HD **Q4 2013 Rollins, Inc. Earnings Conference Call - Final**

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Presentation

OPERATOR: Welcome to the Rollins fourth-quarter 2013 earnings conference call on January 29, 2014.

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(Operator Instructions)

I will now hand the conference over to Marilynn Meek. Please go ahead, madam.

MARILYNN MEEK, IR, ROLLINS INC: Thank you. By now you should have all received a copy of the press release. However, if anyone is missing a copy and would like to receive one, please contact our office at 212-827-3746 and we will send you a release and make sure you are on the **Company**'s distribution list.

There will be a replay of the call, which will begin one hour after the call and run for one week. The replay can be accessed by dialing 1-800-406-7325 with the passcode 4660653. Additionally, the call is being webcast at www.viavid.com and a replay will be available for 90 days.

On the line with me today is Gary Rollins, Vice Chairman and Chief Executive Officer; and Harry Cynkus, Senior Vice President, Chief Financial Officer, and Treasurer. Management will make some opening remarks, and then we will open up the line for your questions. Harry, would you like to begin?

HARRY CYNKUS, SVP, CFO & TREASURER, ROLLINS INC: Yes. Thank you, Marilynn, and good morning. We appreciate all of you joining us on our fourth-quarter and year-end 2013 conference call. Let me read our forward-looking statement and disclaimer and then we will begin.

Our earnings release discusses our business outlook and contains certain forward-looking statements. These particular forward-looking statements and all other statements that have been made on this call, excluding historical facts, are subject to a number of risks and uncertainties, and actual risks may differ materially from any statement we make today. Please refer to today's press release and our SEC filings, including the Risk Factors section of our Form 10-K, for the year ended December 31, 2012, for more information and the risk factors that could cause actual results to differ.

GARY ROLLINS, VICE CHAIRMAN & CEO, ROLLINS INC: Thank you, Harry. As a matter of information, Atlanta is closed due to snow, and Harry and I are calling from home, so we don't have all of our notes.

Nonetheless, it certainly gives me a great deal of pleasure to get to be redundant this morning in reporting that we have, again, achieved record revenues and profits for both the fourth quarter and the full year 2013. This marks our 16th consecutive year of increasing revenue and profit. Please keep in mind that this has been through two recessions. This accomplishment is the result of our program execution and the Rollins team's commitment to continuous improvement in all primary areas of our business.

We saw strong demand for our services in the fourth quarter, where we had double-digit **lead** and sales growth in both commercial and residential. For the quarter, revenues increased 6% to $324.7 **million**, and net income increased 22% to $28 **million**. I think this makes it our highest increase in net income since the quarter in 2012.

All of our business lines experienced good growth during the quarter, with residential pest control up 5.7%. Commercial pest control continues to **lead** the pack, growing 6.7%, and this makes the strongest increase that we have had in commercial since the second quarter in 2011. Termite continues to perform well, rising 4.7%. Revenue for the full year was over [$3.334 **billion**], and net income rose 10.8% to $123.3 **million**.

We have not discussed bed bugs for a while. Although media attention has scaled back, the fact is that bed bugs have not gone away, and our bed bug business continues to grow. In the fourth quarter, revenues were over $14 million, almost a 33% increase over last year.

For the full year this business grew over 21% to more than $50 million. We continue to look at new products and technologies for bed-bug treatment and identification. However, to date, no one has found a silver bullet.

HomeTeam's tubes-in-the-wall pest-prevention installations remained strong, having risen 23% for the quarter, with total installs for the full year rising almost 36% to approximately 85,200. Over the last two years, HomeTeam has installed over 143,000 tubes-in-the-wall systems. The investment we have made in these new home installations position HomeTeam for a stream of recurring revenue, as well as long-term profitability when these homes are sold, and homeowners activate their systems.

We do not expect the same rate of growth for installations in 2014, based on recent homebuilding forecasts for the year that indicate an anticipated slowing of new-home construction. Having said that, Metrostudy's homebuilding 2014 outlook ranked the 100-largest new-home markets. HomeTeam and its builder partners are in 17 of the top 20 markets. This should be beneficial for us, even if the industry overall proves to be less than robust than last year.

We are especially pleased that our customer satisfaction scores improved again this past year, confirming that our programs in this area are paying off. Our Net Promoter results improved over 2012 among surveyed customers that say they are extremely likely or very likely to recommend our services. Not unexpectedly, we also experienced a drop in unsatisfied customers.

While we were happy to see an improvement in these results, we are well aware that today's consumers have high expectations, as they keep raising the bar, and so must we. As I said before, we don't spend much time looking in the rear-view mirror, but rather are focused on where we need to be, and that is always improving our service to our customers. These surveys will continue to be a major confirmation for all brands to measure our progress in this area.

We continue to expand our marketing and rebranding initiatives that we refer to this campaign as taking Pest Control Down To a Science. As an element of this initiative in the fourth quarter, Orkin introduced our new commercial service program that we market as Precision Protection. This program is directed, primarily, to the food-processing, hospitality, restaurant, and healthcare industries. This commercial branding ties with our Pest Control Down To the Science theme, and helps us differentiate Orkin from the competition through more precise and more scientific treatments.

As the industry leader, we have the advantage of seeking the leading edge of new technology. Last year was no exception. In fact, many of our technological initiatives have had a significant impact on the success we achieved, including our introduction of our HomeSuite and BizSuite iPad applications, which are enabling our residential and commercial sales inspectors to better describe the need for our services and describe the services that we will be delivering specific to their home or business, all of which improve our closure and sales.

We are also making progress with our CRM branch administrative operating system. The testing that we are conducting in a number of different business environments is going well, and we remain encouraged by what we have seen. You may recall earlier this year that we brought on a senior-level director with substantial CRM system development and implementation experience. He has been a wonderful addition to our project team, and the impact has been noteworthy.

When completed, this operating system will be interfacing with virtually every system in our organization, from payroll to human resources to our fleet system, general ledger, and so forth. Admittedly, this endeavor has taken longer than we would have liked, but we believe once fully implemented, ServiceSuite will be a real game changer for our Company. As a reminder, all of our pest control companies will ultimately be on this operating system, with slight modification to address specific brand differences.

We are fortunate to have some of the best people in the industry as part of our Rollins team. So, it came as no surprise when Greg Baumann, Vice President of Training and Technical Service, was inducted in the Pest Management Professional's Hall of Fame class of 2013. The Hall of Fame was established in 1997 and recognizes those who have led, and continue to lead, the pest industry management to new heights. Congratulations, Greg, and thanks for all you do for the Company.

We continue to build on our international franchise portfolio, having added four franchises to our roster last year -- one in the Middle East and three in the Caribbean, for a total of 26 international franchises in nine regions of the world. We have now taken an even bigger step internationally. I hope all of you have had an opportunity to see our press release last week, announcing that we have signed a definite purchase agreement to acquire Allpest in Western Australia.

I would like to take a minute to provide you with a little background on Allpest and why we are excited to have them join our family of brands. This strategic acquisition provides us with a platform to enter an important international market that has a stable government. Also, they have the same language and a comparable culture.

Allpest is headquartered in Perth, with operations throughout Western Australia. When Greg Mills acquired the company in 1998, there were only four employees, and since that time, he and his team have built the business significantly. Today, they have over 170 employees, and last year, Allpest had revenues of approximately $25 million, while generating considerable profit and cash flow. This company has a strong presence in the Western region, with a 25% market share there.

We will enjoy plenty of opportunity to provide pest control services, primarily to four sectors, the largest of which is oil and gas, followed by commercial, residential, and fumigation. It is noteworthy that Allpest is highly respected within their industry, earning Pest Manager of the Year for 2012 and 2013 by the Association of the Australian Professional Pest Management Industry for Western Australia. We're looking forward to working with Greg and his team.

Pricing has always been one of the key factors in our business, and we continue to seek ways to improve this important facet. We are currently in the process of rolling out a new residential pest-control rate card, with a ZIP+4 application that will help us better ensure that we are pricing our new residential sales more effectively. Additionally, we continue to refine our sophisticated iPad initial-pricing application for our commercial account managers.

Initial pricing and existing customer price increases are so important that we have now put in place our own analytics pricing team. Going forward, they will lead our effort for pricing across all brands, as well as help us to gain greater leverage from our customer data, and improve our ability to make better fact-based decisions.

We're pleased with what we accomplished last year, and we know that we have many opportunities to improve our business in the future. Bugs are not going to go away, and we have a premium brand that is recognized around the world, plus other specialty brands that are well known in their markets.

We will continue to look for better ways to do what we do in providing our customers with premier service that addresses their pest-control requirements. We are energized and excited about these opportunities and look forward to another successful year. I will now turn the call over to you, Harry.

HARRY CYNKUS: Thank you, Gary. Good day, mates, and thank you, all, for joining us on the call. I think it was Zig Ziglar who said, it's not where you start, it's where you finish that counts. This year in the first quarter we didn't get off the start line very quickly.

But, the victor in the race is not the one who necessarily starts off the fastest, but the one who leads at the finish. The stickler outlasts the sprinter in life's race. We never lost sight of our goals for the year, and it is with great pleasure to put another record year in the books.

Let's talk about the quarter's performance. Today, we reported revenues of $324.7 million, representing 6% revenue growth. Net income increased 22% to $28 million, or $0.19 per diluted share, compared to $22.9 million, or $0.16 per diluted share, for the same period in 2012.

Year-to-date revenue is $1.337 billion, a 5.2% increase. Net income for the full year has increased 10.8%, another year of growing net income at 10% to $123.3 million, or $0.84 per diluted share, with EBITDA coming in at $231 million. Our guidance for next year, which shouldn't be a surprise, we can do better and we are planning on it.

Let's talk about revenue. Gary has already shared with you that we saw strong demand for our services in the fourth quarter, and it was strong right through the end of December. With the one exception of Waltham located in the Northeast, we saw revenue across all brands, all service lines, and possibly all bug groups, well certainly bed bugs.

Fundamentals that drive our revenue, leads, pricing, closure, and retention, remain strong and improved in the quarter. Last year at this time, I said with 42% of our revenues being commercial pest control, it is good to see it regaining its momentum. All it has done this year is continue to gain momentum.

This past quarter it grew 6.7%, not impacted by our fumigation this quarter, as fumigation was up 7.5%. However, it was impacted, somewhat, by the weakening Canadian dollar. If you look at just our domestic commercial pest control service, it was up 8.1%. Now, that is momentum.

Our residential pest control continues to shine, growing 5.7% for the quarter, representing 41% of our business. The beauty of our business model is recurring revenue, combine that with growth in your customer base waiting for their services next year, and we feel pretty good going into next year. We don't lose any sleep, like the retailers of the world, worrying about getting business to walk back in the door. The fourth quarter was not a big lead quarter, but 10% lead growth is sweet.

Gary has already touched on our improving customer satisfaction scores, which translate into improved retention rates, not just for our residential pest control, but across all service lines. Our termite and ancillary services grew 4.7% for the quarter and represents almost 17% of revenue. While seasonally influenced, half of this revenue is recurring in nature, coming from year-round monitoring and through annual renewal fees, recognized ratably over the course of a year.

The fourth quarter ended strong. In fact, it may have been the strongest organic-growth quarter for this service line ever. At least since 2005, which is as far back as I bothered to look.

Thanks need to be spread around, hats off to these additional sales being driven by our termite sales people, armed with our state-of-the-art iPad app, and HomeTeam enjoying the growth in the new-home construction market. To add to Gary's comments on bed bugs, I would like to point out to those who might have missed Orkin's press release earlier this month, when we announced Chicago heads our top-50 bed-bug cities list for the second year in a row.

The Windy City's bed-bug problem was serious enough that the City Council passed an ordinance in July requiring condo associations to have a formal management plan in place for the detection, inspection, and treatment of these pests. In the South, two major cities had the biggest jumps on the list from 2012 to 2013. Nashville moved up 17 spots, while Charlotte climbed 18 spots.

Many of you on this call this morning are in New York City. I guess you shouldn't take too much solace that your city fell out of the top 10, and I think our bed-bug business still had nice growth in your area, just not as fast as some other cities. Gross margin for the quarter improved 170 basis points to 48.5% for the fourth quarter, versus 46.8% in the prior year.

There was a number of factors impacting margin. On the favorable side, we enjoyed continued, positive claim development with regard to termite costs, improved trends with casualty claims, as well as medical costs, all helped margins 110 basis points. Improved productivity contributed nearly 40 basis points, while we had a 20 basis-point improvement for gains from vehicle dispositions.

The margins were unfavorably impacted by nearly 30 basis points due to increase in material and supply costs. This was related both to a substantial increase in tubes-in-the-wall installs, up 23%, and that was on top of the 55% they saw last year in the fourth quarter, as well as increase in ancillary sales, which also impacted material and supply costs. Really, the impact in material and supply is more mix than it is any increase of costs on a per-item basis. As Gary mentioned, HomeTeam's tubes-in-the-wall increased 23% for the quarter, with total installs up nearly 4,000. While it is a long-term positive note, it cost us an incremental $400,000 over the fourth quarter, last year.

Depreciation and amortization expense for the quarter was flat, decreasing as a percentage of revenues 0.2% to 3%. For the year, depreciation was $14.4 million, with capital expenditures totaling $18.6 million. The larger piece of depreciation and amortization is the amortization of acquired customer contracts, totaling $6.5 million for the quarter, and $25.2 million for the full year. This represents a significant non-cash after-tax charge of $0.11 this year.

When we acquire a pest control company, there are seldom any significant hard assets on the balance sheet. And as a result, most of the valuation ends up being classified as intangibles and customer contracts. We currently have nearly $130 million of intangibles from acquisitions on our balance sheet. With current amortization running at approximately $25 million a year, we will continue to have this expense flowing through the P&L for some time.

We see little risk in possible impairment charges. All of the business we have acquired have grown, as we continue to write down the value of the customer contracts recognized at the time of the acquisition. We immediately expense all costs related to organic acquisition of new customers.

Sales, general, and administrative expenses increased $8.8 million, or 9.1%, to 32.8% of revenues, increasing from 31.9% of revenues. The increases in cost, as a percentage of revenues, was due to the higher advertising expense related to our new advertising campaign, along with higher sales expense. You have to pay for all that new revenue. This combined accounted for 80 basis points.

In addition, we had an increase in professional services related to both our commercial pricing initiative and our Australian acquisition efforts, adding almost another 40 basis points. It gets expensive doing an acquisition halfway around the world. Between the valuation people, the lawyers, the accountants, the due diligence team, and other expenses, it impacted the quarter's results in excess of $700,000. I have assured you, Gary, that my airline ticket and bar tab was a very small part of that total.

Tax rate for the quarter came in at 32.1%. We were able to utilize some hiring incentives restore employment hire credits, relating to 2010 hires that obviously took some time to determine their eligibility, and also a one-time deferred-tax liability reconciliation, relating to book and tax differences on depreciable assets and disposals. The year-to-date provision for income taxes came in at 35.6%. I really don't see anyone coming to their senses in Washington anytime soon, and regrettably, would expect the rate to turn back up next year to 37.5%. So, we are always looking for credits and opportunities.

We continue to build on our solid operating and financial foundation. Possessing a strong balance sheet and cash flows, Rollins continues to be financially strong. EBITDA reached $231 **million**, with strong operating cash flow of $163 **million** last year. Not being a capital-intensive business, we only spent $19 **million** on capital expenditures. Our number-one priority for our cash continues to be reinvesting in the business we know best -- pest control, and only, pest control.

Unfortunately, it was a disappointing year for opportunities, and we didn't spend as much on acquisitions as previous years. That left us plenty of money to return to shareholders, as we paid nearly $66 **million** in dividends, including a special dividend at the end of the year. As a result, our shareholders enjoyed five dividends, in effect, this year.

We also spent a little over $8 **million** on stock buybacks. Do the math, we added considerably to our cash position, ending the year with $118 **million** in cash. After last quarter, one analyst wrote, a solid quarter, but what to do with all that cash? Well, now you know where some will go.

We will be closing in February on our first transaction in Australia. We are excited about the business prospects and future and further opportunities down under. To help us accelerate our **acquisition** pace, last quarter we brought on board a new, experienced Director of Acquisitions, who has more than 20 years of experience in **M**&A, and he is well into building a pipeline of prospects.

I would be remiss not to mention that yesterday, our Board of Directors increased the quarterly dividend 16.6% to $0.105 per share each quarter. This marks now, the 12th consecutive year that the dividend has been increased a minimum of 12%.

Lastly, and most importantly, let me express our appreciation for a job well done to all the Rollins associates, whose hard work and dedication are behind these outstanding results. And with that now, I will turn the call back over to Gary.

GARY ROLLINS: Thank you, Harry. We are now ready to open the call for any questions that you might have.

Questions and Answers

OPERATOR: (Operator Instructions)

Joe Box, KeyBanc Capital Markets.

JOE BOX, ANALYST, KEYBANC CAPITAL MARKETS: Good morning, guys.

GARY ROLLINS: Good morning.

JOE BOX: A question for you on the HomeTeam business. I know that installations are still up meaningfully, and I think, Harry, you called out about $400,000 of incremental expense just from installing the tubes. How should we think about the timing to get over the margin hump here, maybe where installations are going to be outweighed by starting to see customer sign-ups and new service?

HARRY CYNKUS: Good question, Joe.

The big question that I think is in a lot of people's minds is, what kind of housing starts will we see next year? What kind of growth will HomeTeam see? They are in 17 out of the 20 fastest-growing markets, so obviously, they will do better than what the average is. But, is the average a plus, a minus -- I think their outlook, right now, and based on what they know with builders is they still are planning an increase, certainly at a more modest pace than what they had this year. So certainly, the incremental change and impact on each quarter for the loss incurred on the installs should be less.

At the same time, as Gary pointed out, we have done 140,000 installs over the last two years, and we saw a nice gain in customers this year. We certainly expect a significant pick up from those 82,000 customers that were installed this year, probably we'll be well over 50,000 new customers next year. So, we expect our margins -- the customer growth from new customers, with a slowing of the acceleration of installs, we plan to see an expansion of margin at HomeTeam.

If margins ever -- not margins, but if installs flatten, you certainly don't get the hit incrementally to your -- but, we don't mind taking that hit. Because, it is certainly long-term growth in that business, and it certainly has the potential to grow their revenues at double digits next year.

JOE BOX: Right, and it's basically just a customer-acquisition cost anyway?

HARRY CYNKUS: Yes, exactly.

JOE BOX: Harry --

GARY ROLLINS: Joe, if I could add something, keep in mind, retention is better on these customers than it is conventional pest control. So, there is really an ongoing benefit to grow this business just beyond the initial install.

JOE BOX: Right. Thanks, Gary. Harry, earlier your cost breakdown was helpful, and I know it's going to be tough to predict if some of those fees and headwinds are going to repeat themselves in 2014. Can you maybe just give us a sense of how we should be thinking about SG&A, either on a run-rate or a percentage basis for 2014?

HARRY CYNKUS: Good question. I think our SG&A this year was certainly a little elevated by the decision we made with our new advertising campaign to step up our advertising cost. We won't see that same percentage gain next year. So, that should -- unless the plan changes, and it certainly can when we're constantly looking at the trends and leads and adapt our advertising strategy as necessary. But, I would think, looking into the year, it should return to more, what I would say, normal levels, unless there is some opportunity to pour fuel on the fire.

The acquisition cost in the fourth quarter, unless -- doing our first acquisition in Australia cost us a lot more than a second acquisition would cost us doing there, because there was a lot of fact finding and a lot of additional work and due diligence to scoping out the market and getting comfortable with everything. Typically, the acquisition cost falls in the same year that the revenue, at least, comes on board.

In this case, we have some time between the signing of the agreement and the closing of the deal. The deal should close mid-February -- we're, right now, expecting it mid-February. And, the delay there is there are certain things we couldn't do until the deal became public. We've got to get the bank accounts open and go to the banks and set up new payroll systems and transfer contracts and whatnot, so there is a lag.

If I have a big acquisition cost in first quarter or second quarter, you would hope you would see revenue and profit following it down the road. This year was a little different then we had the acquisition cost, most of it is approved because it has been incurred, but the acquisition won't fall until -- we will see a part of it in the first quarter.

JOE BOX: Right. Thanks.

On the CapEx front, can you maybe just give us some color on expectations for 2014? Maybe just some high-level thoughts on free cash flow? And, one thing I am looking at is, will there be any cash-tax impact from the expiration of bonus depreciation?

HARRY CYNKUS: With regard to expiration bonus -- we just don't have a lot of depreciation. Our CapEx, last year, was $19 million, and I would say that was a big year for us. This year, we will still working on -- the biggest capital expenditure is the ServiceSuite project. We are still spending money on that. It should be slowing down because we will be into the implementation phase before the year is out here.

I would say, on CapEx, a $16 million to $20 million is probably the range it will fall in. When you look historically, that's about what we have spent. And, the bonus depreciation shouldn't have that significant an impact to really weigh on anything.

JOE BOX: Right, then so on the free cash flow side, we should basically think about it growing by how much net income grows?

HARRY CYNKUS: Yes, and then we will certainly have the addition from the margins of the acquisitions, and we're always looking to -- we are not satisfied with matching our results next year. Free cash flow will raise with the profits. The one thing we don't -- it won't affect EBITDA and free cash flow.

We don't know yet -- we are still working with evaluation people with regard to the Allpest acquisition. At this point, I don't know how much of the purchase price will be allocated to goodwill versus intangible assets. It just impacts the amortization. It impacts EPS, but it does not -- it is all free cash flow, post acquisition. We will have more color on that, hopefully, by the end of the first quarter here.

GARY ROLLINS: Joe, we are going to have to cut you off and let some of these other people ask their questions. But, feel free to call Harry after the call.

JOE BOX: You got it. That was my last question. Thanks, guys, nice quarter.

OPERATOR: Sean Kim, RBC Capital Markets.

SEAN KIM, ANALYST, RBC CAPITAL MARKETS: Thanks, good morning.

First of all, just one follow-up to one of Joe's questions regarding SG&A expenses. If I add up what you consider one-time items in 2013, whether it is the advertising campaign, I think you had some consulting fees earlier last year, and some **acquisition**-related costs. If I add those up, it seems like you probably had about 30 to 50 basis-point impact on margins last year from those items.

Is it safe to assume that you are getting that back in 2014, as it doesn't seem like you're going to have any more consulting fees? It seems like the advertising campaign spend is going to normalize. Are we going to automatically see, say 30 to 50 basis points of expansion this year just from those items going away?

HARRY CYNKUS: I would say, Sean, if you did your math correct, and I can't verify your math right now, I'**m** sitting at home, I didn't bring any -- last night, I wasn't expecting not to be able to get back in the office, so I don't have any of my worksheets and spreadsheets with me. But you are correct, the consulting project, those fees were all related to our pricing initiatives. We are past the consultation standpoint and are now in the implementation.

The advertising spend should return to a normalized level. Again, unless we decide we see a market opportunity and acquisitions and expenses gets tied to acquisitions. Yes, it would normalize, unless something not normal comes up. Which -- hard to predict sitting here, but certainly nothing on the immediate horizon that we haven't talked about.

SEAN KIM: Great, that's helpful. Just one more question. Regarding Allpest, I know you guys have not closed the deal yet, but can you talk about what the seasonality of that business is? I know there is a lot of exposure to the **oil** and gas industry -- just trying to -- if we are going to model this in at some point, just want to know how we should think about the seasonality, as well as the growth trajectory of Allpest?

HARRY CYNKUS: Yes, great question. The **Company**, interestingly from a seasonality standpoint, their seasons run 180 degrees different from ours in that they are on the other side of the equator; down under, it is summer right now. So, we are sitting here freezing and having ice in Atlanta, Georgia, and I don't know, it is somewhere between 90 and 100 degrees Fahrenheit down in Perth today.

So, they are in their height of their season. Interestingly, to some degree, they are certainly not anywhere near as large, but they will have some -- they will help us smooth out some of our seasonality that we have been reporting on.

In terms of growth, really not in a position to talk about that just now. Their business -- about half of their business is tied into **oil** and gas industry. They do a lot of work around the biosecurity of these huge liquefied natural gas projects that are going on in Western Australia.

And, their revenues spike up at the front end of the project, and while the items that these plants and things are being built, and then it drops off into a normalized -- and the big question is how many more of these contracts -- there's other projects that are being bid on. There's other projects that are at the front end of the cycle. Some projects have slowed down; others are picking up.

They grew, and I want to say, I think the number -- I know as soon as I say it out of my memory, I will be wrong, but it was in excess of 30% revenue growth they experienced last year. In the last six months of the business this year, it slowed a little for them. We modeled very modest first-year growth, as we try to get our hands around it and figure it, but a lot of it has to do with timing of the contracts that, quite frankly, we have not had as much familiarity at this point.

We have an ex-pat, who we have -- is in the process of relocating his family to Australia. He's been down there for the due diligence. He spent -- I spoke to him about 5:30 this morning, 6:30 his time, he had a full day of meetings with customers. He has been meeting with customers now for the last couple -- I think about only the last two weeks. So, we're just getting in wrapping our hands around all of this. He is having employee meetings, and like I said, customer meetings.

His report is he is extremely enthusiastic. The customers have wonderful relations and have just given us glowing reports about the relationships and the quality of the work that has been performed and are happy to hear that it is our intent to keep the full team there and in place. We are just bringing our balance sheet, our contacts, and looking to find ways to grow and improve the business.

Prospects are wonderful. I don't know how to model it yet. I know next week, or two weeks after this deal closes, the first question I get from Gary when I get back from Australia is, where is the budget?

GARY ROLLINS: I may not wait that long, Harry. One thing maybe noteworthy, we have a sister **company**, RPC, which is in the **oil** service business, another public **company**, and they have two divisions working in Australia. So, we were able to validate from a third party that this **oil**-gas situation is going to be pretty sustainable because they have these contracts with **China** to deliver gas.

And, they are just scrambling down there to get the infrastructure in to meet those obligations. And of course, the infrastructure is building those dormitories and really treating the materials that come in to make sure that there is no pest and so forth. So, I think we felt more comfortable that this thing was not going to be just a blip.

SEAN KIM: Great, thank you very much.

OPERATOR: (Operator Instructions)

Dan Dolev, Jefferies.

DAN DOLEV, ANALYST, JEFFERIES & CO.: Good morning. Thanks for taking my question.

It looks like when you hired the new person in charge of **M**&A, is there -- two quick questions. Is there a limit to the size that you are looking at when you are looking at **M**&A? And, two, would you be potentially willing to take on debt if you found something right that fits? Thanks.

GARY ROLLINS: We would certainly be willing to take on debt, and we have in the past. So, there is not any limit. The big ones are harder to catch, but we feel like we've just got to -- we have improved our initiative dramatically, and we will be turning up the calls that we make on these prospects. The Obamacare is looming out there. We are getting calls from some people that are very concerned about what that is going to do to their cost and their cash flow. We are pretty encouraged about the direction, as far as the new year is concerned.

DAN DOLEV: Thank you. And, is there a limit to the geographic focus for your **M**&A? So, is it now just Australia, or is basically anything, anywhere in the world on the table right now?

GARY ROLLINS: We are really not as interested in international acquisitions as we are domestic. I think this Australian thing was pretty unique. We still like our model, as far as franchises are concerned internationally, because of the cultural challenges and the language and other regulatory issues, et cetera.

This isn't an indication, I don't think, that we're just going to go out and try to accumulate a bunch of international companies, but this Australian situation was just -- it just fit for us. And, we have other opportunities in Australia. We are on the West Coast. Certainly the East Coast has potential, and we are making contacts in those other areas.

DAN DOLEV: Great. Thanks, Gary, very helpful.

GARY ROLLINS: Thank you.

OPERATOR: There appear to be no further questions. Please continue with any further points you wish to raise.

GARY ROLLINS: Okay, no more questions. I would like to thank you, all, for joining us today, and we look forward to the first quarter. We will continue to work hard to grow and improve our business. We want to put another one in the record book. Thank you for your interest.

OPERATOR: Ladies and gentlemen, this concludes the Rollins fourth-quarter 2013 earnings conference call. Again, as a reminder, if you would like to listen to a replay of today's conference, please dial 303-590-3030, followed by the access code, 4660653, followed by the pound or hash key. Thank you for your participation. You may now disconnect.

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