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ROLLINS INC
Form 11-K
June 30, 2003

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

FORM 11-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 2002.

OR

[] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission file number 1-4422

A. Full title of the plan and address of the plan, if different from that of issuer named below:

ROLLINS, INC.
ROLLINS 401(k) PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive offices:

ROLLINS, INC.
2170 PIEDMONT ROAD, N.E.
ATLANTA, GA 30324

REQUIRED INFORMATION
ROLLINS, INC.
ROLLINS 401(k) PLAN

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
As of December 31, 2002 and 2001 and for the Year Ended December 31, 2002

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REPORT OF INDEPENDENT AUDITORS - ERNST & YOUNG
LLP

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Report of Independent Auditors

Plan Administrator
Rollins 401(k) Plan

We have audited the accompanying statement of net assets available for benefits of Rollins 401(k) Plan as of December 31, 2002, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Rollins 401(k) Plan as of December 31, 2001 were audited by other auditors who have ceased operations and whose report dated February 22, 2002 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement

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presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Rollins 401(k) Plan at December 31, 2002, and the changes in its net assets available for benefits for the year then ended, in conformity with accounting principles generally accepted in the United States.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2002, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Ernst & Young LLP

Atlanta, Georgia
June 12, 2003

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Plan Administrator of the
Rollins 401(k) Plan:

We have audited the accompanying statements of net assets available for benefits of the ROLLINS 401(k) PLAN as of December 31, 2001 and 2000 and the related statement of changes in net assets available for benefits for the year ended December 31, 2001. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2001 and 2000 and the changes in its net assets available for

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benefits for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Atlanta, GA
February 22, 2002

NOTE: THIS IS A COPY OF A REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP, OUR FORMER INDEPENDENT ACCOUNTANTS. THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP IN CONNECTION WITH THE FILING OF THE FORM 11-K.

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Rollins 401(k) Plan

Statements of Net Assets Available for Benefits

| | 2002 | December 31 | 2001 |
|-------------------------------------|----------------|-------------|------|
| | ----- | | |
| Assets | | | |
| Investment in Master Trust (Note 3) | \$ 95,322,365 | \$ | 9 |
| Loans to participants | 5,112,838 | | |
| Employer contribution receivable | 2,158,914 | | |
| | ----- | | |
| Net assets available for benefits | \$ 102,594,117 | \$ | 10 |
| | ===== | | |

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Rollins 401(k) Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2002

| | | | |
|--|--|----|-------|
| Additions to net assets attributed to: | | | |
| Contributions: | | | |
| Participants | | \$ | 11,57 |
| Employer | | | 2,17 |
| Interest income from loans to participants | | | 47 |
| | | | ----- |
| Total additions | | | 14,21 |
| Deductions from net assets attributed to: | | | |

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| | |
|--|-----------|
| Net loss from investment in Master Trust | 3,39 |
| Distributions to participants | 9,94 |
| | ----- |
| Total deductions | 13,34 |
| Net increase | 87 |
| Net assets available for benefits at the beginning of the year | 101,71 |
| | ----- |
| Net assets available for benefits at the end of the year | \$ 102,59 |
| | ===== |

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Rollins 401(k) Plan

Notes to Financial Statements

December 31, 2002

1. Description of the Plan

The following brief description of the Rollins 401(k) Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan, as amended and restated, is a defined contribution plan. All employees of Rollins, Inc. (the "Company"), except those who are members of a collective bargaining unit, are eligible to participate in the Plan following the completion of six months of service, as defined. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Contributions and Investment Options

All investment options are established by the Plan with guidelines as to the purpose of each fund. Each of the investment funds has a custodian responsible for the safekeeping and investment of the assets of the fund.

The plan administrator is responsible for the overall administration of the Plan. The trustee of the Plan is Northern Trust Company (the "Trustee"). The Trustee is responsible for the overall safekeeping and investment of the assets of the Plan.

Effective January 1, 2002, the Plan was amended to reflect the Economic Growth and Tax Relief Reconciliation Act of 2001. The amendment allows participants to contribute, via payroll deductions, from 1% to 25% of their pretax compensation to the Plan, subject to certain provisions of the Internal Revenue Code (the "Code"), into any of the seven investment fund options or a combination thereof in multiples of 5%. Previously, participants could elect to contribute up to 15% of their pretax compensation. Additionally, if a participant was age 50 or older by December 31, 2002, he or she could have made an additional contribution of

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\$1,000 for 2002. All participant contributions are fully vested and nonforfeitable.

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Rollins 401(k) Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Effective January 1, 2002, the Plan was also changed to increase the employer matching contribution to 30 cents for every dollar a participant contributes up to 6% of his or her pretax compensation. Previously, the Plan provided for an employer matching contribution of 30% of contributions up to 5% of a participant's pretax compensation. Employer contributions under this provision are made in Rollins, Inc. common stock. In order to receive a matching contribution for the plan year, a participant must be actively employed on December 31.

Vesting terms effective January 1, 2002 are shown below:

| | Vested Percentage |
|-------------------|----------------------|
| ----- | |
| Years of service: | |
| Less than two | 0% |
| Two | 20 |
| Three | 40 |
| Four | 60 |
| Five | 80 |
| Six or more | 100 |

Previously, participants in the Plan vested in the Company's contribution based on the following schedule:

| | Vested Percentage |
|-------------------|----------------------|
| ----- | |
| Years of service: | |
| Less than three | 0% |
| Three | 20 |
| Four | 40 |
| Five | 60 |
| Six | 80 |
| Seven or more | 100 |

Forfeited nonvested accounts are used to reduce employer contributions. Total forfeitures used to reduce employer contributions for 2002 were \$179,144.

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Rollins 401(k) Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

The Plan's record keeper is Northern Trust Retirement Consulting ("NTRC"). Separate accounts are maintained for each participant by NTRC. Income and losses on plan investments are allocated to the participants' accounts in accordance with the provisions of the Plan. NTRC provides daily valuation of participant accounts.

Loans Receivable From Plan Participants

The balance represents loans receivable from Plan participants. The Plan provides for loans to participants of up to the lesser of 50% of the individual participant's vested account balance or \$50,000. The plan administrator administers this fund. A participant's loan payments of principal and interest are allocated to his/her accounts under the Plan and invested according to the participant's then current investment elections. Loan terms range from 1 to 5 years. The loans are secured by the balance in the participant's account and bear interest at the prime rate as of the end of the month prior to the month in which the loan is processed plus 2.0%. Principal and interest are paid ratably through monthly payroll deductions.

Payment of Benefits

Upon retirement, death, total and permanent disability, or termination for any reason, the participant or his or her beneficiary may receive the total value of his or her vested account in a lump sum distribution. A participant may elect to defer the payment of his or her account from the Plan to the April 1st after he or she attains age 70 1/2.

In addition, a participant may elect to withdraw all or a portion of his account at any time through hardship provisions as defined by the Code and subject to approval by the Company. Except in the case of withdrawals for qualifying emergencies, a participant who makes a withdrawal may not make any contributions or additional withdrawals for a period of six months.

Administrative Expenses

Administrative expenses of the Plan, including trustee and custodian fees, are paid by the Plan to the extent such expenses are not paid by the Company. The Company paid all expenses of the Plan for the year ended December 31, 2002.

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Rollins 401(k) Plan

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Plan Termination

Although it has not expressed any intent to do so, the Company has the right

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under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Plan's management to make estimates that affect the amounts reported in the accompanying financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts for the previous year have been reclassified to conform to the 2002 financial statement presentation.

Investment Valuation

All investment fund options, excluding the employer contribution portion of the Rollins, Inc. Common Stock Fund, are 100% participant-directed. Except for the Fixed Income Fund, the Plan's investments are stated at fair value, which equals the quoted market price on the last business day of the plan year. The participant loans are valued at their outstanding balances, which approximate fair value.

Fixed Income Fund

The Fixed Income Fund represents deposits and interest earned thereon in this fund managed by Connecticut General Life Insurance Company.

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Rollins 401(k) Plan

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The group annuity contract under which these deposits have been made has been determined to be fully benefit-responsive under Statement of Position 94-4. Therefore, this investment is carried at contract value in the accompanying financial statements. At December 31, 2002 and 2001, the crediting interest rate was 6.25% and 7.5%, respectively. This rate may be changed under the terms of the contract, but in no case is it adjusted to less than 0%. The annual yield on the contract for the years ended December 31, 2002 and 2001 was 5.9% and 7.45%, respectively. The fair value of the contract at December 31, 2002 was approximately \$33.3 million. This contract is subject to credit risk based on the ability of the insurance company to meet interest or principal payments or both as they become due.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term, and such changes could materially affect the amount reported in the statements of net assets available for benefits.

3. Master Trust

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The Plan participates in the Rollins Retirement Account Master Trust (the "Master Trust") with the 401(k) Plan of LOR, Inc., a company controlled by R. Randall Rollins and Gary W. Rollins, executives of Rollins, Inc. The Master Trust reinvests all dividend and interest income received on securities owned by the Master Trust. The value of the units in the Master Trust is adjusted daily to reflect the fair value of the investments. The Master Trust units may be redeemed by the Plan for an amount equal to their current market values, except for units in the Fixed Income Fund, which are redeemed at contract value.

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Rollins 401(k) Plan

Notes to Financial Statements (continued)

3. Master Trust (continued)

The Plan's interest in the assets of the Master Trust is included in the accompanying statements of net assets available for benefits at December 31, 2002 and 2001. A summary of the net assets of the Master Trust is as follows:

| | December 31 | |
|---|----------------|----------------|
| | 2002 | 2001 |
| Investments, at fair value as determined by quoted market prices: | | |
| Mutual funds | \$ 47,573,003 | \$ 57,311,082 |
| Common stock - Rollins, Inc. | 21,357,055 | 15,795,800 |
| Money market funds | 1,067,497 | 907,830 |
| Investments, at contract value: | | |
| Group annuity contract | 33,230,242 | 28,653,627 |
| Accrued investment income | 28,663 | 16,240 |
| Accrued expenses and other liabilities | (2,964) | (2,466) |
| Adjustments for pending trades | - | (134,015) |
| Net assets of Master Trust | \$ 103,253,496 | \$ 102,548,098 |

Allocations of the net assets of the Master Trust to participating plans are as follows:

| | December 31 | | | |
|---------------------|---------------|---------|---------------|---------|
| | 2002 | | 2001 | |
| | Amount | Percent | Amount | Percent |
| Rollins 401(k) Plan | \$ 95,322,365 | 92.3% | \$ 94,320,433 | 92.0 |
| LOR 401(k) Plan | 7,931,131 | 7.7 | 8,227,665 | 8.0 |
| | \$103,253,496 | 100.0% | \$102,548,098 | 100.0 |

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Master Trust income (loss) allocated to the participating plans for the year ended December 31, 2002 is as follows:

| | | |
|--|----|------------|
| Interest income | \$ | 2,083,03 |
| Dividends | | 481,65 |
| Net depreciation in fair value of mutual funds | | (11,605,32 |
| Net appreciation in fair value of Rollins, Inc. common stock | | 4,748,90 |
| | | ----- |
| Net investment loss | \$ | (4,291,73 |
| | | ===== |

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Rollins 401(k) Plan

Notes to Financial Statements (continued)

4. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service dated March 15, 2002, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the "Code") and, therefore, the related trust is exempt from taxation. Subsequent to this issuance of the determination letter, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan sponsor has indicated that it will take the necessary steps, if any, to maintain the Plan's qualified status.

5. Nonparticipant-Directed Investments

The employer matching contribution is invested in the Rollins, Inc. Common Stock Fund and may not be transferred by the participants. The portion of the Rollins, Inc. Common Stock Fund that is nonparticipant-directed was \$17,429,126 and \$12,917,306 at December 31, 2002 and 2001, respectively. Net assets of the Rollins, Inc. Common Stock Fund (including both participant-directed and nonparticipant-directed amounts) are as follows:

| | December 31 | |
|----------------------------------|---------------|---------------|
| | 2002 | 2001 |
| | ----- | |
| Rollins, Inc. common stock | \$ 21,357,055 | \$ 15,795,800 |
| Money market fund | 383,592 | 266,044 |
| Employer contribution receivable | 2,158,914 | 1,723,994 |
| Accrued income | 503 | 544 |
| | ----- | |
| | \$ 23,900,064 | \$ 17,786,382 |
| | ===== | |

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Changes in net assets for the year ended December 31, 2002 are as follows:

| | |
|--|--------------|
| Employer contributions, net of forfeitures | \$ 2,170,694 |
| Participant contributions | 852,977 |
| Gain from investment in Master Trust | 4,928,195 |
| Distributions to participants | (1,661,486) |
| Interest on loans | 30,083 |
| Net transfers to other funds | (206,781) |
| | ----- |
| Net change | \$ 6,113,682 |
| | ===== |

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Rollins 401(k) Plan

EIN: 51-0068479 Plan No.: 001
Schedule H, Line 4i

Schedule of Assets (Held at End of Year)

December 31, 2002

| (a) | (b) Identity of Issuer, Borrower, Lessor, or Similar Party | (c) Description of Investment | (d) Cost |
|-----|--|---|----------|
| * | Participant Loans | Interest rates ranging from 6.75% to 11.50% | - |
| | | Total | - |

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

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ROLLINS 401(k) Plan
(Registrant)

Date: June 30, 2003

By: /s/ Harry J. Cynkus

Harry J. Cynkus
Plan Administrator

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INDEX TO EXHIBITS

Exhibit Number

-
- (23.1) Consent of Ernst & Young LLP, independent auditors.
 - (23.2) Notice Regarding Consent of Arthur Andersen LLP.
 - (99.1) Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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