

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001.

OR

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

For the transition period from _____ to _____

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

Rollins, Inc. had 30,063,747 shares of its \$1 Par Value Common Stock
outstanding as of October 31, 2001.

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ROLLINS, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements.
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ROLLINS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In thousands except share data)

		(Unaudited) September 30, 2001	December 31, 2000
<S>	<C>	<C>	<C>
ASSETS			
	Cash and Short-Term Investments	\$ 10,462	\$ 399
	Trade Receivables, Net	53,709	50,099
	Materials and Supplies	11,548	12,980
	Deferred Income Taxes	15,997	18,472
	Other Current Assets	13,886	7,019
	Current Assets	105,602	88,969
	Equipment and Property, Net	45,559	49,349
	Goodwill and Other Intangible Assets, Net	112,672	115,966
	Deferred Income Taxes	40,492	42,645
	Other Assets	9	1,890
	Total Assets	\$ 304,334	\$ 298,819
LIABILITIES			
	Capital Lease Obligations	\$ 638	\$ 1,829
	Accounts Payable	14,661	15,302
	Accrued Insurance	11,758	10,126
	Accrued Payroll	23,042	21,195
	Unearned Revenue	33,145	28,381
	Other Current Liabilities	31,646	33,973
	Current Liabilities	114,890	110,806
	Capital Lease Obligations	-	256
	Accrued Insurance	33,523	39,400
	Accrual for Termite Contracts	41,270	42,651
	Long-Term Accrued Liabilities	24,461	27,107
	Total Liabilities	214,144	220,220
STOCKHOLDERS' EQUITY			
	Common Stock, par value \$1 per share; 99,500,000 shares authorized; 30,166,747 and 30,036,241 shares issued at September 30, 2001 and December 31, 2000, respectively	30,167	30,036
	Earnings Retained	60,023	48,563
	Total Stockholders' Equity	90,190	78,599
	Total Liabilities and Stockholders' Equity	\$ 304,334	\$ 298,819

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS RETAINED
(In thousands except share and per share data)
(Unaudited)

Months Ended	Three Months Ended		Nine
September 30,	September 30,		
-----	2001	2000	2001
-----	-----	-----	-----
2000			
<S> <C>	<C>	<C>	<C>
<C>			
REVENUES			
Customer Services	\$ 169,806	\$ 172,373	\$ 502,128
\$ 502,451	-----	-----	-----

COSTS AND EXPENSES			
Cost of Services Provided	95,118	98,294	280,111
283,817			
Depreciation and Amortization	5,140	4,677	15,033
13,548			
Sales, General and Administrative	62,664	65,591	182,263
186,927	-----	-----	-----

	162,922	168,562	477,407
484,292	-----	-----	-----

INCOME BEFORE INCOME TAXES	6,884	3,811	24,721
18,159	-----	-----	-----

PROVISION FOR INCOME TAXES			
Current	1,370	898	5,499
5,250			
Deferred	1,246	550	3,895
1,650	-----	-----	-----

	2,616	1,448	9,394
6,900	-----	-----	-----

NET INCOME	\$ 4,268	\$ 2,363	\$ 15,327
\$ 11,259	=====	=====	=====
=====			
EARNINGS RETAINED			
Balance at Beginning of Period	57,538	50,345	48,563
41,909			
Cash Dividends	(1,509)	(1,504)	(4,527)
(4,528)			
Common Stock Purchased	(56)	-	(56)
(144)			
Other	(218)	48	716
2,756	-----	-----	-----

BALANCE AT END OF PERIOD	\$ 60,023	\$ 51,252	\$ 60,023
\$ 51,252	=====	=====	=====
=====			
EARNINGS PER SHARE - BASIC AND DILUTED	\$ 0.14	\$ 0.08	\$ 0.51
\$ 0.38	=====	=====	=====
=====			
WEIGHTED SHARES OUTSTANDING - BASIC	30,176,364	30,036,184	30,155,118
30,000,334			
WEIGHTED SHARES OUTSTANDING - DILUTED	30,313,600	30,039,628	30,300,810
30,002,770			

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

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ROLLINS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
 (Unaudited)

	Nine Months Ended September 30,	
	2001	
	<C>	<C>
2000		
<S> OPERATING ACTIVITIES		
11,259	\$	15,327
13,548		15,033
1,651		3,894
(562)		136
(9,538)		(3,610)
558		1,432
(5,096)		(6,731)
666		(273)
(6,009)		2,534
9,959		4,764
(4,581)		(4,244)
(6,648)		(1,380)
(2,311)		(865)
2,896		26,017
INVESTING ACTIVITIES		
(11,781)		(6,184)
(7,080)		(704)
13,084		-
(5,777)		(6,888)
FINANCING ACTIVITIES		
(4,528)		(4,527)
(154)		-
(2,542)		(1,447)
4,475		(1,400)
204		(1,692)

(2,545)	Net Cash Used in Financing Activities	(9,066)	
(5,426)	Net Increase in Cash and Short-Term Investments	10,063	
5,689	Cash and Short-Term Investments at Beginning of Period	399	
263	Cash and Short-Term Investments at End of Period	\$ 10,462	\$

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

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ROLLINS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BASIS OF PREPARATION

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations.

These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company's annual report on Form 10-K for the year ended December 31, 2000.

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.

In the opinion of management, the condensed consolidated financial statements included herein contain all normal recurring adjustments necessary to present fairly the financial position of the Company as of September 30, 2001 and December 31, 2000, and the results of operations for the three and nine months ended September 30, 2001 and 2000 and cash flows for the nine months ended September 30, 2001 and 2000. Operating results for the three months and nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

For the three and nine months ended September 30, 2001 and 2000, comprehensive income is not materially different from net income and, as a result, the impact of SFAS 130, "Reporting Comprehensive Income," is not reflected in the Company's consolidated financial statements included herein.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The adoption of this standard, effective for the Company as of January 1, 2001, did not impact the results of operations or financial condition of the Company as the Company is not a party to any derivative transactions that fall under the provisions of this statement.

In June 2001 the Financial Accounting Standards Board approved Statement of Financial Accounting Standards No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 prospectively prohibits the pooling of interest method of accounting for business

combinations initiated after June 30, 2001. SFAS No. 142 requires companies to cease amortizing goodwill that existed at June 30, 2001. The amortization of existing goodwill will cease on December 31, 2001. Any goodwill resulting from acquisitions completed after June 30, 2001 will not be amortized. SFAS No. 142 also establishes a new method of testing goodwill for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. The adoption of SFAS No. 142 will result in the Company's discontinuation of amortization of its goodwill; however, the Company will be required to test its goodwill for impairment under the new standard beginning in the first quarter of 2002. The Company is currently in the process of determining the financial statement impact of SFAS 142.

Certain amounts for prior periods have been reclassified to conform with the current period condensed consolidated financial statement presentation. Such reclassifications had no effect on previously reported net income.

NOTE 2. PROVISION FOR INCOME TAXES

The book provision for income taxes includes the liability for federal and state income taxes. The deferred provision for income taxes arises from the changes during the year in the Company's net deferred tax asset or liability.

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NOTE 3. EARNINGS PER SHARE

Pursuant to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share," the number of weighted average shares used in computing basic and diluted earnings per share (EPS) are as follows (in thousands):

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September 30,	Three Months Ended September 30,		Nine Months Ended
	2001	2000	2001
-----	-----	-----	-----
2000			
-----	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
30,000	Basic EPS	30,176	30,036
3	Effect of Dilutive Stock Options	138	4
-----	-----	-----	-----
30,003	Diluted EPS	30,314	30,040
=====	=====	=====	=====

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NOTE 4. LEGAL PROCEEDINGS

One of the Company's subsidiaries, Orkin Exterminating Company, Inc., is a named defendant in Butland et al. v. Orkin Exterminating Company, Inc. et al. pending in the Circuit Court of Hillsborough County, Tampa, Florida. The plaintiffs filed suit in March of 1999 and are seeking monetary damages in excess of \$15,000 for each named plaintiff and injunctive relief for alleged breach of contract, fraud and various violations of Florida State law. The attorneys for the plaintiffs contend that the case is suitable for a class action. The Court may rule in January 2002 on whether the class should be certified and their case should proceed as a class action. The Company believes this case to be without merit and intends to defend itself aggressively through trial, if necessary. At this time, the final outcome of the litigation cannot be determined. However, it is the opinion of Management that the ultimate resolution of this action will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

On November 9, 2001, the Alabama Supreme Court further reduced the \$4.4 million judgment rendered in the trial court of The Estate of Artie Mae Jeter v. Orkin Exterminating Company, Inc. and Bill Maxwell to \$2.3 million plus post-judgment interest.

Of the \$2.3 million award, \$2 million is for punitive damages and \$300,000 is for compensatory damages. The plaintiffs have 21 days to accept this ruling or it will be remanded for a new trial. In the opinion of Management, the outcome of this case as described in the Company's Form 10-K for the year ended December 31, 2000, will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

The Company is not subject to any other material litigation, except for the case disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2000. There has been no material change regarding this case since the filing of the Form 10-K.

Additionally, in the normal course of business, the Company is a defendant in a number of lawsuits which allege that plaintiffs have been damaged as a result of the rendering of services by Company personnel and equipment. The Company is actively contesting these actions. It is the opinion of Management that the outcome of these actions, and the cases described in the Company's Form 10-K for the year ended December 31, 2000, will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

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

The Company reported net income of \$4.3 million or \$0.14 per share for the third quarter of 2001 compared to net income of \$2.4 million or \$0.08 per share for the comparable quarter in 2000. Net income for the first nine months of 2001 increased 36.1% to \$15.3 million or \$0.51 per share compared to \$11.3 million or \$0.38 per share for the same period in 2000. Revenues for the third quarter and nine months ended September 30, 2001 decreased 1.5% and 0.1%, respectively.

The improvement in earnings for the quarter and nine months resulted primarily from pest and termite initiatives that have decreased costs, increased productivity and improved customer retention. The Cost of Services Provided and Sales, General and Administrative both reflect margin improvements that were partially offset by an increase in the Provision for Income Taxes.

Results of Operations

Revenues decreased to \$169.8 million for the third quarter of 2001 from \$172.4 million for the same quarterly period of 2000. For the nine months of 2001, the Company generated revenues of \$502.1 million, down 0.1% from last year's amount of \$502.4 million. The lack of revenue growth was reflective of the slowing economy partially offset by an increase in recurring revenues as a result of company initiatives.

Cost of Services Provided in the third quarter of 2001 was approximately \$3.2 million less than the prior year quarter and improved to represent 56.0% of revenues compared with 57.0% for the same quarter of the prior year. Improvement can be mainly attributed to programs that have increased productivity while reducing headcount, service salaries, material and supplies, and fleet expense which were partially offset by higher insurance and claims experience. For the nine months of 2001, Cost of Services Provided improved to represent 55.8% of revenues compared to 56.5% for the prior year period. This \$3.7 million improvement can primarily be attributed to programs that have increased productivity while reducing headcount, service salaries, personnel related expenses, and fleet expense which were partially offset by higher insurance and claims experience.

Sales, General and Administrative decreased \$2.9 million and as a percentage of revenues was 36.9% compared to 38.1% for the same quarter of the prior year. This improvement can be mainly attributed to reductions in sales and administrative salaries, personnel related expenses, and bad debt expense. For the nine months of 2001, Sales, General and Administrative decreased as a percentage of revenues to 36.3% compared with 37.2% for the prior year period. The \$4.7 million improvement year-to-date resulted primarily from reductions in sales salaries, personnel related expenses, and bad debt expense.

Depreciation and Amortization expenses for the third quarter of 2001 were \$463 thousand higher than the prior year quarter. For the nine months of 2001, Depreciation and Amortization expenses were \$1.5 million higher than the prior year period. The increase was primarily due to the amortization of intangible assets associated with the Company's July 2000 acquisition of Johnson Wax Professional's interest in the Acurid Retail Services, L.L.C. joint venture and to the depreciation associated with FOCUS, the Company's new proprietary branch computer system. See Impact of Recent Accounting Pronouncements on future impact of amortization of intangible assets.

The Company's net tax provisions of \$2.6 million for the quarter and \$9.4

million for nine months reflect increased taxable income over the prior year periods.

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Liquidity and Capital Resources

The Company believes its current cash balances, future cash flows from operating activities and line of credit will be sufficient to finance its current operations and obligations, and fund expansion of the business for the foreseeable future. The Company's operations generated cash of \$26.0 million for nine months of 2001 compared with cash provided by operating activities of \$2.9 million in the same period of 2000. This increase resulted primarily from favorable changes in working capital related primarily to higher net income from operations that has been adjusted for non-cash items as well as improvements in accounts receivable collections and differences in the timing of accounts payable and other accrued expenses.

The Company invested approximately \$6.9 million in capital expenditures and acquisitions during the nine months of 2001, and expects to invest between \$4.0 and \$5.0 million for the remainder of 2001, inclusive of improvements to its management information systems. Capital expenditures in the nine months of 2001 consisted primarily of equipment replacements and upgrades and improvements to the Company's management information systems. A total of \$4.5 million was paid in cash dividends during the first nine months of 2001. The capital expenditures, acquisitions and cash dividends were primarily funded through existing cash balances and operating activities. The Company maintains a \$40.0 million line of credit, of which the full amount is available for borrowing as of October 31, 2001.

The Company is aggressively defending a class action lawsuit filed in Houston County, Alabama. On November 9, 2001, the Company received a ruling from the Alabama Supreme Court on *The Estate of Artie Mae Jeter v. Orkin Exterminating Company, Inc. and Bill Maxwell*. Additionally, the Company intends to defend itself aggressively through trial, if necessary, in a potential class action matter pending in the Circuit Court of Hillsborough County, Florida. For further discussion, see Note 4 to the accompanying consolidated financial statements.

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Impact of Recent Accounting Pronouncements

In June 2001 the Financial Accounting Standards Board approved Statement of Financial Accounting Standards No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 prospectively prohibits the pooling of interest method of accounting for business combinations initiated after June 30, 2001. SFAS No. 142 requires companies to cease amortizing goodwill that existed at June 30, 2001. The amortization of existing goodwill will cease on December 31, 2001. Any goodwill resulting from acquisitions completed after June 30, 2001 will not be amortized. SFAS No. 142 also establishes a new method of testing goodwill for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. The adoption of SFAS No. 142 will result in the Company's discontinuation of amortization of its goodwill; however, the Company will be required to test its goodwill for impairment under the new standard beginning in the first quarter of 2002. The Company is currently in the process of determining the financial statement impact of SFAS 142.

Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include statements regarding the expected impact of the outcome of outstanding litigation on the Company's financial condition, results of operations and liquidity; and the Company's projected 2001 capital expenditures, performance, and borrowings. 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 the *Cutler, Butland, Jeter* or other litigation; general economic conditions; market risk; changes in industry practices or technologies; the degree of success of the Company's termite process reforms and pest control selling and treatment methods; climate and weather trends; competitive factors and pricing practices; 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of October 31, 2001, the Company no longer maintains a material investment portfolio subject to interest rate risk exposure. The Company is, however, subject to interest rate risk exposure through borrowings on its \$40.0 million

line of credit. Due to the absence of such borrowings at October 31, 2001 and as currently anticipated at December 31, 2001, this risk is not expected to have a material effect upon the Company's results of operations or financial position going forward.

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PART II OTHER INFORMATION

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Item 1. Legal Proceedings.

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

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

(a) Exhibits

reference (3) (i) Restated Certificate of Incorporation of Rollins, Inc. is incorporated herein by to Exhibit (3) (i) as filed with its Form 10-K for the year ended December 31, 1997.

as filed By-laws of Rollins, Inc. is incorporated herein by reference to Exhibit (3) (ii) (ii) with its Form 10-Q for the quarterly period ended March 31, 1999.

Exhibit (3) (iii) Amendment to the By-laws of Rollins, Inc. is incorporated herein by reference to (iii) as filed with its Form 10-Q for the quarterly period ended March 31, 2001.

reference to Exhibit (4) Form of Common Stock Certificate of Rollins, Inc. is incorporated herein by (4) as filed with its Form 10-K for the year ended December 31, 1998.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed or were required to be filed during the third quarter of 2001.

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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: November 13, 2001

By: /s/ Gary W. Rollins

Gary W. Rollins
Chief Executive Officer, President
and Chief Operating Officer
(Member of the Board of Directors)

Date: November 13, 2001

By: /s/ Harry J. Cynkus

Harry J. Cynkus
Chief Financial Officer and Treasurer
(Principal Financial and Accounting
Officer)

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