENTS

On October 22, 2013, the Company announced that the Board of Directors declared a regular quarterly cash dividend on its common stock of \$0.09 per share plus a special year-end dividend of \$0.09 per share both payable December 10, 2013 to stockholders of record at the close of business November 8, 2013.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

On October 24, 2013, the Company reported its 30th consecutive quarter of improved earnings with net income of \$36.2 million for the quarter ended September 30, 2013, as compared to \$32.2 million for the prior year quarter, a 12.4% improvement. Revenues increased by 6.5% to \$362.2 million for the third quarter 2013 as compared to \$340.2 million for the prior year third quarter. Earnings for the quarter ended September 30, 2013 increased to \$0.25 per diluted share, as compared to \$0.22 per diluted share for the same period in 2012.

The Company continued its solid financial performance generating \$127.5 million in cash from operations year to date.

Results of Operations:

THREE MONTHS ENDED SEPTEMBER 30, 2013 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2012

Revenue

Revenues for the quarter ended September 30, 2013 increased \$22.0 million to \$362.2 million or 6.5% compared to \$340.2 million for the quarter ended September 30, 2012. The increase was due to an increase in leads and closure in most categories. The higher sales resulted in growth across all service lines. The Company implemented its traditional price increase program in June which had a positive impact this quarter. For the quarter and nine months ended September 30, 2013, less than 2% of the Company's revenue increase came from pricing actions. Nearly 80% of the Company's 2013 revenue is recurring.

The Company's three primary service offerings: commercial pest control, residential pest control and termite and ancillary services were positive. During the quarter ended September 30, 2013, commercial pest control revenue approximated 41% of the Company's revenues, residential pest control revenue, approximated 42% of revenues and termite and ancillary service revenue, made up approximately 16% of the Company's revenues. Comparing third quarter 2013 to third quarter 2012, the Company's commercial pest control revenue grew 5.4%, residential pest control revenue grew 7.2% and termite and ancillary services revenue grew 8.3%.

Foreign operations accounted for approximately 8% of total revenues during each of the third quarters of 2013 and 2012.

ROLLINS, INC. AND SUBSIDIARIES

Revenues are impacted by the seasonal nature of the Company's pest and termite control services. The increase in pest activity, as well as the metamorphosis of termites in the spring and summer (the occurrence of which is determined by the change in seasons), has historically resulted in an increase in the Company's revenues as evidenced by the following chart:

Consolidated
Net
Revenues
(in
thousands)

| | 2013 | 2012 | 2011 |
|-------------------------|------------|--------------|--------------|
| First Quarter | \$ 299,714 | \$ 289,465 | \$ 271,643 |
| Second Quarter | 350,798 | 334,872 | 320,436 |
| Third Quarter | 362,155 | 340,179 | 323,929 |
| Fourth Quarter | N/A | 306,393 | 289,056 |
| Year ended December 31, | \$ N/A | \$ 1,270,909 | \$ 1,205,064 |

Cost of Services provided

Cost of services provided for the quarter ended September 30, 2013 increased \$10.7 million or 6.3%, compared to the quarter ended September 30, 2012. Gross margin for the third quarter increased to 50.0% compared to 49.9% for the prior year third quarter due to continued favorable claim development related to termite claims and to improved trends with casualty claims. These gains were partially offset by the impact of the increase in material and supply costs related both to a substantial increase in TAEXX (tubes-in-the-wall) installs as well as ancillary sales.

Depreciation and Amortization

Depreciation and amortization expenses for the third quarter ended September 30, 2013 increased \$0.6 million, an increase of 6.5% from the prior year third quarter, and remaining flat at 2.8% of revenues compared to the prior year. The dollar increase for the quarter was primarily due to amortization related to recent acquisitions.

Sales, General and Administrative

Sales, general and administrative expenses for the quarter ended September 30, 2013 increased \$4.5 million or 4.2 %, to 31.2% of revenues, decreasing from 31.9% of revenues for the third quarter ended September 30, 2012. The decrease in cost as a percent of revenues was due to the Company's ability to leverage relatively constant administrative and sales salaries over a higher revenue base, along with reductions in bad debt expense which more than offset increases in costs of professional services related to the Company's commercial pricing initiative, and

higher advertising expense related to the Company's new advertising campaign.

Interest (income)/expense

Interest (income)/expense for the quarter ended September 30, 2013 increased to \$101 thousand income compared to \$19 thousand of expense for the quarter ended September 30, 2012. The increase in interest income was due to increased cash balances in banks.

Income Taxes

Income taxes for the quarter ended September 30, 2013 increased \$2.3 million or 12.0% to \$21.8 million from \$19.5 million reported for the quarter ended September 30, 2012. This was due to increased pretax earnings offset slightly by tax refunds. The effective tax rate was 37.6% for the quarter ended September 30, 2013 versus 37.7% for the quarter ended September 30, 2012, primarily due to differences in state tax rates.

NINE MONTHS ENDED SEPTEMBER 30, 2013 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2012

Revenue

Revenues for the nine months ended September 30, 2013 increased \$48.2 million to \$1.0 billion or 5.0% compared to \$964.5 million for the nine months ended September 30, 2012. The Company saw an increase in leads and closure in most categories. The higher sales resulted in growth across all service lines.

During the nine months ended September 30, 2013, commercial pest control revenue approximated 41% of the Company's revenues, residential pest control revenue approximated 41% of revenues and termite and ancillary service revenue made up approximately 18% of the Company's revenues. Comparing the nine month period ending September 30, 2013 and September 30, 2012, the Company's commercial pest control revenues grew 4.3%, residential pest control revenue grew 6.2% and termite and ancillary services revenue grew 4.5%.

ROLLINS, INC. AND SUBSIDIARIES

Foreign operations accounted for approximately 8% of total revenues during each of the first nine months of 2013 and 2012.

Cost of Services provided

Cost of services provided for the nine months ended September 30, 2013, increased \$26.5 million, or 5.5% compared to the nine months ended September 30, 2012. Gross margins year-to-date decreased to 49.5% compared to prior year's gross margin of 49.8% due to the increase in material and supply costs and the substantial increase in TAEXX (tubes-in-the-wall) installs as well as the higher material and supply cost related to ancillary sales.

Depreciation and Amortization

Depreciation and amortization expenses for the nine months ended September 30, 2013, increased \$0.9 million to \$29.7 million, an increase of 3.1%, decreasing 0.1 percentage points to 2.9% of revenue from 3.0% in 2012. The dollar increase was primarily due to amortization related to acquisitions that occurred over the previous 12 months.

Sales, General and Administrative

Sales, general and administrative expenses for the nine months ended September 30, 2013, increased \$12.3 million, or 4.0% to 31.8% of revenues, decreasing from 32.1% in the prior year period due to the Company's leveraging administrative and sales salaries over a higher revenue base, along with reductions in bad debt expense which more than offset increases in costs of professional services related to the Company's commercial pricing initiative and higher advertising expense related to the Company's new advertising campaign.

Interest (income)/expense

Interest (income)/expense for the period ended September 30, 2013 was \$273 thousand income, an increase of \$363 thousand from \$90 thousand expense for the period ended September 30, 2012. The increase in interest income was due to increased cash balances in banks.

Income Taxes

Income taxes for the nine months ended September 30, 2013 increased to \$55.0 million, a 3.5% increase from \$53.2 million reported for the same period in 2012, and reflect increased pre-tax income over the prior year period. The effective tax rate was 36.6% for the nine months ended September 30, 2013 versus 37.6% for the nine months ended

September 30, 2012 primarily due to differences in state tax rates and the release of a deferred tax liability.

Liquidity and Capital Resources

The Company believes its current cash and cash equivalents balances, future cash flows expected to be generated from operating activities and available borrowings under its \$175.0 million credit facility will be sufficient to finance its current operations and obligations, and fund expansion of the business for the foreseeable future. The Company's operating activities generated net cash of \$127.5 million and \$120.1 million for the nine months ended September 30, 2013, and 2012, respectively.

The Company made contributions of \$2.5 million and \$2.3 million to its defined benefit retirement plans (the "Plans") during the nine months ended September 30, 2013 and 2012, respectively. The Company is considering making further contributions to the Plans of approximately \$2.5 million during the fourth quarter of 2013. In the opinion of management, Plan contributions will not have a material effect on the Company's financial position, results of operations or liquidity for 2013.

The Company invested approximately \$13.3 million in capital expenditures during the nine months ended September 30, 2013, compared to \$11.8 million during the same period in 2012, and expects to invest approximately \$4.0 million for the remainder of 2013. Capital expenditures for the first nine months consisted primarily of the purchase of equipment replacements and technology related projects. During the nine months ended September 30, 2013, the Company made expenditures for acquisitions totaling \$12.1 million, compared to \$10.5 million during the same period in 2012. A total of \$39.4 million was paid in cash dividends (\$0.27 per share) during the first nine months of 2013, compared to \$35.1 million or (\$0.24 per share) during the same period in 2012.

On October 22, 2013, the Company announced that the Board of Directors declared a regular quarterly cash dividend on its common stock of \$0.09 per share payable December 10, 2013 to stockholders of record at the close of business November 9, 2013 to be funded with existing cash balances. The Company expects to continue to pay cash dividends to common stockholders, subject to the earnings and financial condition of the Company and other relevant factors. The Company repurchased 0.3 million shares at a weighted average price of \$24.56 from the open market during the first nine months of 2013 compared to the repurchase of 0.8 million shares at a weighted average price of 20.93 during the first nine months of 2012. The Company has had a buyback program in place for a number of years and has routinely purchased shares when it felt the opportunity was desirable. The Board authorized the purchase of 5.0 million additional shares of the Company's common stock in July 2012. These authorizations enable the Company to continue the purchase of the Company's common stock when appropriate, which is an important benefit resulting from the Company's strong cash flows. The stock buy-back program has no expiration date. The remaining authorization under the existing share repurchase authorization as of September 30, 2013 is 5.0 million shares. The Company repurchased \$5.3 million and \$3.6 million of common stock for the nine months ended September 30, 2013 and 2012, respectively, from employees for the payment of taxes on vesting restricted shares. The acquisitions, capital expenditures, share repurchases and cash dividends were funded through existing cash balances and operating activities.

ROLLINS, INC. AND SUBSIDIARIES

The Company's balance sheets as of September 30, 2013 and December 31, 2012, include short-term unearned revenues of \$100.1 million and \$87.8 million, respectively, representing approximately 8% of our annual revenue. This represents cash paid to the Company by its customers in advance of services that will be recognized over the next twelve months.

The Company's \$116.7 million of total cash and cash equivalents at September 30, 2013, is held at various banking institutions. Approximately \$46.9 million is held in cash accounts at Canadian bank institutions and the remaining \$69.8 million is primarily held in non-interest-bearing accounts at various domestic banks.

The Company's international business is expanding and we intend to continue to grow the business in foreign markets in the future through reinvestment of foreign deposits and future earnings, as well as acquisitions of unrelated companies. Repatriation of cash from the Company's foreign subsidiaries is not a part of the Company's current business plan.

The Company maintains a large cash position in the United States while having little third-party debt to service. Rollins maintains adequate liquidity and capital resources without regard to its foreign deposits that are directed to finance domestic operations and obligations and to fund expansion of its domestic business for the foreseeable future.

On October 31, 2012, the Company entered into a Revolving Credit Agreement with SunTrust Bank and Bank of America, N.A. for an unsecured line of credit of up to \$175.0 million, which includes a \$75.0 million letter of credit subfacility, and a \$25.0 million swingline subfacility. The Company had no outstanding borrowings under the line of credit or under the swingline subfacility as of September 30, 2013. The Company remained in compliance with applicable debt covenants through the date of this filing and expects to maintain compliance through 2013.

Litigation

In the normal course of business, certain of the Company's subsidiaries are defendants in a number of lawsuits or arbitrations which allege that plaintiffs have been damaged as a result of the rendering of services by the defendant subsidiary. The subsidiaries are actively contesting these actions. In addition, the Company defends employment related cases from time to time. John Maciel v. Orkin, Inc., et al. is a wage and hour related matter in which the plaintiffs are seeking certification of a class. The Maciel lawsuit was filed in the Superior Court of Los Angeles County, California, and a class certification hearing has not been scheduled. The Company intends to vigorously contest certification.

Additionally, the Company and a subsidiary, The Industrial Fumigant Company, LLC, are named defendants in Severn Peanut Co. and Meherrin Agriculture & Chemical Co. v. Industrial Fumigant Co., et al. The Severn lawsuit, a matter related to a fumigation service, has been filed in the Northern Division of the United States District Court for the Eastern District of North Carolina. The plaintiffs are seeking damages for breach of contract and negligence. The Industrial Fumigant Company, LLC is also a named defendant in Insurance Company of the State of Pennsylvania as Subrogee of Archer-Daniels-Midland Company, Agrinational Insurance Company, Inc. as Subrogee of Archer-Daniels-Midland Company, and Archer-Daniels-Midland Company v. The Industrial Fumigant Co., The Industrial Fumigant Company, LLC, and James Miller. The ADM lawsuit, a matter related to a fumigation service, has been filed in the State Court in Lucas County, Ohio. The plaintiffs are seeking damages for breach of contract and negligence. The Company intends to vigorously defend itself through trial or arbitration, if necessary. For further discussion, see Note 4 to the accompanying financial statements.

The Company does not believe that any pending claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or liquidity; however, it is possible that an unfavorable outcome of some or all of the matters, however unlikely, could result in a charge that might be material to the results of an individual quarter or year.

ROLLINS, INC. AND SUBSIDIARIES

Critical Accounting Policies

There have been no changes to the Company's critical accounting policies since the filing of its Form 10-K for the year ended December 31, 2012.

New Accounting Standards

See Note 2 of the Notes to Condensed Consolidated Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition.

Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, without limitation, the effect of the future adoption of recent accounting pronouncements on the Company's financial statements; statements regarding management's expectation regarding the effect of the ultimate resolution of pending legal actions on the Company's financial position, results of operation and liquidity; management's belief that future costs of the Company for environmental matters will not be material to the Company's financial condition, operating results, and liquidity; the Company's belief that its current cash and cash equivalent balances, future cash flows expected to be generated from operating activities and available borrowings will be sufficient to finance its current operations and obligations, and fund expansion of the business for the foreseeable future; our expectation that the Company will continue to pay dividends; our statement that repatriation of cash is not a part of the Company's business plan; possible defined benefit retirement plan contributions and their effect on the Company's financial position, results of operations and liquidity; estimated 2013 capital expenditures; the Company's expectation to maintain compliance with debt covenants; and the Company's belief that interest rate exposure and foreign exchange rate risk will not have a material effect on the Company's results of operations going forward. The actual results of the Company could differ materially from those indicated by the forward-looking statements because of various risks and uncertainties including, without limitation, the possibility of an adverse ruling against the Company in pending litigation; general economic conditions; market risk; changes in industry practices or technologies; the degree of success of the Company's termite process and pest control selling and treatment methods; the Company's ability to identify and integrate potential acquisitions; climate and weather conditions; competitive factors and pricing practices; our ability to attract and retain skilled workers, and potential increases in labor costs; and changes in various government laws and regulations, including environmental regulations. All of the foregoing risks and uncertainties are beyond the ability of the Company to control, and in many cases the Company cannot predict the risks and uncertainties that could cause its actual results to differ materially

from those indicated by the forward-looking statements. A more detailed discussion of potential risks facing the Company can be found in the Company's Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2012. The Company does not undertake to update its forward looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2013, the Company maintained an investment portfolio (included in cash and cash equivalents) subject to short-term interest rate risk exposure. The Company is subject to interest rate risk exposure through borrowings on its \$175 million credit facility. The Company is also exposed to market risks arising from changes in foreign exchange rates. The Company believes that this foreign exchange rate risk will not have a material impact upon the Company's results of operations going forward. There have been no material changes to the Company's market risk exposure since the end of fiscal year 2012.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of September 30, 2013. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level such that the material information relating to Rollins, Inc., including our consolidated subsidiaries, and required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and was made known to them by others within those entities, particularly during the period when this report was being prepared.

ROLLINS, INC. AND SUBSIDIARIES

In addition, management’s quarterly evaluation identified no changes in our internal control over financial reporting during the third quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As of September 30, 2013 we did not identify any material weaknesses in our internal controls, and therefore no corrective actions were taken.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 4 to Part I, Item 1 for discussion of certain litigation.

Item 1A. Risk Factors

See the Company’s risk factors disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers Shares repurchased by Rollins and affiliated purchases during the third quarter ended September 30, 2013 were as follows:

| Period | Total Number of shares Purchased | Weighted-Average Price paid per Share | Total number of shares purchased as part of publicly announced repurchases | Maximum number of shares that may yet be purchased under the repurchase plans |
|--------|----------------------------------|---------------------------------------|--|---|
|--------|----------------------------------|---------------------------------------|--|---|

Edgar Filing: ROLLINS INC - Form 10-Q

| | | | | |
|-------------------------|---------|----------|---------|-----------|
| | | | (1) | (1) |
| July 1 to 31, 2013 | — | \$ — | — | 5,125,594 |
| August 1 to 31, 2013 | 99,902 | 24.72 | 99,902 | 5,025,692 |
| September 1 to 30, 2013 | 68,208 | 24.72 | 68,208 | 4,957,484 |
| Total | 168,110 | \$ 24.41 | 168,110 | 4,957,484 |

(1) On July 24, 2012, the Board of Directors announced that it had authorized the repurchase of an additional 5.0 million shares of the Company's common stock. The authorization for the repurchase plan continues until all such shares have been repurchased or the repurchase plan is terminated by action of the Board of Directors. Approximately 0.1 million shares authorized in the 2008 plan remained available to be repurchased by the Company at July 1, 2013.

ROLLINS, INC. AND SUBSIDIARIES

Item 6. Exhibits.

(a) Exhibits

- (3) (i) (A) Restated Certificate of Incorporation of Rollins, Inc. dated July 28, 1981, incorporated herein by reference to Exhibit (3)(i)(A) as filed with the registrant's Form 10-Q filed August 1, 2006.
- (B) Certificate of Amendment of Certificate of Incorporation of Rollins, Inc. dated August 20, 1987, incorporated herein by reference to Exhibit (3)(i)(B) to the registrant's Form 10-K for the year ended December 31, 2004.
- (C) Certificate of Change of Location of Registered Office and of Registered Agent dated March 22, 1994, incorporated herein by reference to Exhibit (3)(i)(C) filed with the registrant's Form 10-Q filed August 1, 2006.
- (D) Certificate of Amendment of Certificate of Incorporation of Rollins, Inc. dated April 25, 2006, incorporated herein by reference to Exhibit 3(i)(D) filed with the Registrant's 10-Q filed October 31, 2006.
- (E) Certificate of Amendment of Certificate of Incorporation of Rollins, Inc. dated April 26, 2011, incorporated herein by reference to Exhibit 3(i)(E) filed with the Registrant's 10-Q filed October 28, 2011.
- (ii) Amended and Restated By-laws of Rollins, Inc., incorporated herein by reference to Exhibit 3.1 as filed with the registrant's Form 8-K dated January 22, 2013.
- (4) Form of Common Stock Certificate of Rollins, Inc., incorporated herein by reference to Exhibit (4) as filed with its Form 10-K for the year ended December 31, 1998.
- (31.1) Certification of Chief Executive Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) Certification of Chief Financial Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32.1) Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (101.INS) XBRL Instance Document
- (101.SCH) XBRL Taxonomy Extension Schema Document

Edgar Filing: ROLLINS INC - Form 10-Q

- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document
- (101.LAB) XBRL Taxonomy Extension Label Linkbase Document
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document

ROLLINS, INC. AND SUBSIDIARIES

SIGNATURES

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

ROLLINS, INC.
(Registrant)

Date: October 25, 2013 By: /s/ Gary W. Rollins
Gary W. Rollins
Vice Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: October 25, 2013 By: /s/ Harry J. Cynkus
Harry J. Cynkus
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)