

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended March 31, 1998.

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 51-0068479  
 (State or other (I.R.S. Employer  
 jurisdiction of Identification No.)  
 incorporation or  
 organization)

2170 Piedmont Road, N.E., Atlanta, Georgia 30324

(Address of principal executive offices)

Telephone Number -- (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

At March 31, 1998, there were 33,220,491 shares of Common Stock \$1 Par Value, outstanding.

ROLLINS, INC. AND SUBSIDIARIES

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ROLLINS, INC. AND SUBSIDIARIES  
 PART 1. FINANCIAL INFORMATION  
 ITEM 1. FINANCIAL STATEMENTS  
 STATEMENTS OF FINANCIAL POSITION  
 (In thousands except share data)  
 (Unaudited)

<CAPTION>

	March 31, 1998	Dec 31 1997
<S>	<C>	<C>
ASSETS		
Cash and Short-Term Investments	\$ 111,035	\$ 125,842
Marketable Securities	74,945	75,037
Trade Receivables, Net	44,175	49,166
Materials and Supplies	16,455	15,010
Deferred Income Taxes	27,596	24,826
Other Current Assets	11,569	11,737
Current Assets	285,775	301,618
Equipment and Property, Net	36,121	34,639
Intangible Assets	39,533	39,383
Deferred Income Taxes	46,836	49,072
Other Assets	7,899	7,968
Total Assets	\$ 416,164	\$ 432,680
LIABILITIES		
Capital Lease Obligations	\$ 3,187	\$ 3,138
Accounts Payable	19,736	25,420
Accrued Insurance Expenses	18,810	21,225
Accrued Payroll	15,586	17,913
Unearned Revenue	15,352	13,831
Other Expenses	59,479	49,191
Current Liabilities	132,150	130,718
Capital Lease Obligations	8,424	9,239
Long-Term Accrued Liabilities	138,340	147,079
Total Liabilities	278,914	287,036
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Common Stock, par value \$1 per share; authorized 99,500,000 shares; 33,220,491 shares issued in 1998; 33,279,281 shares issued in 1997	33,220	33,279
Earnings Retained	104,030	112,365
Total Stockholders' Equity	137,250	145,644
Total Liabilities and Stockholders' Equity	\$ 416,164	\$ 432,680

The accompanying notes are an integral part of these statements.

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<TABLE>

ROLLINS, INC. AND SUBSIDIARIES  
STATEMENTS OF INCOME (LOSS) AND EARNINGS RETAINED  
(In thousands except share data)  
(Unaudited)

<CAPTION>

	Three Months Ended March 31,	
	1998	1997
<S>	<C>	<C>
REVENUES		
Customer Services	\$ 122,965	\$ 126,951
COSTS AND EXPENSES		
Cost of Services Provided	76,909	72,317
Depreciation and Amortization	2,092	1,909
Sales, General and Administrative	49,431	45,724
Interest Income	(2,622)	(1,217)
	125,810	118,733
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,845)	8,218
PROVISION (CREDIT) FOR INCOME TAXES		
Current	(3,311)	4,118
Deferred	2,230	(995)
	(1,081)	3,123
INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,764)	5,095

DISCONTINUED OPERATIONS			
Operating Income, Less Income Tax Expense of \$30	-		49
NET INCOME (LOSS)	\$ (1,764)	\$	5,144
EARNINGS RETAINED			
Balance at Beginning of Period	\$ 112,365	\$	155,696
Cash Dividends	(4,988)		(5,193)
Common Stock Purchased and Retired	(1,596)		(8,832)
Other	13		(81)
BALANCE AT END OF PERIOD	\$ 104,030	\$	146,734
EARNINGS (LOSS) PER SHARE			
Continuing Operations	\$ (0.05)	\$	0.15
Discontinued Operations	-		-
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED			
	\$ (0.05)	\$	0.15
WEIGHTED SHARES OUTSTANDING - BASIC	33,269,785		34,468,268
WEIGHTED SHARES OUTSTANDING - DILUTED	33,284,705		34,474,989

The accompanying notes are an integral part of these statements.

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<TABLE>

ROLLINS, INC. AND SUBSIDIARIES  
STATEMENTS OF CASH FLOWS  
(In Thousands)  
(Unaudited)

<CAPTION>

	Three Months Ended	
	March 31,	
	1998	1997
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net Income (Loss)	\$ (1,764)	\$ 5,144
Adjustments to Reconcile Net Income (Loss) to		
Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	2,092	1,909
Provision (Credit) for Deferred Income	2,230	(995)
Discontinued Operations, Net of Taxes	-	(49)
Other, Net	106	651
(Increase) Decrease in Assets:		
Trade Receivables	5,014	370
Materials and Supplies	(1,437)	(2,010)
Other Current Assets	(2,826)	418
Other Non-Current Assets	192	(1,360)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(164)	8,624
Unearned Revenue	1,521	(679)
Long-Term Accrued Liabilities	(8,739)	2,786
Net Cash Provided by (Used in) Operating Activities	(3,775)	14,809
INVESTING ACTIVITIES		
Purchases of Equipment and Property	(3,516)	(2,436)
Net Cash Used for Acquisition of Companies	(210)	(1,056)
Marketable Securities, Net	85	4,435
Net Cash Provided by (Used in) Investing Activities	(3,641)	943
FINANCING ACTIVITIES		
Dividends Paid	(4,988)	(5,193)
Common Stock Purchased and Retired	(1,678)	(9,321)
Payments on Capital Lease	(766)	(394)
Other	41	116
Net Cash Used in Financing Activities	(7,391)	(14,792)
Net Cash Provided by (Used in)		
Discontinued Operations	-	1,179
Net Increase (Decrease) in Cash and Short-Term Investments	(14,807)	2,139
Cash and Short-Term Investments at Beginning of Period	125,842	12,150
Cash and Short-Term Investments at End of Period	\$ 111,035	\$ 14,289

The accompanying notes are an integral part of these statements.

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

NOTE 1. BASIS OF PREPARATION

The consolidated financial statements included herein have been prepared by the Registrant, 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 generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

These consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Registrant's annual report on Form 10-K for the year ended December 31, 1997.

Prior year amounts have been restated to reflect the 1997 divestitures of the Company's Rollins Protective Services division and its Lawn Care and Landscaping businesses.

In the opinion of management, the consolidated financial statements included herein contain all normal recurring adjustments necessary to present fairly the financial position of the Registrant as of March 31, 1998 and December 31, 1997, and the results of operations and cash flows for the three months ended March 31, 1998 and 1997. Operating results for the quarter ended March 31, 1998 are not necessarily indicative of the results that may be expected for the year ended December 31, 1998.

NOTE 2. PROVISION FOR INCOME TAXES

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

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):

<TABLE>

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	Three Months Ended	
	1998	1997
Basic EPS	33,270	34,468
Effect of dilutive stock options	15	7
Diluted EPS	33,285	34,475

</TABLE>

No adjustments to net income available to common stockholders were required during the periods presented.

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NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

For the quarter ended March 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income," which establishes standards for the presentation and disclosure of other comprehensive income. The adoption of SFAS 130 did not have a material impact on the Company's financial condition or results of operations and, as a result, the impact is not reflected in the attached Statements of Income (Loss) and Earnings Retained or Statements of Financial Position.

Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits -- an amendment of FASB Statements No. 87, 88, and 106," will be adopted effective with the year-end financial statements dated December 31, 1998.

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ROLLINS, INC. AND SUBSIDIARIES  
PART I. ITEM 2. FINANCIAL INFORMATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE FIRST QUARTER ENDED MARCH 31, 1998

RESULTS OF OPERATIONS

The divestitures of the Orkin Lawn Care and Landscaping divisions in July 1997 marked the Company's return to a single operational focus. Accordingly, the results of operations are presented on a continuing operations basis.

Revenues for the first quarter ended March 31, 1998 decreased 3.1% to \$123.0 million. Net income (loss) was \$(1.8) million as compared to \$5.1 million in 1997. Basic and diluted earnings (loss) per share was (5) cents (loss) compared to 15 cents last year.

Increases in pest control revenue were more than offset by decreased termite revenue resulting from more restrictive termite control sales policies in response to certain building materials and construction practices. Operating income was adversely impacted, primarily by increased payroll expenses, due to the national implementation of key termite and pest control sales and customer service programs. Customer retention improved in both service categories.

The Company is encouraged by its pest control revenue results along with the proactive measures that have been initiated in its termite business. The Company believes they are ahead of the competition with termite service programs and look forward to the time when both of their services could make favorable contributions.

Revenues and income from discontinued operations after income taxes for the first quarter ended March 31, 1997 were \$23.4 million and \$49,000, respectively.

## FINANCIAL CONDITION

&lt;TABLE&gt;

&lt;CAPTION&gt;

	March 31, 1998	December 31, 1997
(In thousands)		
<S>	<C>	<C>
Cash and Short-Term Investments	\$ 111,035	\$ 125,842
Marketable Securities	74,945	75,037
	\$ 185,980	\$ 200,879
Working Capital	\$ 153,625	\$ 170,900
Current Ratio	2.2	2.3

&lt;/TABLE&gt;

Rollins, Inc.'s financial position remained sound. The Company's operations have historically provided a strong positive cash flow which represents the Company's principal source of funds. Management believes that this liquidity, along with expected cash from operations, will support the Company's continued growth, capital expenditures, and cash dividends.

Interest income increased 115.4% for the three months ended March 31, 1998 due to the increase in average cash invested in short-term investments as a result of the 1997 divestitures.

Net trade receivables decreased \$5.0 million or 10.2% at March 31, 1998 compared with December 31, 1997. Trade receivables include installment receivables which are due subsequent to one year from the balance sheet date. These amounts were approximately \$11.0 million and \$13.9 million at March 31, 1998 and December 31, 1997, respectively. The decrease in receivables is primarily the result of decreased financed sales, the increased provision for doubtful accounts, and the effect of revisions to the Company's credit policies.

Over the past several years, the termite treatment segment of the pest control industry has faced great challenges in solving property owners' termite problems. Some of the reasons for the increased difficulty in protecting structures have been changes in building practices and materials that have increased the property owners' potential for termites, the loss of Chlordane from the market in 1987 which resulted in the use of termiticides that may only last for a few years under some conditions, and laws and regulations restricting certain retreatment practices. All of the above factors have subjected termite service providers to experience elevated levels of claims. The Company's response to these industry-wide conditions is to undertake broad changes in its own termite processes. New quality control and field training programs, more thorough communication to customers concerning conducive conditions, and restrictions on the sale of certain structures were initiated during 1997. As a result of the factors described above and new information which became available in 1997, a Provision for Termite Contracts of \$117.0 million was recorded at December 31, 1997 related to the anticipated costs of reinspections, repair obligations, and associated labor, chemicals, and other costs incurred relative to termite work performed prior to December 31, 1997. The Company believes this provision is still reasonable at March 31, 1998.

During the three month period, the Company invested \$3.7 million in capital expenditures and acquisitions. Also, \$5.0 million was paid out in cash dividends. The Company maintains a \$40.0 million unused line of credit. This source of funds has not been used, but is available for future acquisitions and growth, if needed.

During the quarter, the Company repurchased 82,000 shares of its common stock, confirming management's and the Board of Director's confidence in the Company's future.

During the fourth quarter of 1997, Orkin received a letter from the Federal Trade Commission (FTC) advising of their investigation of the pest control industry - more specifically, the termite control practices of the industry. The FTC has requested certain information voluntarily from Orkin and they have been advised of our intention to cooperate fully with their investigation. At this point in time, it is too early to determine the impact, if any, of this investigation.

## FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. 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, general economic conditions, changes in industry practices or technologies, climate and weather trends, competitive factors and pricing pressures, uncertainties of litigation 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.

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ROLLINS, INC. AND SUBSIDIARIES  
PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS

The Annual Stockholders' Meeting was held on April 28, 1998. The stockholders elected Bill J. Dismuke and Wilton Looney as Class III Directors for the three year term expiring in 2001. The 1998 Employee Stock Incentive Plan was approved by shareholders.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(1) (i) The Company's Certificate of Incorporation is incorporated herein by reference to Exhibit (3) (i) as filed with its Form 10-K for the year ended December 31, 1997.

(ii) By-laws of Rollins, Inc. are incorporated herein by reference to Exhibit 3(b) as filed with its Form 10-K for the year ended December 31, 1993.

(10) Rollins, Inc. 1998 Employee Stock Incentive Plan is incorporated herein by reference to Exhibit A to the March 24, 1998 Proxy Statement for the Annual Meeting of Stockholders held on April 28, 1998.

(27) Financial Data Schedule

(b) Reports on Form 8-K

None

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SIGNATURES

registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 14, 1998

Rollins, Inc.  
(Registrant)

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

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Gene L. Smith  
Chief Financial Officer  
Secretary and Treasurer  
(Principal Financial and  
Accounting Officer)

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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.

Date: May 14, 1998

Rollins, Inc.  
(Registrant)

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

Gene L. Smith  
Gene L. Smith  
Chief Financial Officer  
Secretary and Treasurer  
(Principal Financial and  
Accounting Officer)





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First Quarter 1998 Form 10-Q

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