UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11052 / April 18, 2022

SECURITIES EXCHANGE ACT OF 1934
Release No. 94742 / April 18, 2022

ACCOUNTING AND AUDITING ENFORCEMENT RELEASE
Release No. 4294 / April 18, 2022

ADMINISTRATIVE PROCEEDING
File No. 3-20824

In the Matter of
ROLLINS, INC., and
PAUL EDWARD NORTHEN,
Respondents.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO
SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTION 21C OF THE
SECURITIES EXCHANGE ACT OF 1934,
MAKING FINDINGS AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that
cease-and-desist proceedings be, and hereby are, instituted against Rollins, Inc. and Paul Edward
Nortthen pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") and Section 21C

II.

In anticipation of the institution of these proceedings, Rollins, Inc. and Paul Edward
Nortthen (collectively "Respondents") have submitted Offers of Settlement (the "Offers") which
the Commission has determined to accept. Solely for the purpose of these proceedings and any
other proceedings brought by or on behalf of the Commission, or to which the Commission is a
party, and without admitting or denying the findings herein, except as to the Commission’s
jurisdiction over them and the subject matter of these proceedings, which are admitted, and
except as provided herein in Section V, Respondents consent to the entry of this Order Instituting
Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section

III.

On the basis of this Order and Respondents’ Offers, the Commission finds that:

SUMMARY

1. This matter involves improper earnings management practices by Rollins, Inc. (“Rollins”). During the quarterly close process in two quarters—the first quarter of 2016 and the second quarter of 2017—Rollins’ then-Chief Financial Officer, Paul Edward Northen, directed reductions to certain corporate-level accounting reserves for the purpose of enabling the company to publicly report earnings per share (“EPS”) in line with research analysts’ consensus estimates. At the time that Northen directed reductions to the reserve accounts, he was aware that the company’s preliminary earnings results were close to, but short of, consensus EPS estimates. Northen directed the reduction in the accounting reserve accounts, which had the effect of increasing the company’s net income, toward the very end of the quarterly close process, without conducting an analysis of the appropriate accounting criteria under generally accepted accounting principles (“GAAP”) and without adequately memorializing the basis for his decision to reduce the accounting reserves at issue. Had these reserves not been reduced, Rollins would have missed consensus EPS estimates in the two quarters by one penny.

2. As a result of such conduct, Rollins reported misstated net income and EPS in its quarterly reports filed on Form 10-Q and in its earnings releases for the first quarter of 2016 and the second quarter of 2017, and further made materially false and misleading disclosures regarding its EPS performance in those two quarters.

3. Rollins’ improper reduction to accounting reserves took place in an environment of inadequate internal accounting controls. In particular, Rollins granted significant discretion to finance personnel, including the CFO, to determine the amount of reserves during the quarterly close process, at a time when such individuals were aware of potential shortfalls between the company’s financial results and internal and external financial targets, such as research analysts’ consensus EPS estimates. Although Rollins’ policies and procedures required accounting entries to have adequate supporting documentation, between the first quarter of 2016 and the fourth quarter of 2018, Rollins’ finance personnel recorded manual journal entries that impacted reserve accounts with inadequate documentation.

4. As a result, Rollins failed to devise and maintain sufficient internal accounting controls to prevent and detect the improper accounting and inadequately supported, period-end journal entries described herein, resulting in the underlying violations of the federal securities laws.

1 The findings herein are made pursuant to Respondents’ Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.
RESPONDENTS

5. Rollins, Inc, is a Delaware corporation with its principal place of business located in Atlanta, Georgia. Rollins provides termite and other pest control services to residential and commercial customers, including through such brands as Orkin. Rollins’ common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is traded under the symbol “ROL” on the New York Stock Exchange. During the relevant period, Rollins issued restricted stock to its employees pursuant to its 2008 Stock Incentive Plan and Form S-8 filed on April 18, 2008. The Form S-8 incorporated by reference all subsequent filings made by Rollins under the Exchange Act, including the Form 10-Qs for the first quarter of 2016 and the second quarter of 2017.

6. Paul Edward Northen, age 57, is a resident of Alpharetta, Georgia. Northen served as the Chief Financial Officer, Senior Vice President, and Treasurer of Rollins from 2015 until 2021.

FACTS

Background

7. Earnings growth was important to Rollins, and it often touted the consistency of that growth in its earnings releases and periodic filings to the investing public. For example, in the first quarter of 2016, Rollins issued an earnings release on a Form 8-K filed with the Commission that announced that the company “posted [its] 40th consecutive quarter of improved revenues and earnings[.]” Rollins second quarter 2017 earnings release similarly announced its “45th consecutive quarter of improved revenue and earnings[.]” In addition, Rollins’ senior management, including Northen, regularly tracked the company’s financial performance against various internal and external financial targets, including, as is relevant here, research analysts’ consensus EPS estimates. Rollins’ Board of Directors also received information comparing the company’s actual EPS performance against consensus EPS estimates.

8. Each quarter, Rollins made a determination as to the appropriate amount to reserve (or accrue) for several different categories of liability accounts, including certain corporate-level reserve accounts that were determined after individual Rollins reporting units had reported their operating results. For instance, Rollins maintained a termite reserve, which was an estimate of actual or potential damage claims by residential and commercial customers representing the estimated costs of reapplication, repairs and associated labor and chemicals, settlements, awards and other costs relative to termite control services. Rollins further maintained casualty and medical reserves, which were amounts accrued to pay for, among other things, workers compensation and employee-medical claims, respectively. Rollins also maintained a bad debt reserve, which accrued an amount for possible non-payment by customers, and an outside services reserve, which accrued amounts expected to be paid to third-party service providers.2

2 The Accounting Standards Codification (“ASC”) 450-20 is the principal source of GAAP guidance for the recognition and disclosure of loss contingencies, including the corporate-level reserves (liability accounts) at issue.
9. In practice, the CFO had the final and ultimate authority to determine the appropriate amount of the corporate-level reserves. Adjustments to the amount of a corporate-level reserve had a direct impact on Rollins’ net income, and thus by extension, the company’s reported EPS. For instance, all other things being equal, decreasing the amount accrued for a particular corporate-level reserve would have the effect of decreasing the company’s expenses and increasing the company’s net income, thereby increasing the company’s EPS.

The Quarterly Close Process

10. Rollins undertook a six-day process to “close” its accounting books following the end of each quarter in order to generate quarterly financial statements. During days one through five, after the end of each quarter, Rollins’ operating divisions uploaded income and expenses and the corporate accounting staff entered recurring corporate expenses to the company financial system. On the fifth day, a flash report showing the preliminary financial results, including EPS, was compiled and made available to senior Rollins finance personnel, including the CFO.

11. On the sixth day after the quarter close, senior Rollins finance personnel, including Northen, would typically meet in Northen’s office to finalize the corporate-level reserves. At the time of these meetings, Rollins’ finance personnel, including Northen, were aware of whether the company was on track to report EPS results in line with or short of consensus EPS estimates. During these meetings, Northen discussed the impact that proposed adjustments to the corporate-level reserves would have on the company’s reported EPS. Moreover, in quarters where the fifth day flash report reflected that the company’s preliminary EPS calculation was short of consensus EPS estimates, Northen and other finance personnel discussed whether any corporate-level reserves could be reduced in order to increase net income, and by extension the company’s reported EPS.

12. When Northen was preparing to take over as CFO in 2015, a then-Rollins executive (now-former executive) provided Northen with guidance on the quarterly close process at Rollins. Among other things, the executive advised that, for a particular reserve account, “[y]ou give up positive adjustments at qtr end that offset negative surprises” and “[s]ome quarters you need flexibility and it is good to know a place where you might have it. It's part of the art of the close.” In other communications with Northen in 2019, the executive wrote that Rollins “need[ed] to keep something in that cookie jar for quarters like this.”

13. The executive also sent Northen an Excel spreadsheet to keep track of performance throughout the quarter to avoid “surprises” at the end of the quarter. The spreadsheet, which

ASC 450 requires a loss contingency to be accrued if (a) it is probable that an asset had been impaired or a liability had been incurred, and (b) the amount of loss can be reasonably estimated.

3 “Cookie jar” reserve accounting is a practice by which companies manipulate earnings by overaccruing reserve accounts in good quarters, and reducing the accruals in lean quarters to meet earnings targets. See United States v. Rand, 835 F.3d 451, 456 (4th Cir. 2016) (“It is not appropriate to increase or decrease funds in reserve accounts to understate or inflate its actual earnings.”).
Northen used during his time as CFO, included an embedded calculation on how to impact EPS “[by 1 cent]” by adjusting various corporate-level reserves during the quarterly close process.

**First Quarter 2016**

14. On April 7, 2016, the fifth day of Rollins’ close process, Rollins finance personnel received a flash report that showed a preliminary income figure that was below the company’s internal financial target, and a corresponding EPS of $0.12. This latter amount was below the consensus EPS estimates for this quarter of $0.15.

15. The following day, April 8, 2016, which was the last day of the quarterly close process, Northen met with finance personnel to discuss proposed adjustments to corporate-level reserves. Among other things, they discussed how to manage the unexpectedly low income that was causing a lower-than-expected EPS. A Rollins finance department employee noted that the “biggest driver is the termite reserve,” which was resulting in higher expenses, and that Northen was “working on it.” Northen then responded that he had “room to look” in the termite reserve for additional income. The finance department employee responded that Northen should “start looking, we need it.”

16. Later that same day, on April 8, 2016, Northen directed a $1.3 million reduction of the termite reserve account. In the evening, a Rollins accounting employee emailed Northen and other Rollins finance personnel that the “pickup [to income] was $1,374,732” from the termite reserve account adjustment. Northen also directed similar adjustments to the medical and outside services reserves that had the effect of increasing Rollins’ net income. Northen directed the reductions to the termite, medical and outside services reserves without adequately documenting the basis for their reductions and without consideration of any accounting criteria or guidance. The reserve reductions were among the very last accounting adjustments made during the quarterly close process.

17. After the reserve reductions directed by Northen had been made, a finance employee emailed Northen that “I have been told everyone is done. We came in at 14.59 cents [EPS],” which rounded to $0.15 per share, in line with consensus EPS estimates.

18. As a result of the inadequately supported adjustments to the termite, medical, and outside services reserves, Rollins publicly reported in its Form 10-Q for the first quarter of 2016 and in its earnings release an EPS of $0.15. Without the unsupported reductions to the termite, medical and outside services reserves, Rollins would have reported EPS of $0.14, thereby missing consensus EPS estimates by one penny.

19. The inadequately supported reserve adjustments caused Rollins to misstate its net income and EPS in its Form 10-Q for the first quarter of 2016 and in its earnings release for this quarter. As CFO, Northen signed and certified Rollins’ Form 10-Q that included the misstated net income and EPS.
Second Quarter 2017

20. On the morning of July 10, 2017, the fifth day of Rollins’ six-day close process following the end of the quarter, Northen and other finance personnel received a flash report showing a preliminary EPS of $0.20, short of the consensus EPS estimates of $0.25.

21. The following day, July 11, 2017, was the sixth day when Northen would typically meet with Rollins finance personnel to finalize adjustments to corporate-level reserves. But Northen was out of the country on business, so instead of meeting with the other finance personnel in person, Northen corresponded with them by email to finalize the reserve account adjustments.

22. After making initial adjustments to corporate-level reserves, Northen emailed another Rollins finance employee: “I show a .237 [EPS] and thought that the [reserve account adjustments] would be a[n] [income] pickup of $2.7 [million]. What am I missing?” The Rollins finance employee responded that the adjustments resulted in “a[n] [income] pickup of $1 million,” not $2.7 million as Northen had anticipated.

23. A few minutes later, Northen asked the finance employee “how the other [reserve account] accruals look.” The finance employee advised Northen that “if [Northen] needed it,” Rollins could “scrap up $300K [from] medical and $600K [from] bad debt” to increase Rollins’ income. Northen directed that the medical and bad debt reserves be reduced by these amounts and further directed the finance employee to “update [the] spreadsheet with these two items.” Northen directed the reduction in the medical and bad debt reserves without adequately documenting the basis for their reductions and without consideration of any accounting criteria or guidance. The finance employee further provided an updated analysis which showed an increase in EPS to $0.2427 (or $.24 rounded), which although an increase from the earlier $0.237, was still short of the consensus estimate of $0.25.

24. Northen also inquired whether the casualty reserve account was “ok” and whether there was “a[ny]thing else to take a look at” in the reserve accounts. The finance employee responded: “No, if you are trying to get to [$].25 [consensus EPS] for the qtr it will take about $1.2 million,” and asked Northen to “[p]lease advise if you want to” reduce the casualty reserve account by $1.2 million.

25. Shortly thereafter on the same day, July 11, Northen directed a $1 million reduction in the casualty reserve account, which increased Rollins’ income. The adjustment was contrary to an initial recommendation that Northen received from Rollins risk personnel, who advised that no adjustment to the casualty reserve account should be made in the second quarter of 2017 and that the need for any adjustments would be “more apparent” in the third quarter or fourth quarter of 2017. Later on the same day, and prior to the entry of the adjustment, Rollins risk personnel agreed with the reduction. After the casualty reserve adjustment, Rollins further made a termite reserve adjustment based on an amount provided by Northen.

26. The reductions to the bad debt, medical, casualty, and termite reserves were among the very last accounting adjustments made during the quarterly close process. Following these
adjustments, Rollins finance personnel sent Northen an updated calculation that showed that Rollins EPS was now at $0.2462 EPS, which rounded to $0.25.

27. As a result of these inadequately supported reserve adjustments, Rollins publicly reported in its Form 10-Q for the second quarter of 2017 and in its earnings release an EPS of $0.25. Without the reductions to the bad debt, medical, casualty, and termite reserves, Rollins would have reported EPS of $0.24, thereby missing consensus EPS estimates by one penny.

28. The inadequately supported reserve adjustments caused Rollins to misstate its net income and EPS in its Form 10-Q for the second quarter of 2017 and in its earnings release for this quarter. As CFO, Northen signed and certified Rollins’ Form 10-Q that included the misstated net income and EPS.

Rollins Lacked Accurate Books and Records and Sufficient Internal Accounting Controls, and Failed to Maintain Internal Control Over Financial Reporting

29. Between the first quarter of 2016 and the fourth quarter of 2018, Rollins’ finance personnel, including Northen, made multiple quarter-end adjustments to corporate-level reserves that were not adequately documented and that did not memorialize a sufficient basis for the adjustments. The corporate-level reserves included termite, legal/environmental, casualty, medical, bad debt, and outside services.

30. During this period, Rollins lacked sufficient internal accounting controls over (a) reserves for medical, casualty, bad debt, litigation, environmental and termite expenses, (b) manual journal entries, and (c) period-end adjustments made during the closing process. Although Rollins had policies and procedures requiring accounting entries to have adequate supporting documentation, its finance staff recorded manual journal entries with no or inadequate supporting documentation. Rollins also lacked procedures to ensure that the accounting personnel received necessary information to properly record and document quarter-end reserve adjustments. Finally, Rollins did not maintain a sufficient complement of personnel with the requisite level of accounting knowledge, experience, and training.

31. As a result, Rollins’ internal accounting controls were not designed or maintained to provide reasonable assurance that Rollins’ financial statements would be presented in conformity with GAAP, and it further failed to maintain internal control over financial reporting. Rollins’s books, records, and accounts also did not accurately and fairly reflect, in reasonable detail, Rollins’ transactions and disposition of assets.

VIOLATIONS

32. Section 17(a)(2) of the Securities Act proscribes, in the offer or sale of a security, obtaining “money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.” Section 17(a)(3) of the Securities Act proscribes, in the offer or sale of a security, engaging “in any transaction, practice, or course of
business which operates or would operate as a fraud or deceit upon the purchaser.” A violation of these provisions does not require scienter and may rest on a finding of negligence. See Aaron v. SEC, 446 U.S. 680, 685 & 701-02 (1980).

33. Section 13(a) of the Exchange Act requires issuers to file such periodic and other reports as the Commission may prescribe and in conformity with such rules as the Commission may promulgate. Exchange Act Rules 13a-11 and 13a-13 require issuers with securities registered under Section 12 of the Exchange Act to file current and quarterly reports, respectively. The obligation to file such reports embodies the requirement that they be true and correct. See, e.g., SEC v. Savoy Indus., Inc., 587 F.2d 1149, 1165 (D.C. Cir. 1978). In addition to the information expressly required to be included in such reports, Rule 12b-20 of the Exchange Act requires issuers to add such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading. A violation of these reporting provisions does not require scienter. See SEC v. Wills, 472 F. Supp. 1250, 1268 (D.D.C. 1978).

34. Section 13(b)(2)(A) of the Exchange Act requires Section 12 registrants to make and keep books, records, and accounts that accurately and fairly reflect the transactions and dispossession of their assets. Section 13(b)(2)(B) of the Exchange Act requires all reporting companies, among other things, to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP. Scienter is not an element of the books-and-records and internal accounting controls provisions. See Ponce v. SEC, 345 F.3d 722, 737 n.10 (9th Cir. 2003) (noting that a “plain reading of Section 13(b) reveals that it also does not impose a scienter requirement”). Also, Exchange Act Rule 13a-15(a) requires issuers to maintain internal control over financial reporting.

35. Section 13(b)(5) of the Exchange Act provides: “No person shall knowingly circumvent or knowingly fail to implement a system of internal accounting controls or knowingly falsify any book, record, or account described in paragraph (2) [of Section 13(b) ].”

36. Rule 13b2-1 prohibits any person from directly or indirectly falsifying or causing to be falsified, any book, record, or account subject to Section 13(b)(2)(A). A violation of Rule 13b2-1 does not require scienter and may rest on a finding of negligence. SEC v. World-Wide Coin Investments, 567 F. Supp. 724, 749 (N.D. Ga. 1983).

37. As a result of the conduct described above, the Commission finds that Rollins violated Securities Act Sections 17(a)(2) and 17(a)(3), and Exchange Act Sections 13(a), 13(b)(2)(A), 13(b)(2)(B), and Rules 12b-20, 13a-11, 13a-13, and 13a-15(a) thereunder.

38. As a result of the conduct described above, the Commission finds that Northen (a) violated Securities Act Sections 17(a)(2) and 17(a)(3), Exchange Act Section 13(b)(5), and Rule 13b2-1; and (b) caused Rollins’ violations of Securities Act Sections 17(a)(2) and 17(a)(3), and Exchange Act Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B), and Rules 12b-20, 13a-11, 13a-13, and 13a-15(a) thereunder.
ROLLINS’ COOPERATION AND REMEDIAL EFFORTS

39. In determining to accept Rollins’ Offer, the Commission considered cooperation and the remedial acts promptly undertaken by Rollins to prevent and detect the type of misconduct described in the Order.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents’ Offers.

Accordingly, it is hereby ORDERED, effective immediately, that:

A. Rollins shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act, and Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-11, 13a-13, and 13a-15(a) promulgated thereunder.

B. Northen shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act, and Sections 13(a), 13(b)(2)(A), 13(b)(2)(B) and 13(b)(5) of the Exchange Act and Rules 12b-20, 13a-11, 13a-13, 13a-15(a), and 13b-2 promulgated thereunder.

C. Rollins shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of $8,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier’s check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169  

Payments by check or money order must be accompanied by a cover letter identifying Rollins as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Carolyn Welshhans, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, DC 20549.

D. Northen shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of $100,000 to the Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier’s check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169  

Payments by check or money order must be accompanied by a cover letter identifying Northen as Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Carolyn Welshhans, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, DC 20549.

E. Regardless of whether the Commission in its discretion orders the creation of a Fair Fund for the penalties ordered in this proceeding, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the
amount of any part of Respondents’ payment of a civil penalty in this action (“Penalty Offset”). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Northen, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Northen under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Northen of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

By the Commission.

Vanessa A. Countryman
Secretary