

ROLLINS INC
Form 10-Q
October 31, 2007

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, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated filer

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 67,464,796 shares of its \$1 par value Common Stock outstanding as of October 15, 2007.

ROLLINS, INC. AND SUBSIDIARIES

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ROLLINS, INC. AND SUBSIDIARIES

PART 1 FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2007 AND DECEMBER 31, 2006
(in thousands)
(unaudited)

	<i>September 30,</i> 2007	<i>December 31,</i> 2006
ASSETS		
Cash and cash equivalents	\$ 81,821	\$ 63,344
Trade receivables, short-term, net of allowance for doubtful accounts of \$6,001 and \$6,132, respectively	61,430	52,693
Materials and supplies	8,244	8,401
Deferred income taxes	16,969	19,435
Other current assets	8,382	7,200
Total Current Assets	176,846	151,073
Equipment and property, net	77,633	72,141
Goodwill	126,577	125,161
Customer contracts	65,641	67,761
Other Intangible Assets	9,167	9,294
Deferred income taxes	12,588	14,069
Trade receivables, long-term, net of allowance for doubtful accounts of \$1,334 and \$1,096, respectively	8,921	8,796
Other assets	6,039	4,880
Total Assets	\$ 483,412	\$ 453,175
LIABILITIES		
Capital leases	\$ 1,240	\$ 498
Accounts payable	22,589	16,309
Accrued insurance	13,277	14,310
Accrued compensation and related liabilities	42,533	47,305
Accrual for termite contracts	7,851	8,526
Other current liabilities	18,776	18,817
Unearned revenue	90,191	79,441
Total current liabilities	196,457	185,206
Capital leases, less current portion	881	124
Accrued insurance, less current portion	25,156	23,635
Accrual for termite contracts, less current portion	11,749	11,675
Accrued pension	6,946	6,946
Long-term accrued liabilities	17,561	14,130
Total Liabilities	258,750	241,716
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock, without par value; 500,000 authorized, no shares issued		
Common stock, par value \$1 per share; 170,000,000 and 99,500,000 shares authorized, respectively; 67,455,841 and 70,789,118 shares issued, Respectively	67,456	70,789
Treasury stock, par value \$1 per share; 0 and 2,898,074 shares, respectively		(2,898)
Additional paid-in capital	14,272	11,737
Accumulated other comprehensive loss	(16,216)	(17,784)
Retained earnings	159,150	149,615
Total Stockholders' Equity	224,662	211,459
Total Liabilities and Stockholders' Equity	\$ 483,412	\$ 453,175

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

ROLLINS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
 (in thousands except for per share data)
 (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
REVENUES				
Customer services	\$ 238,116	\$ 227,816	\$ 678,966	\$ 654,225
COSTS AND EXPENSES				
Cost of services provided	123,029	119,206	351,466	345,255
Depreciation and amortization	6,885	6,662	20,482	20,400
Sales, general and administrative	78,154	74,472	221,982	211,340
(Gain)/loss on sales of assets	(17)	(17)	(113)	(15)
Interest income	(466)	(332)	(1,540)	(968)
	207,585	199,991	592,277	576,012
INCOME BEFORE INCOME TAXES	30,531	27,825	86,689	78,213
PROVISION FOR INCOME TAXES				
Current	10,710	8,854	30,503	25,799
Deferred	1,056	1,934	3,389	5,144
	11,766	10,788	33,892	30,943
NET INCOME	\$ 18,765	\$ 17,037	\$ 52,797	\$ 47,270
NET INCOME PER SHARE - BASIC	\$ 0.28	\$ 0.25	\$ 0.79	\$ 0.70
NET INCOME PER SHARE - DILUTED	\$ 0.28	\$ 0.25	\$ 0.78	\$ 0.69
Weighted average shares outstanding - basic	66,608	67,068	66,966	67,184
Weighted average shares outstanding - diluted	67,318	68,700	67,687	68,926
DIVIDENDS PAID PER SHARE	\$ 0.0750	\$ 0.0625	\$ 0.2250	\$ 0.1875

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

ROLLINS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(in thousands)
(unaudited)

	Nine Months ended	
	September 30,	2006
	2007	
OPERATING ACTIVITIES		
Net Income	\$52,797	\$47,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,482	20,400
Provision for deferred income taxes	3,389	5,144
Stock Based Compensation Expense	2,381	-
(Gain)/loss on sales of assets	(113)	(15)
Excess tax benefits from share-based payments	(2,924)	
Other, net	(113)	3
(Increase)/decrease in assets		
Trade receivables	(8,675)	(9,747)
Materials and supplies	276	685
Other current assets	(1,153)	138
Other non-current assets	(2,593)	735
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	850	3461
Unearned revenue	10,751	8,955
Accrued insurance	488	1,398
Accrual for termite contracts	(600)	(3,900)
Accrued pension		(5,000)
Long-term accrued liabilities	3,295	(6,666)
Net cash provided by operating activities	78,538	62,861
INVESTING ACTIVITIES		
Purchase of equipment and property	(13,512)	(15,657)
Acquisitions/dispositions of companies, net	(5,950)	(5,050)
Cash from Sales of Franchises		550
Proceeds from sales of assets	79	20
Net cash used in investing activities	(19,383)	(20,137)
FINANCING ACTIVITIES		
Dividends paid	(15,274)	(12,790)
Common stock purchased	(30,895)	(19,452)
Common stock options exercised	1,379	435
Principal Payments on Capital Lease Obligations	(1,532)	(566)
Excess tax benefits from share-based payments	2,924	
Other		(236)
Net cash used in financing activities	(43,398)	(32,609)
Effect of exchange rate changes on cash	2,720	607
Net increase in cash and cash equivalents	18,477	10,722
Cash and cash equivalents at beginning of year	63,344	43,065
Cash and cash equivalents at end of year	\$81,821	\$53,787
Supplemental disclosure of cash flow information		
Cash paid for interest	\$85	\$43
Cash paid for income taxes	\$27,541	\$21,338

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

ROLLINS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Rollins, Inc. and Subsidiaries

(unaudited)

(in thousands)	Comprehensive income (loss)	Common stock	Treasury stock	Paid-in- capital	Accumulated other comprehensive income (loss)	Retained Earnings	Total
Balance at December 31, 2006		\$ 70,789	(2,898)	\$ 11,737	\$ (17,784)	\$ 149,615	\$ 211,459
Cumulative effect adjustment FIN 48.						(1,676)	(1,676)
Net Income	\$ 52,797					52,797	52,797
Pension liability, net of taxes	(1,152)				(1,152)		(1,152)
Foreign currency translation adjustments	2,720				2,720		2,720
Comprehensive income	\$ 54,365						