

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended September 30, 1998.

Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____

Commission file number 1-4422

ROLLINS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other
jurisdiction of
incorporation or
organization)

51-0068479
(I.R.S. Employer
Identification No.)

2170 Piedmont Road, N.E., Atlanta, Georgia 30324
(Address of principal executive offices) (Zip Code)

Telephone Number -- (404) 888-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

At September 30, 1998, there were 30,531,581 shares of Common Stock \$1 Par Value, outstanding.

ROLLINS, INC. AND SUBSIDIARIES

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

<CAPTION>

(Unaudited)
September 30, December 31,

<S>	<C>	1998	<C>	1997
ASSETS				
Cash and Short-Term Investments	\$	5,297	\$	125,842
Marketable Securities		110,243		75,037
Trade Receivables, Net		45,142		49,166
Materials and Supplies		14,040		15,010
Deferred Income Taxes		22,968		24,826
Other Current Assets		10,402		11,737
Current Assets		208,092		301,618
Equipment and Property, Net		35,974		34,639
Intangible Assets		39,525		39,383
Deferred Income Taxes		45,082		49,072
Other Assets		7,435		7,968
Total Assets	\$	336,108	\$	432,680
LIABILITIES				
Capital Lease Obligations	\$	3,290	\$	3,138
Accounts Payable		14,772		25,420
Accrued Insurance Expenses		17,506		21,225
Accrued Payroll		19,151		17,913
Unearned Revenue		15,381		13,831
Other Expenses		50,152		49,191
Current Liabilities		120,252		130,718
Capital Lease Obligations		6,715		9,239
Long-Term Accrued Liabilities		127,438		147,079
Total Liabilities		254,405		287,036
Commitments and Contingencies				
STOCKHOLDERS' EQUITY				
Common Stock, par value \$1 per share; authorized				
99,500,000 shares; 30,531,581 shares issued in 1998;				
33,279,281 shares issued in 1997				
Earnings Retained		30,532		33,279
		51,171		112,365
Total Stockholders' Equity		81,703		145,644
Total Liabilities and Stockholders' Equity	\$	336,108	\$	432,680

The accompanying notes are an integral part of these statements.

</TABLE>

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<TABLE>

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

<CAPTION>

<S>	<C>	Three Months Ended September 30,		Nine Months Ended September 30,				
		1998	1997	1998	1997			
REVENUES								
Customer Services	\$	144,493	\$	140,287	\$	422,508	\$	421,609
COSTS AND EXPENSES								
Cost of Services Provided		85,627		88,717		249,036		249,589
Depreciation and Amortization		2,235		2,274		6,496		6,198
Sales, General & Administrative Expenses		57,457		69,939		164,545		170,606
Interest Income		(2,246)		(1,509)		(7,293)		(3,898)
		143,073		159,421		412,784		422,495
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		1,420		(19,134)		9,724		(886)
PROVISION (CREDIT) FOR INCOME TAXES								
Current		219		(5,944)		(1,086)		3,638
Deferred		321		(1,327)		4,781		(3,975)
		540		(7,271)		3,695		(337)
INCOME (LOSS) FROM CONTINUING OPERATIONS		880		(11,863)		6,029		(549)
DISCONTINUED OPERATIONS								

Operating income, less income tax expense of Gain on Disposal, less income tax expense of \$5,814	-	9,486	-	9,486
INCOME FROM DISCONTINUED OPERATIONS	-	9,529	-	9,678
NET INCOME (LOSS)	880	(2,334)	6,029	9,129
EARNINGS RETAINED				
Balance at Beginning of Period	94,728	140,565	112,365	155,696
Cash Dividends	(4,583)	(5,055)	(14,540)	(15,307)
Common Stock Purchased and Retired	(40,553)	0	(53,429)	(16,573)
Other	699	119	746	350
BALANCE AT END OF PERIOD	\$ 51,171	\$ 133,295	\$ 51,171	\$ 133,295
EARNINGS (LOSS) PER SHARE				
Continuing operations	\$ 0.03	\$(0.36)	\$ 0.19	\$(0.02)
Discontinued operations		0.29	-	0.29
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED	\$ 0.03	\$(0.07)	\$ 0.19	0.27
WEIGHTED SHARES OUTSTANDING - BASIC	31,065,305	34,081,978	32,463,179	34,117,810
WEIGHTED SHARES OUTSTANDING - DILUTED	31,087,924	34,106,687	32,486,127	34,130,940

The accompanying notes are an integral part of these statements.

</TABLE>

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<TABLE>

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

<CAPTION>

	Nine Months Ended September 30,	
	1998	1997
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net Income	\$ 6,029	\$ 9,129
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	6,496	6,198
Provision (Credit) for Deferred Taxes	4,781	(7,490)
Discontinued Operations, Net of Taxes		(9,678)
Other, Net	788	2,082
(Increase) Decrease in Assets:		
Trade Receivables	4,040	3,377
Materials and Supplies	983	(391)
Other Current Assets	1,341	1,360
Other Non-Current Assets	1,532	10,350
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(8,238)	10,346
Unearned Revenue	1,550	(777)
Long-Term Accrued Liabilities	(23,641)	(5,614)
Net Cash Provided by (Used in) Operating Activities	(4,339)	18,892
INVESTING ACTIVITIES		
Purchases of Equipment and Property	(8,090)	(5,976)
Net Cash Used for Acquisition of Companies	(924)	(1,432)
Net Proceeds from sale of Discontinued Operations, net of taxes paid	-	24,716
Marketable Securities, Net	(34,189)	(905)
Net Cash Provided by (Used in) Investing Activities	(43,203)	16,403
FINANCING ACTIVITIES		
Dividends Paid	(14,540)	(15,307)
Common Stock Purchased and Retired	(56,195)	(17,495)
Payments on Capital Lease	(2,372)	(1,997)
Other	104	277
Net Cash Used in Financing Activities	(73,003)	(34,522)
Net Cash Provided by		

Discontinued Operations	-	58
Net Increase (Decrease) in Cash and Short-Term Investments	(120,545)	831
Cash and Short-Term Investments at Beginning of Period	125,842	12,150
Cash and Short-Term Investments at End of Period	\$ 5,297	\$ 12,981

The accompanying notes are an integral part of these statements.

</TABLE>

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

NOTE 1. BASIS OF PREPARATION

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

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

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

In the opinion of management, the consolidated financial statements included herein contain all normal recurring adjustments necessary to present fairly the financial position of the Registrant as of September 30, 1998, and December 31, 1997, and the results of operations and cash flows for the nine months ended September 30, 1998 and 1997. Operating results for the quarter ended September 30, 1998 or the nine months ended September 30, 1998 are not necessarily indicative of the results that may be expected for the year ended December 31, 1998.

NOTE 2. PROVISION FOR INCOME TAXES

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

NOTE 3. EARNINGS PER SHARE

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

<TABLE>

<CAPTION>

<S>	Third Quarter Ended Sep 30		Nine Months Ended Sep 30	
	<C>	<C>	<C>	<C>
Basic EPS	31,065,305	34,081,978	32,463,179	34,117,810
Effect of dilutive stock options	22,619	24,709	22,948	13,130
Diluted EPS	31,087,924	34,106,687	32,486,127	34,130,940

</TABLE>

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

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NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

Effective January, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income," which establishes standards for the presentation and disclosure of other comprehensive income. For the third quarter and nine months ended September 30, 1998, comprehensive income is not materially different from net income and, as a result, the impact is not reflected in the attached Statements of Income and Earnings Retained or Statements

of Financial Position.

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

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The adoption of this standard effective with the year-end financial statements dated December 31, 1999 is not expected to materially impact the results of operations or financial conditions of the Company.

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ROLLINS, INC. AND SUBSIDIARIES
PART I. ITEM 2. FINANCIAL INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 1998

RESULTS OF OPERATIONS

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

Revenues for the third quarter ended September 30, 1998 increased 3.0% to \$144.5 million. Net income was \$880,000 compared to a loss of \$2.3 million in the prior year. Basic and diluted earnings per share were 3 cents compared to a loss of 7 cents last year.

Third quarter 1997 results included the gain on disposal of the Company's Landscaping and Lawn Care businesses of \$15.3 million (\$9.5 million after tax or 28 cents per share). This gain is reported in Income from Discontinued Operations along with the operating results of these businesses and the Company's Rollins Protective Services division which was also divested during 1997.

Year-to-date, revenues increased 0.2% to \$422.5 million with net income decreasing 34.0% to \$6.0 million for an earnings per share of 19 cents compared to 27 cents last year.

For the quarter, pest control revenue, customer base, and contracts sold continued their positive growth over last year. Operating income for the quarter was favorably impacted by higher pest control revenues and lower termite claims. The Company's pest control growth programs and proactive termite control initiatives are showing positive results.

Revenue and operating income from discontinued operations after income taxes for the third quarter ended September 30, 1997 were \$17.9 million and \$43,000, respectively. Year-to-date revenue and operating income from discontinued operations after income taxes for the nine months ended September 30, 1997 were \$64.7 million and \$192,000, respectively.

FINANCIAL CONDITION
<TABLE>
<CAPTION>

	September 30, 1998	December 31, 1997
(In thousands)		
<S>	<C>	<C>
Cash and Short-Term Investments	\$ 5,297	\$ 125,842
Marketable Securities	110,243	75,037
	\$ 115,540	\$ 200,879
Working Capital	\$ 87,840	\$ 170,900
Current Ratio	1.7	2.3

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 share repurchases. Subsequent to September 30, 1998, regular quarterly dividends were reduced from 15 cents per share to 5 cents per share. The new dividend rate will better balance the relationship between earnings, dividends, and future stock repurchases.

Interest income increased 87.1% for the nine months ended September 30, 1998 as compared to the same period in 1997 due to an increase in short-term investments and marketable securities as a result of the 1997 divestitures and increased realized gains.

Net trade receivables decreased \$4.0 million or 8.2% at September 30, 1998 compared with December 31, 1997. Trade receivables include installment receivables which are due subsequent to one year from the balance sheet date. These amounts were approximately \$14.2 million and \$13.9 million at September 30, 1998 and December 31, 1997, respectively. The decrease in receivables is primarily the result of decreased financed sales in the termite business.

Over the past several years, the termite treatment division of the pest control industry has faced great challenges in solving property owners' termite problems. Some of the reasons for the increased difficulty in protecting structures have been changes in building practices and materials that have increased the property owners' potential for termites, the loss of Chlordane from the market in 1987 which resulted in the use of termiticides that may only last for a few years under some conditions, and laws and regulations restricting certain retreatment practices. All of the above factors have subjected termite service providers to experience elevated levels of claims. The Company's response to these industry-wide conditions is to undertake broad changes in its own termite processes. New quality control and field training programs, more thorough communication to customers concerning conducive conditions, and restrictions on the sale of certain structures were initiated during 1997. As a result of the factors described above and new information which became available in 1997, a Provision for Termite Contracts of \$117.0 million was recorded at December 31, 1997 related to the anticipated costs of reinspections, repair obligations, and associated labor, chemicals, and other costs incurred relative to termite work performed prior to December 31, 1997. The Company believes the related accrued liabilities are still adequate at September 30, 1998.

During the nine month period ended September 30, 1998, the Company invested \$9.0 million in capital expenditures and acquisitions. The Company made one domestic acquisition this quarter and increased its international presence by completing two Canadian acquisitions in Calgary and Vancouver. Also, \$14.5 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.

During the quarter ended September 30, 1998, the Company repurchased and retired 2,097,100 shares of its common stock confirming management's

and the Board of Director's confidence in the Company's future. For the nine months ending September 30, 1998, 2,766,100 shares have been repurchased and retired, representing 8.3% of the outstanding shares. Since November 25, 1995, a total of 5,400,000 shares, or 15% of the outstanding shares, have been acquired in the market place with 1,600,000 shares remaining under the current authorization.

During the fourth quarter of 1997 and the first quarter of 1998, Orkin received letters from the Federal Trade Commission (FTC) advising of their investigation of the pest control industry - more specifically, the termite and moisture control practices of the industry. The FTC has requested certain information voluntarily from Orkin and they have been advised of our intention to cooperate fully with their investigation. At this point in time, it is too early to determine the impact, if any, of the investigation.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The actual results of the Company could differ materially from those indicated by the forward-looking statements because of various risks and uncertainties, including without limitation, general economic conditions, changes in industry practices or technologies, climate and weather trends, competitive factors and pricing pressures, uncertainties of litigation and changes in various government laws and regulations, including environmental regulations. All of the foregoing risks and uncertainties are beyond the ability of the Company to control, and in many cases the Company cannot predict the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements.

YEAR 2000 ISSUES

During 1997, the Company recorded expenses of \$15.6 million (\$9.7 million after tax or 28 cents per share) for expenditures related to the company-wide computer systems modification to address the year 2000 programming issue. As a result of this project, the Company's primary financial systems are now essentially compliant with computer system requirements necessary to address the new millennium.

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ROLLINS, INC. AND SUBSIDIARIES PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

With respect to the Company's annual meeting of stockholders to be held in 1999, all stockholder proposals submitted outside the stockholder proposal rules contained in Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, which pertains to the inclusion of shareholder proposals in a Company's proxy materials, must be received by the Company by February 5, 1999, in order to be considered timely. With regard to such stockholder proposals, if the date of the next annual meeting of stockholders is advanced or delayed more than 30 calendar days from April 28, 1999, the Company shall, in a timely manner, inform its stockholders of the change, and the date by which such proposals must be received. As set forth in the Company's Proxy Statement dated March 24, 1998, shareholders who wish to avail themselves of the provisions of Rule 14a-8 must submit their proposals no later than November 24, 1998.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

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

27 Financial Data Schedule

(b) Reports on Form 8-K

None

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 12, 1998

Rollins, Inc.
(Registrant)

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

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized

Date: November 12, 1998

Rollins, Inc.
(Registrant)

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

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

<TABLE> <S> <C>

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This schedule contains summary financial information extracted from the registrant's unaudited financial statements contained in its report on Form 10-Q for the quarterly period ended September 30, 1998 and is qualified in its entirety by reference to such financial statements.

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