

Subsequent Events—The Company evaluates its financial statements through the date the financial statements are issued.

On January 7, 2019, Rollins, Inc. (the “Company”) and certain of its affiliates entered into certain agreements providing for the acquisition (the “Acquisition”) of a pest control business as follows: (a) a Stock Purchase Agreement among the Company, Clark Pest Control of Stockton, Inc. (“Clark Pest Control”), JJT King, Inc., and the stockholders of Clark Pest Control pursuant to which the Company will acquire all of the issued and outstanding shares of Clark Pest Control, (b) a Real Estate Purchase Agreement between RCI-King, Inc., a wholly-owned subsidiary of the Company, and Clarkson California Properties pursuant to which an affiliate of the Company will acquire certain real estate used in Clark Pest Control’s business, and (c) an Asset Purchase Agreement between King Distribution, Inc., a wholly-owned subsidiary of the Company, and Geotech Supply Co., LLC pursuant to which an affiliate of the Company will acquire certain assets used in the business of distributing certain equipment and supplies related to the pest control business of Clark Pest Control. Subject to post-closing adjustments, the final purchase is expected to be in the area of \$400 million including the real estate assets. The purchase price was negotiated at arm’s-length and the agreement contains customary representations, warranties, noncompetition agreements and holdback provisions.

The Closing of the Acquisition is subject to the satisfaction of customary conditions, including the truth and accuracy of the representations and warranties of the sellers, the performance of the obligations of the sellers and the receipt of regulatory clearance. The Company intends to fund purchase of the Acquisition with a combination of cash on hand, use of its revolving credit agreement and a new term loan. The Company expects the acquisition to close during the first or second quarters of 2019.

Estimates Used in the Preparation of Consolidated Financial Statements—The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying notes and financial statements. Actual results could differ from those estimates.

Revenue Recognition—The Company’s Revenue recognition policy is to recognize revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, each of which are distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Nature of Goods and Services and Performance Obligations

The Company contracts with its customers to provide the following goods and services, each of which is a distinct performance obligation:

Pest control services—Rollins provides pest control services to protect residential and commercial properties from common pests, including rodents and insects. Pest control generally consists of assessing a customer’s property for conditions that invite pests, tackling current infestations, and stopping the life cycle to prevent future invaders. Revenue from pest control services is recognized as services are rendered.

The Company’s revenue recognition policies are designed to recognize revenues upon satisfaction of the performance obligation at the time services are performed. For certain revenue types, because of the timing of billing and the receipt of cash versus the timing of performing services, certain accounting estimates are utilized. Residential and commercial pest control services are primarily recurring in nature on a monthly, bi-monthly or quarterly basis, while certain types of commercial customers may receive multiple treatments within a given month. In general, pest control customers sign an initial one-year contract, and revenues are recognized at the time services are performed. The Company defers recognition of advance payments and recognizes the revenue as the services are rendered. The Company classifies discounts related to the advance payments as a reduction in revenues.

Termite control services (including traditional and baiting)—Rollins provides both conventional and baiting termite protection services. Traditional termite protection uses “Termidor” liquid treatment and/or dry foam and Orkin foam to treat voids and spaces around the property, while baiting termite protection uses baits to disrupt the molting process termites require for growth and offers ongoing protection. Revenue from initial termite treatment services is recognized as services are provided.

Maintenance/monitoring/inspection—In connection with the initial service offerings, Rollins provides recurring maintenance, monitoring or inspection services to help protect consumer’s property for any future sign of termite activities after the original treatment. This recurring service is a service-type warranty under ASC 606 as it is routinely sold and purchased separately from the initial treatment services and is typically purchased or renewed annually.

Termite baiting revenues are recognized based on the transfer of control of the individual units of accounting. At the inception of a new baiting services contract, upon quality control review of the installation, the Company recognizes revenue for the installation of the monitoring stations, initial directed liquid termiticide treatment and servicing of the monitoring stations. A portion of the contract amount is deferred for the undelivered monitoring performance obligation. This portion is recognized as income on a straight-line basis over the remaining contract term, which results in recognition of revenue that depicts the Company’s performance in transferring control of the service.