

ROLLINS INC  
Form 10-Q  
October 27, 2017

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, 2017

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)

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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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 217,975,154 shares of its \$1 par value Common Stock outstanding as of October 16, 2017.

**ROLLINS, INC. AND SUBSIDIARIES****PART 1 FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016****(in thousands except share data)**

	<b>September 30, 2017 (unaudited)</b>	December 31, 2016
<b>ASSETS</b>		
Cash and cash equivalents	<b>\$ 113,396</b>	\$ 142,785
Trade receivables, net of allowance for doubtful accounts of \$11,922 and \$11,443, respectively	<b>110,325</b>	88,490
Financed receivables, short-term, net of allowance for doubtful accounts of \$1,535 and \$1,727, respectively	<b>17,208</b>	15,968
Materials and supplies	<b>15,380</b>	13,724
Other current assets	<b>26,617</b>	29,204
Total current assets	<b>282,926</b>	290,171
Equipment and property, net	<b>132,865</b>	133,477
Goodwill	<b>372,924</b>	255,665
Customer contracts	<b>141,385</b>	117,466
Other intangible assets	<b>45,973</b>	44,310
Financed receivables, long-term, net of allowance for doubtful accounts of \$1,357 and \$1,430, respectively	<b>18,995</b>	16,748
Deferred income taxes	<b>32,491</b>	41,877
Other assets	<b>18,968</b>	16,824
Total assets	<b>\$ 1,046,527</b>	\$ 916,538
<b>LIABILITIES</b>		
Accounts payable	<b>\$ 36,195</b>	\$ 30,284
Accrued insurance	<b>27,830</b>	26,201
Accrued compensation and related liabilities	<b>75,087</b>	75,839
Unearned revenues	<b>118,950</b>	99,820
Other current liabilities	<b>50,724</b>	44,847
Total current liabilities	<b>308,786</b>	276,991
Accrued insurance, less current portion	<b>34,014</b>	32,023
Accrued pension	<b>1,759</b>	2,880
Long-term accrued liabilities	<b>51,529</b>	36,099

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Total liabilities	<b>396,088</b>	347,993
Commitments and Contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, without par value; 500,000 shares authorized, zero shares issued	—	—
Common stock, par value \$1 per share; 375,000,000 shares authorized, 217,975,154 and 217,791,511 shares issued and outstanding, respectively	<b>217,975</b>	217,792
Paid in capital	<b>78,482</b>	77,452
Accumulated other comprehensive loss	<b>(59,601</b>	) (70,075 )
Retained earnings	<b>413,583</b>	343,376
Total stockholders' equity	<b>650,439</b>	568,545
Total liabilities and stockholders' equity	<b>\$ 1,046,527</b>	\$ 916,538

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, 2017 AND 2016****(in thousands per except share data)****(unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>REVENUES</b>				
Customer services	<b>\$450,442</b>	\$423,994	<b>\$1,259,244</b>	\$1,187,863
<b>COSTS AND EXPENSES</b>				
Cost of services provided	<b>218,781</b>	205,608	<b>612,424</b>	579,353
Depreciation and amortization	<b>14,313</b>	13,083	<b>41,630</b>	37,073
Sales, general and administrative	<b>134,932</b>	125,407	<b>379,753</b>	364,207
Gain on sale of assets, net	<b>(66 )</b>	(52 )	<b>(179 )</b>	(720 )
Interest income, net	<b>(79 )</b>	(18 )	<b>(342 )</b>	(156 )
<b>INCOME BEFORE INCOME TAXES</b>	<b>82,561</b>	79,966	<b>225,958</b>	208,106
<b>PROVISION FOR INCOME TAXES</b>	<b>31,131</b>	30,315	<b>80,569</b>	78,744
<b>NET INCOME</b>	<b>\$51,430</b>	\$49,651	<b>\$145,389</b>	\$129,362
<b>NET INCOME PER SHARE - BASIC AND DILUTED</b>	<b>\$0.24</b>	\$0.23	<b>\$0.67</b>	\$0.59
<b>DIVIDENDS PAID PER SHARE</b>	<b>\$0.115</b>	\$0.10	<b>\$0.345</b>	\$0.30
Weighted average participating shares outstanding - basic and diluted	<b>217,988</b>	218,039	<b>217,987</b>	218,386

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

**ROLLINS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016****(in thousands)****(unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<b>2017</b>	2016	<b>2017</b>	2016
<b>NET INCOME</b>	<b>\$ 51,430</b>	\$ 49,651	<b>\$145,389</b>	\$ 129,362
<b>Other comprehensive earnings (loss), net of tax</b>				
Foreign currency translation adjustments	<b>4,085</b>	(2,957 )	<b>10,474</b>	4,422
Other comprehensive earnings (loss)	<b>4,085</b>	(2,957 )	<b>10,474</b>	4,422
Comprehensive earnings	<b>\$ 55,515</b>	\$ 46,694	<b>\$155,863</b>	\$ 133,784

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

**ROLLINS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY***Rollins, Inc. and Subsidiaries**(In thousands) (unaudited)*

	Common Stock		Treasury		Paid-	Accumulated Other Comprehensive Income / (Loss)	Retained Earnings	Total
	Shares	Amount	Shares	Amount	In-Capital			
<b>Balance at December 31, 2015</b>	<b>218,753</b>	<b>\$ 218,753</b>	<b>(200)</b>	<b>\$ (200 )</b>	<b>\$ 69,762</b>	<b>\$ (71,178 )</b>	<b>\$ 306,892</b>	<b>\$ 524,029</b>
Net Income							167,369	167,369
Other Comprehensive Income, Net of Tax								
Pension Liability Adjustment	—	—	—	—	—	1,705	—	1,705
Foreign Currency Translation Adjustments	—	—	—	—	—	(602 )	—	(602 )
Cash Dividends	—	—	—	—	—	—	(109,002)	(109,002)
Common Stock Purchased (1)	(836 )	(836 )	—	—	—	—	(21,883 )	(22,719 )
Common Stock Retired	(200 )	(200 )	200	200				—
Stock Compensation	388	388	—	—	12,027	—	—	12,415
Employee Stock Buybacks	(313 )	(313 )	—	—	(8,036 )	—	—	(8,349 )
Excess Tax Benefit on Share-based payments	—	—	—	—	3,699	—	—	3,699
<b>Balance at December 31, 2016</b>	<b>217,792</b>	<b>217,792</b>	<b>—</b>	<b>—</b>	<b>77,452</b>	<b>(70,075 )</b>	<b>343,376</b>	<b>568,545</b>
Net Income							145,389	145,389
Other Comprehensive Income, Net of Tax								
Foreign Currency Translation Adjustments	—	—	—	—	—	10,474	—	10,474
Cash Dividends	—	—	—	—	—	—	(75,182 )	(75,182 )
Stock Compensation	417	417	—	—	8,989	—	—	9,406
Employee Stock Buybacks	(234 )	(234 )	—	—	(7,959 )	—	—	(8,193 )
<b>Balance at September 30, 2017</b>	<b>217,975</b>	<b>217,975</b>	<b>—</b>	<b>—</b>	<b>78,482</b>	<b>(59,601 )</b>	<b>413,583</b>	<b>650,439</b>

(1) Charges to Retained Earnings are from purchases of the Company's Common Stock.

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

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**ROLLINS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016****(in thousands)****(unaudited)**

	Nine Months Ended September 30,	
	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 145,389	\$ 129,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,630	37,073
Provision for deferred income taxes	9,386	4,954
Provision for bad debts	7,222	8,320
Stock - based compensation expense	9,406	9,429
Excess tax benefits from share-based payments	—	(3,536 )
Other, net	(728 )	(700 )
Changes in operating assets and liabilities	(22,918 )	(26,743 )
Net cash provided by operating activities	189,387	158,159
<b>INVESTING ACTIVITIES</b>		
Cash used for acquisitions of companies, net of cash acquired	(127,881 )	(40,824 )
Purchases of equipment and property	(17,217 )	(27,128 )
Proceeds from sales of franchises	437	199
Other	67	1,133
Net cash used in investing activities	(144,594 )	(66,620 )
<b>FINANCING ACTIVITIES</b>		
Cash paid for common stock purchased	(8,193 )	(31,043 )
Dividends paid	(75,182 )	(65,506 )
Excess tax benefits from share-based payments	—	3,536
Net cash used in financing activities	(83,375 )	(93,013 )
Effect of exchange rate changes on cash	9,194	6,163
Net increase/(decrease) in cash and cash equivalents	(29,388 )	4,689
Cash and cash equivalents at beginning of period	142,785	134,574
Cash and cash equivalents at end of period	\$ 113,397	\$ 139,263

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 of America 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, 2016. Accordingly, the quarterly condensed consolidated financial statements and related disclosures herein should be read in conjunction with the 2016 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 period ended September 30, 2017 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

#### ***Recently issued accounting standards to be adopted in 2017 or later***

The Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board issued their converged standard on revenue recognition in May 2014. The standard provides a comprehensive, industry-neutral revenue recognition model intended to increase financial statement comparability across companies and industries and significantly reduce the complexity inherent in today’s revenue recognition guidance. The various ASUs related to Revenue from Contracts with Customers (Topic 606) have been listed below:

ASU No. 2014-09. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services using a five step process.

ASU No. 2015-14. Deferred the effective date of ASU 2014-09 for all entities by one year to the first quarter of 2018 with early application permitted.

ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments provide guidance on whether an entity is a principal or agent when providing services to a customer along with another party.

ASU No. 2016-10, Identifying Performance Obligations and Licensing. The amendments clarify the earlier guidance on identifying performance obligations and licensing implementation.

ASU No. 2016-11, Rescission of SEC Guidance Because of ASUs 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting. This ASU rescinds certain SEC guidance related to issues that are currently codified under various topics.

ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients. The amendments provide clarifying guidance on certain aspects of the five step process and practical expedients regarding the effect of modifications and status of completed contracts under legacy GAAP and disclosures related to the application of this guidance using the modified retrospective or retrospective transition method.

ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The amendments in ASU 2016-20 affect narrow aspects of the guidance issued in ASU 2014-09 and includes among others, loan guarantees, impairment testing of contract costs, performance obligations disclosures and accrual of advertising costs.

The Company is currently analyzing the effect of the standard across all of its revenue streams to evaluate the impact of the new standard on its revenue contracts. This includes reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. Most of the Company's services are primarily short-term in nature, and the assessment at this stage is that the Company does not expect the adoption of the new revenue recognition standard to have a material impact on its financial statements. As part of its preparation to adopt the standard, the Company established an initial project governance framework, selected a working group and hired a third party service provider to assist with the evaluation. The Company has completed a preliminary review of a representative sample of contracts with its customers and identified the variable consideration provisions of the new guidance as potentially having the most impact on the Company's method of recognizing revenue. In the next phases of solution development and implementation, the Company will prepare technical accounting memorandums, draft new formal accounting policies, outline and refine required disclosures, identify new IT system requirements, as well as assess the need for additional contract reviews to ensure a representative sample of how the Company contracts with its customers has been chosen. The Company plans to adopt the standard in the first quarter of 2018 using the modified retrospective method by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings.

## **ROLLINS, INC. AND SUBSIDIARIES**

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). In September 2017, the FASB issued ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842), which provides additional implementation guidance on the previously issued ASU 2016-02 Leases (Topic 842). ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. Based on a preliminary assessment, the Company expects the adoption of this guidance to have a material impact on its assets and liabilities due to the recognition of right-of-use assets and lease liabilities on its consolidated balance sheets at the beginning of the earliest period presented. The Company is continuing its assessment, which may identify additional impacts this guidance will have on its consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flow Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update are effective for the Company's financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods. Earlier adoption is permitted for any entity in any interim or annual reporting period. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC 606. The amendments in the update are effective for the Company's financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. We do not expect this standard to have a material impact on the Company's reported results of operations or financial position.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on the current Step 1). The standard in this update is effective for the Company's financial statements issued for fiscal years beginning in 2020. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We do not expect this standard to have a material impact on the Company's reported results of operations or financial position.

In February 2017, the FASB issued Accounting Standards Update No. 2017-06, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965), Employee Benefit Plan Master Trust Reporting (“ASU 2017-06”). ASU 2017-06 relates primarily to the reporting by an employee benefit plan (a plan) for its interest in a master trust. A master trust is a trust for which a regulated financial institution (bank, trust company, or similar financial institution that is regulated, supervised, and subject to periodic examination by a state or federal agency) serves as a trustee or custodian and in which assets of more than one plan sponsored by a single employer or by a group of employers under common control are held. Under Topic 960, investments in master trusts are presented in a single line item in the statement of net assets available for benefits. Similar guidance is not provided in Topic 962 or 965, which has resulted in diversity in practice. For each master trust in which a plan holds an interest, the amendments in ASU 2017-06 require a plan’s interest in that master trust and any change in that interest to be presented in separate line items in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively. The amendments in ASU 2017-06 are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. An entity should apply the amendments in ASU 2017-06 retrospectively to each period for which financial statements are presented. We do not expect this standard to have a material impact on the Company’s reported results of operations or financial position.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). The update requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented outside of any subtotal of operating income. Employers will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. ASU 2017-07 is effective for fiscal years and interim periods beginning after December 15, 2017, and early adoption is permitted. We do not expect this standard to have a material impact on the Company’s reported results of operations or financial position.

**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 per share. Basic earnings 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.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
<b>Basic and diluted earnings per share</b>				
Common stock	<b>\$ 0.24</b>	\$ 0.23	<b>\$ 0.67</b>	\$ 0.59
Restricted shares of common stock	<b>\$ 0.23</b>	\$ 0.23	<b>\$ 0.65</b>	\$ 0.59

**NOTE 4. CONTINGENCIES**

In the normal course of business, certain of the Company's subsidiaries are defendants in a number of lawsuits, claims or arbitrations which allege that the subsidiaries' services caused damage. In addition, the Company defends employment related cases and claims from time to time. We are involved in certain environmental matters primarily arising in the normal course of business. We are actively contesting each of these matters.

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.

**NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, trade receivables, notes receivable, 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, 2017 and December 31, 2016.

**NOTE 6. STOCKHOLDERS' EQUITY**

During the nine months ended September 30, 2017, the Company paid \$75.2 million or \$0.345 per share in cash dividends compared to \$65.5 million or \$0.30 per share during the same period in 2016.

During the third quarter ended September 30, 2017, the Company did not repurchase shares on the open market. During the same period 2016, the Company repurchased 0.4 million shares on the open market of its \$1 par value common stock at a weighted average price of \$27.77 per share. The Company did not repurchase shares of its common stock on the open market during the first nine months of 2017. During the first nine months of 2016, the Company repurchased approximately 0.8 million shares at a weighted average price of \$27.19.

The Company also repurchases shares from employees for the payment of taxes on vesting restricted shares. The Company repurchased \$0.5 million and \$0.9 million of common stock for the quarter ended September 30, 2017 and 2016, respectively, from employees for the payment of taxes on vesting restricted shares and \$8.2 million and \$8.3 million of common stock for the nine months ended September 30, 2017 and 2016, respectively.

As more fully discussed in Note 15 of the Company's notes to the consolidated financial statements in its 2016 Annual Report on Form 10-K, stock options, time lapse restricted shares 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, 2017, approximately 4.3 million shares of the Company's common stock were reserved for issuance.

**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,	
	2017	2016	2017	2016
Time lapse restricted stock:				
Pre-tax compensation expense	\$3,031	\$3,049	\$9,406	9,429
Tax benefit	(1,173)	(1,180)	(3,640)	(3,649)
Restricted stock expense, net of tax	\$1,858	\$1,869	\$5,766	\$5,780

The Company adopted the amendments of Accounting Standards Update (ASU) 2016-09, *Improvements to Employee Share-Based Payment Accounting* during its first quarter of 2017. Accordingly, the income tax provisions for the quarter ended September 30, 2017 and the nine months ended September 30, 2017 include excess tax benefits of \$0.4 million and \$5.0 million, respectively. Under prior guidance, these excess tax benefits would have been recorded in additional paid-in capital.

The following table summarizes information on unvested restricted stock outstanding as of September 30, 2017:

	Number of Shares	Average Grant- Date Fair Value
Unvested Restricted Stock at December 31, 2016	2,261	\$ 20.21
Forfeited	(31 )	22.64
Vested	(676 )	17.16
Granted	448	33.88
Unvested Restricted Stock at September 30, 2017	2,002	\$ 24.25

At September 30, 2017 and December 31, 2016, the Company had \$35.0 million and \$29.9 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 3.8 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Interest and service cost	\$ 2,138	\$ 2,350	\$ 6,414	\$ 7,050
Expected return on plan assets	(3,342 )	(3,305 )	(10,026 )	(9,915 )
Amortization of net loss	830	816	2,490	2,448
Net periodic benefit	\$ (374 )	\$ (139 )	\$ (1,122 )	\$ (417 )

During the nine months ended September 30, 2017 the Company made no contributions to its defined benefit retirement plans (the “Plans”). During the same time frame in prior year the Company made \$3.0 million in contributions. The Company made \$3.3 million in contributions for the year ended December 31, 2016. The Company is adequately funded on its Pension Plans and is not expecting to make further contributions in 2017.

**ROLLINS, INC. AND SUBSIDIARIES****NOTE 8. BUSINESS COMBINATIONS**

The Company made 19 acquisitions during the nine month period ended September 30, 2017, and 34 acquisitions for the year ended December 31, 2016, respectively, as disclosed on various press releases and related Current Reports on Form 8-K.

On August 1, 2017 Rollins, Inc. completed its acquisition of Northwest Exterminating Co., Inc.'s pest control business. Based in Marietta, Ga., Northwest was established in 1951 and services approximately 120,000 customers in Georgia, South Carolina, Tennessee, Alabama, and North Carolina. Pest control industry trade publication PCT Magazine listed Northwest as the 17th largest pest control operator in the country in its most recent 2017 list.

The preliminary values of major classes of assets acquired and liabilities assumed recorded at the date of acquisition, as adjusted during the valuation period, are included in the reconciliation of the total consideration as follows (in thousands):

	September 30, 2017
Accounts Receivable	\$ 3,595
Current Assets	464
Equipment and property	2,245
Goodwill and other intangible assets	158,513
Current liabilities	(21,493 )
Long-term liabilities	151
Total consideration paid	\$ 143,475
Less: Contingent consideration liability	(15,593 )
Total cash purchase price	\$ 127,882

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 \$372.9 million and \$255.7 million at September 30, 2017 and December 31, 2016, respectively. Goodwill generally changes due to the timing of acquisitions, finalization of allocation of purchase prices of previous acquisitions and foreign currency translations. The carrying amount of goodwill in foreign countries was \$46.4 million at September 30, 2017 and \$42.7 million at December 31, 2016.

The Company completed its most recent annual impairment analyses as of September 30, 2017. 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 was \$141.4 million and \$117.5 million at September 30, 2017 and December 31, 2016, respectively, and the carrying amount of other intangible assets was \$46.0 million and \$44.3 million at September 30, 2017 and December 31, 2016, respectively. The carrying amount of customer contracts in foreign countries was \$31.0 million and \$29.7 million at September 30, 2017 and December 31, 2016, respectively and the carrying amount of other intangible assets in foreign countries was \$3.6 million and \$3.8 million at September 30, 2017 and December 31, 2016, respectively.

Customer contracts and other amortizable intangible assets are amortized on a straight-line basis over their economic useful lives. The following table sets forth the components of intangible assets as of September 30, 2017 (in thousands):

Intangible Asset	Carrying Value	Useful Life in Years
Customer contracts	<b>\$141,385</b>	3 - 12.5
Trademarks and tradenames	<b>35,196</b>	0 - 20
Non-compete agreements	<b>4,245</b>	3 - 20
Patents	<b>2,676</b>	3 - 15
Other assets	<b>1,629</b>	10
Internet domains	<b>2,227</b>	n/a
Total customer contracts and other intangible assets	<b>\$187,358</b>	

## NOTE 9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

### Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. To manage this risk, the Company enters into derivative financial instruments from time to time. Certain of the Company's foreign operations expose the Company to fluctuations of foreign interest rates and exchange rates. These fluctuations may impact the value of the Company's cash receipts and payments in terms of the Company's functional currency. The Company enters into derivative financial instruments from time to time to protect the value or fix the amount of certain obligations in terms of its functional currency, the U.S. dollar.

### Hedges of Foreign Exchange Risk

The Company is exposed to fluctuations in various foreign currencies against its functional currency, the U.S. dollar. The Company uses foreign currency derivatives, specifically vanilla foreign currency forwards, to manage its exposure to fluctuations in the USD-CAD and AUD-USD exchange rates. Currency forward agreements involve fixing the foreign currency exchange rate for delivery of a specified amount of foreign currency on a specified date.

The currency forward agreements are typically cash settled in U.S. dollars for their fair value at or close to their settlement date.

**ROLLINS, INC. AND SUBSIDIARIES**

The Company does not currently designate any of these foreign exchange forwards under hedge accounting, but rather reflects the changes in fair value immediately in earnings. Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to foreign exchange rates. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and were equal to a loss of \$0.2 million for the quarter ended September 30, 2017 and a gain of \$0.1 million for the same quarter in the prior year. For the nine month period ending September 30, 2017 and September 30, 2016, the Company recorded a loss of \$0.3 million and \$0.5 million, respectively. As of September 30, 2017, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (in thousands except for number of instruments):

**Non-Designated Derivative Summary**

	Number of Instruments	Sell Notional	Buy Notional
FX Forward Contracts			
Sell AUD/Buy USD Fwd Contract	6	\$ 650	\$ 493
Sell CAD/Buy USD Fwd Contract	10	\$ 6,050	\$ 4,714
Total	16	\$ 6,700	\$ 5,207

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet as of September 30, 2017 and December 31, 2016 (in thousands):

## Tabular Disclosure of Fair Values of Derivative Instruments

Derivatives Asset		Derivative Liabilities	
Fair Value as of:			
September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016

**Derivatives Not Designated as Hedging  
Instruments**

FX Forward Contracts

Balance Sheet Location

	Other Assets	Other Assets	Other Current Liabilities	Other Current Liabilities
Sell AUD/Buy USD Fwd Contract	\$ —	\$ —	\$ 16	\$ —
Sell CAD/Buy USD Fwd Contract	\$ —	\$ —	\$ 137	\$ —
Total	\$ —	\$ —	\$ 153	\$ —

The table below presents the effect of the Company's derivative financial instruments on the Income Statement as of September 30, 2017 and September 30, 2016 (in thousands):

**Effect of Derivative Instruments on the Income Statement for Derivatives Not Designated  
as Hedging Instruments for the Three and Nine Months Ended September 30, 2017 and 2016**

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Income Three Months Ended September 30,		Amount of Gain or (Loss) Recognized in Income Nine Months Ended September 30,	
		2017	2016	2017	2016
Sell AUD/Buy USD Fwd Contract	Other Inc/(Exp)	\$ (11 )	\$ (9 )	\$ (29 )	\$ (36 )
Sell CAD/Buy USD Fwd Contract	Other Inc/(Exp)	(224 )	103	(319 )	(476 )
Total		\$ (235 )	\$ 94	\$ (348 )	\$ (512 )

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**ROLLINS, INC. AND SUBSIDIARIES**

The table below presents the total fair value classification within the fair value hierarchy for the complete portfolio of derivative transactions at September 30, 2017 (in thousands):

	<b>Recurring Fair Value Measurements</b>						Total Fair Value at As of	
	Quoted Prices in Active Markets for Identical Assets and Liabilities ( <b>Level 1</b> ) September 30, 2017	2016	Significant Other Observable Inputs ( <b>Level 2</b> ) September 30, 2017	2016	Significant Unobservable Inputs ( <b>Level 3</b> ) September 30, 2017	2016		
Assets								
Derivative Financial Instruments	\$—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Liabilities								
Derivative Financial Instruments	\$—	\$ —	\$ (153 )	\$ (122 )	\$ —	\$ —	\$ (153 )	\$ (122 )

As of September 30, 2017, the fair value of derivatives in a net liability position was \$0.2 million inclusive of counterparty credit risk. As of the balance sheet date, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2017, it could have been required to settle its obligations under the agreements at their termination value of \$0.2 million.

**NOTE 10. SUBSEQUENT EVENTS**

On October 24, 2017, the Company announced that the Board of Directors declared a regular quarterly cash dividend on its common stock of \$0.115 per share plus a special year-end dividend of \$0.10 per share both payable December 11, 2017 to stockholders of record at the close of business November 10, 2017.

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

## Overview

On October 25, 2017, the Company reported its 46th consecutive quarter of improved revenue and earnings. Net income was \$51.4 million for the third quarter ended September 30, 2017, as compared to \$49.7 million for the prior year quarter, a 3.6% improvement. Revenues increased by 6.2% to \$450.4 million for the third quarter 2017 as compared to \$424.0 million for the prior year third quarter. The Company saw a negative impact on the exchange rate of the Canadian and Australian dollars and British pounds to U.S. dollars reducing revenues by \$8.4 million and \$9.0 million for the third quarters ended September 30, 2017 and 2016, respectively and reduced pre-tax earnings by \$1.6 million and \$1.5 million, for the third quarters ended September 30, 2017 and 2016, respectively. Earnings for the quarter ended September 30, 2017 increased 4.3% to \$0.24 per diluted share, as compared to \$0.23 per diluted share for the same period in 2016.

We were disappointed with the impact to revenue and profitability that Hurricane Harvey had on several of the Company's regions: Southwest and North Texas, South Central Commercial, Oklahoma, Louisiana, and Mississippi. These areas were negatively impacted by pre-hurricane preparation, flood conditions, closed branches, and our inability to service many of our customers.

Fortunately our people were unharmed, and, where appropriate, we compensated them even when they were unable to work. Our Employee Relief Fund has also been beneficial to many impacted employees. Hurricane Irma followed at the end of August with a similar effect in Florida, Georgia, Alabama, Mississippi, and Louisiana.

On August 1, 2017, the Company completed the acquisition of Northwest Exterminating Co., Inc. Northwest has 23 offices in 5 southeastern states and was the nation's 17th largest pest management company. Northwest performs services for approximately 120,000 customers and will continue to operate as a separate business, as one of Rollins' Specialty Brands, along with HomeTeam, Western Pest Services and Waltham.

Rollins continued its solid financial performance generating \$189.4 million in cash from operations year to date.



**ROLLINS, INC. AND SUBSIDIARIES****Results of Operations:****THREE MONTHS ENDED SEPTEMBER 30, 2017 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2016****Revenue**

Revenues for the third quarter ended September 30, 2017 increased \$26.4 million or 6.2% to \$450.4 million compared to \$424.0 million for the third quarter ended September 30, 2016. Growth occurred across all service lines. Approximately 2.3 percentage points of the 6.2% increase came from acquisitions while growth in customers and pricing made up the remaining 3.9 percentage points.

The Company has three primary service offerings: commercial pest control, residential pest control and termite, including ancillary services. During the third quarter ended September 30, 2017, commercial pest control revenue approximated 39% of the Company's revenues, residential pest control approximated 43% of the Company's revenues, and termite and ancillary service revenue approximated 17% of the Company's revenues. Comparing third quarter 2017 to third quarter 2016, the Company's commercial pest control revenue grew 4.9%, residential pest control revenue grew 6.1%, and termite and ancillary services revenue grew 10.1%. Foreign operations accounted for approximately 8% of total revenues during the third quarters of both 2017 and 2016.

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)**

	2017	2016	2015
First Quarter	\$375,247	\$352,736	\$330,909
Second Quarter	433,555	411,133	392,150
Third Quarter	450,442	423,994	399,746
Fourth Quarter	—	385,614	362,500
Year ended December 31,	\$1,259,244	\$1,573,477	\$1,485,305

**Cost of Services Provided**

Cost of Services provided for the third quarter ended September 30, 2017 increased \$13.2 million or 6.4% to \$218.8 million, compared to \$205.6 million the quarter ended September 30, 2016. Gross margin for the third quarter was 51.4%, a decrease of 0.1 percentage points compared to the prior year third quarter gross margin of 51.5%. The margin for the quarter was negatively affected by the storms in the Southeast and Southwest. The quarter benefitted from improved efficiencies in routing and scheduling technology which also helped to lower salaries as a percent of revenue, specifically as there was a decrease in service salaries and administrative salaries as a percent of revenues from the prior year. Insurance and claims were lower than prior year as a percent of revenue. These gains the Company experienced were offset by higher personnel related costs as we integrate acquisitions and payroll taxes and group insurance increases. Fleet expenses increased due to the increased cost of gasoline, increased leased vehicle costs, and higher maintenance fees. Materials and supplies were higher as we increased our termite baiting customers.

### **Depreciation and Amortization**

Depreciation and Amortization expenses for the third quarter ended September 30, 2017 increased \$1.2 million to \$14.3 million, an increase of 9.4%. Depreciation increased due to expenditures associated with the 2016 rollout of BOSS, the Company's customer relationship management system, as well as acquisitions and equipment purchases while amortization of intangible assets increased due to amortization of customer contracts included in various acquisitions.

### **Sales, General and Administrative**

Sales, General and Administrative Expenses for the third quarter ended September 30, 2017 increased \$9.5 million or 7.6%, to 30.0% of revenues, up 0.4 percentage points from 29.6% for the third quarter ended September 30, 2016.

The increase in the percent of revenue is due to higher planned sales commissions related to increased revenue and higher planned outside contractor costs to enhance the BOSS system. The increases were partially offset by efficiencies in administrative salaries as a percent of revenues as we maintain a quality support staff, while continuing to grow revenues. Fleet expenses and telephone costs were up as we integrated several acquisitions.

### **Gain on Sale of assets, Net**

Gain on sales of assets, net was a net gain of \$66,000 for the third quarter ended September 30, 2017, up from \$52,000 prior year. The gains were for the sales of Company owned vehicles and equipment.

## ROLLINS, INC. AND SUBSIDIARIES

### Income Taxes

Income Taxes for the third quarter ended September 30, 2017 increased \$0.8 million or 2.7% to \$31.1 million from \$30.3 million reported for third quarter ended September 30, 2016. The effective tax rate was 37.7% for the third quarter ended September 30, 2017 and 37.9% for the third quarter ended September 30, 2016. The differences were primarily due to tax credits, state tax rates and the adoption during first quarter 2017 of the amendments of Accounting Standards Update (ASU) 2016-09, *Improvements to Employee Share-Based Payment Accounting*. Accordingly, the income tax provisions for the quarter ended September 30, 2017 include excess tax benefits of \$0.4 million. Under prior guidance, these excess tax benefits would have been recorded in additional paid-in capital.

### NINE MONTHS ENDED SEPTEMBER 30, 2017 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2016

### Revenue

Revenues for the nine months ended September 30, 2017 increased \$71.4 million or 6.0% to \$1.259 billion compared to \$1.188 billion for the nine months ended September 30, 2016. The Company saw an increase in lead closure on sales to new customers while average price remained relatively flat in most categories. Approximately 1.4 percentage points of the 6.0% increase came from acquisitions while growth in customers and pricing made up the remaining 4.6 percentage points. The Company's customer base continued to grow. The higher sales to new customers resulted in growth across all service lines.

Commercial pest control revenue approximated 39% of the Company's revenues during the nine months ended September 30, 2017, residential pest control revenue approximated 42% of revenues, and termite and ancillary service revenues, made up approximately 18% of the Company's revenues. The Company's commercial pest control revenue grew 5.1%, residential pest control revenue grew 6.3%, and termite and ancillary services revenue grew 7.9%. Foreign operations accounted for approximately 8% and 7% of total revenues for the first nine months of 2017 and 2016, respectively.

### Cost of Services Provided

Cost of Services provided for the nine months ended September 30, 2017 increased \$33.1 million or 5.7% to \$612.4 million compared to \$579.4 million for the nine months ended September 30, 2016. Gross margin increased to 51.4%, an increase of 0.2 percentage points from 51.2% of revenues for the prior year-to-date. The year-to-date increase in gross margin was due to the Company's lower service salaries and administrative salaries as a percent of revenue as we leveraged our existing employees over increased revenues and had good cost control. The Company recorded lower insurance expense as a percent of revenue compared to 2016. Fleet expenses were greater as a percent of revenue as gasoline expense and lease vehicle costs increase. The Company maintained good cost controls across most spending

categories.

### **Depreciation and Amortization**

Depreciation and Amortization expenses for the nine months ended September 30, 2017 increased \$4.6 million to \$41.6 million, an increase of 12.3%, increasing 0.2 percentage points as a percent of revenue to 3.3% of revenue compared to 3.1% of revenue the prior year. Depreciation increased due to the investment associated with the 2016 rollout of BOSS as well as acquisitions and equipment purchases. Amortization of intangible assets increased due to amortization of customer contracts purchased in various acquisitions.

### **Sales, General and Administrative**

Sales, General and Administrative (SG&A) expenses for the nine months ended September 30, 2017 increased \$15.5 million or 4.3% to \$379.8 million or 30.2% of revenues, from \$364.2 million or 30.7% of revenues in the prior year period. The decrease in SG&A as a percent of revenue was due primarily to lower administrative salaries and personnel related cost, and reductions in bad debt expense. The gains in SG&A as a percent of revenues were partially offset by higher sales salaries due to increased commissions on higher revenues. The Company's higher fleet expense was due to gasoline price increases and lease vehicle costs increase. Higher professional services fees increased as we use outside consultants on various projects and our BOSS system.

### **Gain on Sale of assets, Net**

Gain on sales of assets, net was a net gain of \$0.2 million for the nine month period ended September 30, 2017 and a decrease of \$0.5 million from \$0.7 million for the nine months ended September 30, 2016 due to the 2016 sale of our wildlife services franchise supply distributor and the sale of a branch location. The Company recognized net gains from the sale of Company owned vehicles and property in 2017 and 2016.

## ROLLINS, INC. AND SUBSIDIARIES

### Income Taxes

Income Taxes for the nine months ended September 30, 2017 increased \$1.8 million or 2.3% to \$80.6 million from \$78.7 million reported for nine months ended September 30, 2016. The Company adopted the amendments of Accounting Standards Update (ASU) 2016-09, *Improvements to Employee Share-Based Payment Accounting* during 2017. Accordingly, the income tax provisions for the nine months ended September 30, 2017 include excess tax benefits of \$5.0 million. Under prior guidance, this excess tax benefits would have been recorded in additional paid-in capital. The effective tax rate was 35.7% for the nine months ended September 30, 2017 and 37.8% for the nine months ended September 30, 2016 primarily due to differences in tax credits, state tax rates and the adoption of ASU 2016-09.

### 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 \$189.4 million and \$158.2 million for the nine months ended September 30, 2017, and 2016, respectively. During the nine months ended September 30, 2017 the Company made no contribution to its defined benefit retirement plan while making \$3.0 million in contributions for the same period in 2016. The Company is adequately funded on its Pension Plans and is not expecting to make further contributions in 2017.

The Company invested approximately \$17.2 million in capital expenditures, exclusive of expenditures for business acquisitions, during the nine months ended September 30, 2017, compared to \$27.1 million during the same period in 2016, and expects to invest approximately \$8.0 million for the remainder of 2017. Capital expenditures for the first nine months consisted primarily of the purchase of operating equipment replacements and technology related projects. During the nine months ended September 30, 2017, the Company made expenditures for acquisitions totaling \$127.9 million, compared to \$40.8 million during the same period in 2016. A total of \$75.2 million was paid in cash dividends (\$0.345 per share) during the first nine months of 2017, compared to \$65.5 million or (\$0.30 per share) during the same period in 2016. On October 24, 2017, the Company announced that the Board of Directors declared a regular quarterly cash dividend on its common stock of \$0.115 per share plus a special year-end dividend of \$0.10 per share both payable December 11, 2017 to stockholders of record at the close of business November 10, 2017 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 did not repurchase shares of its common stock on the open market during the first nine months of 2017 compared to the repurchase of approximately 0.8 million shares at a weighted average price of \$27.19 during the first nine months of 2016. 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 7.5 million additional shares of the Company's common stock in July 2012. These authorizations enable the Company to continue the purchase of Company 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. In total, 5.1 million additional shares may be purchased under the share repurchase program. The Company repurchased \$8.2 million and \$8.3 million of common stock for the nine months ended September 30, 2017 and 2016, 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.

The Company's balance sheet as of September 30, 2017 and December 31, 2016 includes short-term unearned revenues of \$119.0 million and \$99.8 million, respectively, representing approximately 7% 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 \$113.4 million of total cash at September 30, 2017, is held at various banking institutions. Approximately \$64.7 million is held in cash accounts at foreign bank institutions and the remaining \$48.7 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. The Company maintains adequate liquidity and capital resources that are directed to finance domestic operations and obligations and to fund expansion of its domestic business for the foreseeable future without regard to its foreign deposits.

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, 2017. The Company remained in compliance with applicable debt covenants through the date of this filing and expects to maintain compliance through 2017.

## **Litigation**

In the normal course of business, certain of the Company's subsidiaries are defendants in a number of lawsuits, claims or arbitrations which allege that the subsidiaries' services caused damage. In addition, the Company defends employment related cases and claims from time to time. We are involved in certain environmental matters primarily arising in the normal course of business. We are actively contesting each of these matters.

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.

## **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, 2016.

### *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 claims, proceedings or litigation on the Company's financial position, results of operation 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 intention 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 and 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; the Company's expectation regarding capital expenditure for the remainder of 2017; 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, 2016. The Company does not undertake to update its forward-looking statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2017, 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. See Note 9 to Part I, Item 1 for a discussion of the Company's investments in derivative financial instruments to manage risks of fluctuations 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 2016.

### 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 amended (the "Exchange Act") as of September 30, 2017 (the "Evaluation Date"). 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 as of the Evaluation Date to ensure that the information required to be included in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.



**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, 2017, 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, 2016.

**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, 2017 were as follows:

Period	Total Number of shares Purchased (1)	Weighted-Average Price paid per Share	Total number of shares purchased as part of publicly announced repurchases (2)	Maximum number of shares that may yet be purchased under the repurchase plans
July 1 to 31, 2017	—	\$ —	—	5,073,611
August 1 to 31, 2017	—	—	—	5,073,611
September 1 to 30, 2017	10,841	46.14	—	5,073,611
Total	10,841	\$ 46.14	—	5,073,611

(1) Includes repurchases from employees for the payment of taxes on vesting of restricted shares in the following amounts: July 2017: 0; August 2017: 0; and September 2017: 10,841

(2) The Company has a share repurchase plan, adopted in 2012, to repurchase up to 7.5 million shares of the Company's common stock. The plan has no expiration date.

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**ROLLINS, INC. AND SUBSIDIARIES**

**Item 5. Exhibits.**

(a) Exhibits

- (A)  
Restated  
Certificate  
of  
Incorporation  
of Rollins,  
Inc. dated  
July 28,  
1981,  
incorporated
- (3) (i) herein by  
reference to  
Exhibit  
(3)(i)(A) as  
filed with  
the  
registrant's  
Form 10-Q  
filed  
August 1,  
2005.

- (B)  
Certificate  
of  
Amendment  
of  
Certificate  
of  
Incorporation  
of Rollins,  
Inc. dated  
August 20,  
1987,  
incorporated  
herein by  
reference to  
Exhibit  
3(i)(B)  
filed with  
the  
registrant's

10-K filed  
March 11,  
2005.

(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,  
2005.

(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-K filed  
February  
25, 2015.

(F)  
Certificate  
of  
Amendment  
of  
Certificate  
of  
Incorporation  
of Rollins,  
Inc. dated  
April 28,  
2015,  
incorporated  
herein by  
reference to  
Exhibit  
3(i)(F) filed  
with the  
Registrant's  
10-Q filed  
on July 29,

2015.

Amended and  
Restated  
By-laws of  
Rollins, Inc.,  
incorporated  
herein by

- (ii) reference to  
exhibit 3(ii) as  
filed with its  
Form 10-Q for  
the quarter  
ended March  
31, 2017.

Form of  
Common  
Stock  
Certificate of  
Rollins, Inc.,  
incorporated  
herein by

- (4) reference to  
Exhibit (4) as  
filed with its  
Form 10-K for  
the year ended  
December 31,  
1998.

Membership  
Interest  
Purchase  
Agreement by  
and among  
Rollins, Inc.,  
Northwest  
Exterminating

- (10.1) + Co., Inc. NW  
Holdings, LLC  
and the  
stockholders  
of Northwest  
Exterminating  
Co., Inc. dated  
as of July 24,  
2017

(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

(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

+ Confidential treatment has been requested for certain portions of this exhibit (indicated by asterisks).  
Such information has been omitted and was filed separately with the securities and Exchange  
Commission.

**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 27, 2017 By: /s/ Gary W. Rollins  
Gary W. Rollins  
Vice Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: October 27, 2017 By: /s/ Paul E. Northen  
Paul E. Northen  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)