

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 September 30, 1996.

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.

Incorporated
in
Delaware

I.R.S. Employer
Identification Number
51-0068479

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

Telephone Number -- (404) 888-2000

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 September 30, 1996, there were 35,480,782 shares of Common Stock \$1 Par Value, outstanding.

ROLLINS, INC. AND SUBSIDIARIES

INDEX

	Page No.
Part I Financial Information	
Statements of Financial Position - September 30, 1996 and December 31, 1995	1
Statements of Income and Earnings Retained - Three months and nine months ended September 30, 1996	2
Statements of Cash Flows - Nine months ended September 30, 1996 and 1995	3
Notes to Financial Statements	4
Management's Discussion and Analysis of Financial Condition and Results of Operations	5-8
Part II Other Information	9

<TABLE>

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

<CAPTION>

	September 30, 1996	December 31, 1995
<S>	<C>	<C>
ASSETS		
Cash and Short-Term Investments	\$ 31,792	\$ 33,623

Marketable Securities	83,030	65,743
Trade Receivables, Net	84,423	88,542
Materials and Supplies	16,083	13,924
Deferred Income Taxes	4,963	7,447
Other Current Assets	8,145	13,486
Current Assets	228,436	222,765
Equipment and Property, Net	40,353	37,799
Intangible Assets	41,954	42,013
Other Assets	16,440	12,348
Total Assets	\$ 327,183	\$ 314,925
LIABILITIES		
Capital Lease Obligation	\$ 1,587	\$ 1,314
Accounts Payable	15,854	13,334
Accrued Insurance Expenses	13,500	14,314
Accrued Payroll	13,856	12,028
Unearned Revenue	16,447	14,695
Other Expenses	17,632	15,324
Current Liabilities	78,876	71,009
Capital Lease Obligation	6,222	7,422
Long-Term Accrued Liabilities	22,825	15,936
Deferred Income Taxes	6,885	6,240
Total Liabilities	114,808	100,607
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Common Stock, par value \$1 per share; authorized 99,500,000 shares; 35,476,381 shares issued in 1996; 41,431,814 shares issued in 1995	35,476	41,432
Earnings Retained	176,899	224,009
	212,375	265,441
Less--Common Stock In Treasury, At Cost, 0 in 1996 ; 5,573,589 shares in 1995	0	51,123
Total Stockholders' Equity	212,375	214,318
Total Liabilities and Stockholders' Equity	\$ 327,183	\$ 314,925

The accompanying notes are an integral part of these statements.

</TABLE>

1 of 10

<TABLE>

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

<CAPTION>

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
REVENUES				
Customer Services	\$ 162,514	\$ 162,333	\$ 482,863	\$ 480,337
COSTS AND EXPENSES				
Cost of Services Provided	94,745	88,167	268,345	248,279
Depreciation and Amortization	2,307	2,047	6,077	5,781
Special Charge	--	12,000 (1)	--	12,000
(1)				
Sales, General and Administrative Expenses	61,645	55,972	176,392	165,665
Interest Income	(1,516)	(1,424)	(4,297)	(3,586)
	157,181	156,762	446,517	428,139
INCOME BEFORE INCOME TAXES	5,333	5,571	36,346	52,198
PROVISION (CREDIT) FOR INCOME TAXES				
Current	1,703	4,683	15,062	23,588
Deferred	324	(2,566)	(1,250)	(3,753)
	2,027	2,117	13,812	19,835
NET INCOME	3,306	3,454	22,534	32,363

EARNINGS RETAINED				
Balance at Beginning of Period	223,722	223,565	224,009	203,582
Cash Dividends	(5,143)	(5,019)	(15,528)	(15,056)
Common Stock Retired	(45,371)	--	(54,133)	--
Other	385	62	17	1,173
BALANCE AT END OF PERIOD	\$ 176,899	\$ 222,062	\$ 176,899	\$ 222,062
EARNINGS PER SHARE	\$ 0.09	\$ 0.09	\$ 0.63	\$ 0.90
WEIGHTED AVERAGE				
SHARES OUTSTANDING	35,481,076	35,852,695	35,681,298	35,847,015
(1) \$7,440,000 after tax benefit or \$.21 per share.				

The accompanying notes are an integral part of these statements.

</TABLE>

2 of 10

<TABLE>

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

<CAPTION>

	Nine Months Ended	
	1996	1995
	<C>	<C>
<S>		
OPERATING ACTIVITIES		
Net Income	\$ 22,534	\$ 32,363
Noncash Charges (Credits) to Earnings:		
Special Charge	--	12,000
Depreciation and Amortization	6,077	5,781
Deferred Income Taxes	(1,250)	(3,753)
Other, Net	3,368	4,124
(Increase) Decrease in Assets:		
Trade Receivables	4,199	(2,418)
Materials and Supplies	(2,097)	(103)
Other Current Assets	6,512	(561)
Other Non-Current Assets	(517)	(1,242)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	5,901	678
Unearned Revenue	1,415	(1,546)
Long-Term Accrued Liabilities	6,889	(5,313)
Non-Current Deferred Income Taxes	2,565	(5,060)
Net Cash Provided by Operating Activities	55,596	34,950
INVESTING ACTIVITIES		
Purchases of Equipment and Property	(8,646)	(7,435)
Net Cash Used for Acquisition of Companies	(6,031)	(2,653)
Marketable Securities, Net	(17,600)	(15,033)
Proceeds from Sales of Equipment and Proper	51	148
Net Cash Used in Investing Activities	(32,226)	(24,973)
FINANCING ACTIVITIES		
Dividends Paid	(15,528)	(15,056)
Purchase of Treasury Stock	(9,164)	--
Payments on Capital Lease	(927)	--
Treasury Stock Issued to Benefit Plans	418	667
Net Cash Used in Financing Activities	(25,201)	(14,389)
Net Increase (Decrease) in Cash and Short-Term Investments	(1,831)	(4,412)
Cash and Short-Term Investments at Beginning of Period	33,623	31,917
Cash and Short-Term Investments at End of Period	\$ 31,792	\$ 27,505

The accompanying notes are an integral part of these statements.

</TABLE>

3 of 10

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, 1995.

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 September 30, 1996 and December 31, 1995, and the results of operations and cash flows for the nine months ended September 30, 1996 and 1995.

NOTE 2. TREASURY STOCK

During the third quarter the Company retired all shares of treasury stock, totaling approximately 5.6 million shares of common stock.

NOTE 3. 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 4. EARNINGS PER SHARE

Earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the respective periods.

4 of 10
ROLLINS, INC. AND SUBSIDIARIES
PART I. ITEM 2. FINANCIAL INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1996

RESULTS OF OPERATIONS
<TABLE>

SELECTED INDUSTRY SEGMENT DATA

<CAPTION>

(In thousands) <S>	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
REVENUES	<C>	<C>	<C>	<C>
Orkin	\$ 143,953	\$ 143,302	\$ 427,642	\$ 425,851
Rollins Protective	16,025	15,595	47,337	44,473
Other	2,536	3,436	7,884	10,013
	\$ 162,514	\$ 162,333	\$ 482,863	\$ 480,337
OPERATING INCOME				
Orkin	\$ 6,240	\$ 17,201	\$ 38,215	\$ 64,170
Rollins Protective	413	1,355	3,126	4,117
Other	(333)	(11,714)	(833)	(11,327)
	\$ 6,320	\$ 6,842	\$ 40,508	\$ 56,960

</TABLE>

General Operating Comments

In the third quarter, the Company continued to execute strategic plans to build on its dedication to customer service and investments for long-term growth. Investments in the core businesses include a renewed emphasis on recurring monthly pest control, increased focus on Commercial opportunities, and expanding the number of locations.

Revenues for the third quarter ended September 30, 1996 increased 0.1% or \$0.2 million, to \$162.5 million from the prior year period. Operating income decreased \$0.5 million to \$6.3 million for the quarter, while net income decreased 4.3% to \$3.3 million. Earnings per share were 9 cents, equal with last year. (Net income and earnings per share decreased 69.7% and 70.0%, respectively, excluding the prior year Special Charge of \$12 million or \$7.4 million and \$.21 per share on an after tax basis). For the nine months ended September 30, 1996, net income decreased 30.4% to \$22.5 million and earnings per share were 63 cents versus 90 cents last year. (Excluding the prior year Special Charge, net income decreased 43.4% and earnings per share decreased 43.2% compared to the nine month period last year).

For the quarter, Orkin's operating income decreased 63.7% to \$6.2 million on a .5% revenue increase to \$144.0 million. Operating margins were 4.3%, compared to 12.0% in the prior year. Rollins Protective Services' (RPS) operating income decreased 69.5% to \$0.4 million on a revenue increase of \$0.4 million or 2.8% to \$16.0 million. RPS' operating margins were 2.6% compared to 8.7% last year.

For the nine months ended September 30, 1996, Orkin's revenue increased 0.4% with operating income declining 40.4%. Operating margins were 8.9%, compared to 15.1% for the same period last year. RPS revenue increased 6.4% while operating income decreased 24.1%. Operating margins declined from 9.3% to 6.6%. Detail segment information follows.

Orkin 1996 Versus 1995

Orkin realized an increase in pest control revenue, termite renewal revenue, and its customer base. However, these gains were offset by a decrease in termite sales revenue resulting from the lagging effect of a disappointing termite season. The termite business continues to be an important part of Orkin's business mix, however Orkin will continue its strategic marketing and customer service programs toward expansion of the less weather sensitive recurring pest control segment. To augment the positive results in the recurring pest control business, a Commercial Pest Control Division was created during the second quarter.

The decrease in operating income was the result of branch and region openings, operating insurance costs, and termite claims. Business development activities included 27 new branch and franchise openings during the first nine months, compared to 14 for all of 1995.

Rollins Protective Services (RPS) 1996 Versus 1995

During the third quarter, RPS continued to focus on the System VII product sales, Commercial sales and service initiatives, as well as cross-marketing opportunities from the National Customer Support Center.

RPS operating margins were negatively impacted by investments in new, dedicated commercial branches, related market development, and costs associated with acquisitions during the last twelve months.

Other 1996 Versus 1995

Other businesses' revenue and operating income decreased for the quarter due to revisions of the Company's credit and internal operating policies within the consumer finance area, Rollins Acceptance Company (RAC). The volume of Company financed sales is lower than last year as the revised policies redirected marketing efforts toward stronger customer demographics in conjunction with a lower termite demand.

The expanded physical facility, increased collector headcount, and new computers and phone dialing equipment caused margin deterioration, however these investments have better positioned RAC to more effectively manage the receivables portfolio and function as a marketing support operation.

FINANCIAL CONDITION

<TABLE>

<CAPTION>

		September 30, 1996	December 31, 1995
(In thousands)			
<S>	<C>		<C>
Cash and Short-Term Investments	\$	31,792	\$ 33,623
Marketable Securities	\$	83,030	65,743
	\$	114,822	\$ 99,366
Working Capital	\$	149,560	\$ 151,756
Current Ratio		2.9	3.1
Cash Provided By Operations (Twelve Months Ended)	\$	67,556	\$ 46,910

</TABLE>

7 of 10

Rollins, Inc.'s financial position remained solid. 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, cash dividends, and expansion plans.

Interest income increased 19.8% for the nine months ended September 30, 1996 due to the increase in average funds invested in short-term investments and marketable securities, coupled with the increase in the average rate of return.

Net trade receivables decreased \$4.1 million or 4.7% at September 30, 1996 compared with December 31, 1995. Trade receivables include installment receivables which are due subsequent to one year from the balance sheet date. These amounts were approximately \$18.8 million and \$26.2 million at September 30, 1996 and December 31, 1995, respectively.

During the nine month period, the Company invested \$14.7 million in capital expenditures and acquisitions. Also, \$15.5 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.

Subsequent to the third quarter ended, September 30, 1996, the Company completed the repurchase of 1,000,000 shares of its common stock, authorized on November 21, 1995. Furthermore, the Board of Directors authorized the purchase by the Company of up to an additional 2,000,000 shares of its common stock. The purchases will be made from time to time using funds already on hand.

8 of 10

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 23, 1996. The results of that meeting were disclosed in the Company's Form 10-Q for the first quarter 1996.

ITEM 5.OTHER INFORMATION

None

ITEM 6.EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K

None

9 of 10
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: November 12, 1996

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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