

ROPER INDUSTRIES INC
Form 10-Q
November 05, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 1-12273

ROPER INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware 51-0263969
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6901 Professional Pkwy. East, Suite 200
Sarasota, Florida 34240
(Address of principal executive offices) (Zip Code)

(941) 556-2601
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(do not check if smaller reporting company)

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares outstanding of the Registrant's common stock as of October 24, 2014 was 102,105,552.

ROPER INDUSTRIES, INC.

REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited):	
Condensed Consolidated Statements of Earnings	3
Condensed Consolidated Statements of Comprehensive Income	4
Condensed Consolidated Balance Sheets	5
Condensed Consolidated Statements of Cash Flows	6
Condensed Consolidated Statement of Changes in Stockholders' Equity	7
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosures About Market Risk	18
Item 4. Controls and Procedures	18
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	18
Item 1A. Risk Factors	18
Item 6. Exhibits	19
Signatures	20

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Roper Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings (unaudited)
(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net sales	\$884,122	\$827,810	\$2,603,349	\$2,348,955
Cost of sales	360,082	345,185	1,067,191	999,247
Gross profit	524,040	482,625	1,536,158	1,349,708
Selling, general and administrative expenses	278,382	263,276	820,434	765,436
Income from operations	245,658	219,349	715,724	584,272
Interest expense, net	20,013	24,705	59,352	67,924
Other income, net	552	409	1,042	453
Earnings before income taxes	226,197	195,053	657,414	516,801
Income taxes	70,687	58,730	197,317	144,211
Net earnings	\$155,510	\$136,323	\$460,097	\$372,590
Net earnings per share:				
Basic	\$1.55	\$1.37	\$4.61	\$3.76
Diluted	1.54	1.36	4.56	3.72
Weighted average common shares outstanding:				
Basic	100,068	99,207	99,837	99,058
Diluted	101,006	100,302	100,803	100,152
Dividends declared per common share	\$0.200	\$0.165	\$0.600	\$0.495

See accompanying notes to condensed consolidated financial statements.

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Roper Industries, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net earnings	\$ 155,510	\$ 136,323	\$ 460,097	\$ 372,590
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	(60,755)	31,902	(53,763)	(10,219)
Total other comprehensive income/(loss), net of tax	(60,755)	31,902	(53,763)	(10,219)
Comprehensive income	\$ 94,755	\$ 168,225	\$ 406,334	\$ 362,371

See accompanying notes to condensed consolidated financial statements.

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Roper Industries, Inc. and Subsidiaries
 Condensed Consolidated Balance Sheets (unaudited)
 (in thousands)

	September 30, 2014	December 31, 2013
ASSETS:		
Cash and cash equivalents	\$ 564,112	\$ 459,720
Accounts receivable, net	528,734	519,075
Inventories, net	213,440	204,923
Deferred taxes	65,230	64,464
Unbilled receivables	103,124	86,945
Other current assets	58,051	38,210
Total current assets	1,532,691	1,373,337
Property, plant and equipment, net	115,243	117,310
Goodwill	4,731,394	4,549,998
Other intangible assets, net	2,020,798	2,039,136
Deferred taxes	29,051	28,773
Other assets	81,089	76,427
Total assets	\$ 8,510,266	\$ 8,184,981
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable	\$ 145,660	\$ 150,313
Accrued compensation	115,167	107,953
Deferred revenue	221,552	209,332
Other accrued liabilities	161,057	153,712
Income taxes payable	-	4,275
Deferred taxes	7,495	6,490
Current portion of long-term debt, net	11,074	11,016
Total current liabilities	662,005	643,091
Long-term debt, net of current portion	2,358,474	2,453,836
Deferred taxes	753,798	783,805
Other liabilities	87,765	91,199
Total liabilities	3,862,042	3,971,931
Commitments and contingencies (Note 10)		
Common stock	1,021	1,013
Additional paid-in capital	1,317,906	1,229,233
Retained earnings	3,359,297	2,959,196
Accumulated other comprehensive earnings	(10,680)	43,083
Treasury stock	(19,320)	(19,475)
Total stockholders' equity	4,648,224	4,213,050
Total liabilities and stockholders' equity	\$ 8,510,266	\$ 8,184,981

See accompanying notes to condensed consolidated financial statements.

5

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Roper Industries, Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows (unaudited)
 (in thousands)

	Nine months ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net earnings	\$460,097	\$372,590
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization of property, plant and equipment	30,442	28,269
Amortization of intangible assets	117,179	111,210
Amortization of deferred financing costs	3,003	2,916
Non-cash stock compensation	47,011	40,040
Changes in operating assets and liabilities, net of acquired businesses:		
Accounts receivable	(5,225)	43,101
Unbilled receivables	(16,615)	(13,257)
Inventories	(8,833)	(15,202)
Accounts payable and accrued liabilities	10,342	13,055
Income taxes payable	(54,178)	(12,643)
Other, net	(3,991)	(3,306)
Cash provided by operating activities	579,232	566,773
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(305,254)	(1,014,952)
Capital expenditures	(29,835)	(33,349)
Proceeds from sale of assets	1,262	1,740
Other, net	(6,566)	(144)
Cash used in investing activities	(340,393)	(1,046,705)
Cash flows from financing activities:		
Borrowings/(payments) under revolving line of credit, net	(95,000)	290,000
Proceeds from senior notes	-	800,000
Principal payments on senior notes	-	(500,000)
Principal payments on convertible notes	(561)	(2,115)
Cash premiums paid on convertible note conversions	(1,518)	(5,100)
Debt issuance costs	-	(7,717)
Cash dividends to stockholders	(59,827)	(32,706)
Proceeds from stock based compensation, net	26,424	16,839
Stock award tax excess windfall benefit	14,892	7,763
Treasury stock sales	2,080	1,833
Other	38	723
Cash provided by/(used in) financing activities	(113,472)	569,520
Effect of foreign currency exchange rate changes on cash	(20,975)	(198)
Net increase in cash and cash equivalents	104,392	89,390
Cash and cash equivalents, beginning of period	459,720	370,590
Cash and cash equivalents, end of period	\$564,112	\$459,980

See accompanying notes to condensed consolidated financial statements.

6

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Roper Industries, Inc. and Subsidiaries

Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited)

(in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive earnings	Treasury stock	Total
Balances at December 31, 2013	\$ 1,013	\$ 1,229,233	\$ 2,959,196	\$ 43,083	\$(19,475)	\$4,213,050
Net earnings	-	-	460,097	-	-	460,097
Stock option exercises	6	29,488	-	-	-	29,494
Treasury stock sold	-	1,924	-	-	155	2,079
Currency translation adjustments, net of \$1,652 tax	-	-	-	(53,763)	-	(53,763)
Stock based compensation	-	47,009	-	-	-	47,009
Restricted stock activity	2	(3,072)	-	-	-	(3,070)
Stock option tax benefit, net of shortfalls	-	14,727	-	-	-	14,727
Conversion of senior subordinated convertible notes, net of \$115 tax	-	(1,403)	-	-	-	(1,403)
Dividends declared	-	-	(59,996)	-	-	(59,996)
Balances at September 30, 2014	\$ 1,021	\$ 1,317,906	\$ 3,359,297	\$ (10,680)	\$(19,320)	\$4,648,224

See accompanying notes to condensed consolidated financial statements.

Roper Industries, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
September 30, 2014

1. Basis of Presentation

The accompanying condensed consolidated financial statements for the three and nine month periods ended September 30, 2014 and 2013 are unaudited. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the financial position, results of operations, comprehensive income and cash flows of Roper Industries, Inc. and its subsidiaries ("Roper" or the "Company") for all periods presented. The December 31, 2013 financial position data included herein was derived from the audited consolidated financial statements included in the 2013 Annual Report on Form 10-K ("Annual Report") filed on February 21, 2014 with the Security and Exchange Commission ("SEC") but does not include all disclosures required by U.S. generally accepted accounting principles ("GAAP").

Roper's management has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

The results of operations for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year. You should read these unaudited condensed consolidated financial statements in conjunction with Roper's consolidated financial statements and the notes thereto included in its Annual Report.

2. Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") establishes changes to accounting principles under GAAP in the form of accounting standards updates ("ASUs") to the FASB's Accounting Standards Codification. The Company considers the applicability and impact of all ASUs.

In June 2014, the FASB issued updates to the accounting for stock compensation. These updates, effective for fiscal years beginning after December 15, 2015, modify the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The Company does not expect these updates to have an impact on its results of operations, financial condition or cash flows.

In May 2014, the FASB issued updates on accounting and disclosures for revenue from contracts with customers. These updates, effective for annual reporting periods after December 15, 2016, create a single, comprehensive revenue recognition model for all contracts with customers. The model is based on changes in contract assets (rights to receive consideration) and liabilities (obligations to provide a good or service). Revenue will be recognized based on the satisfaction of performance obligations, which occurs when control of a good or service transfers to a customer. The Company is evaluating the impact of these updates on its results of operations, financial condition and cash flows.

3. Earnings Per Share

Basic earnings per share were calculated using net earnings and the weighted average number of shares of common stock outstanding during the respective period. Diluted earnings per share were calculated using net earnings and the weighted average number of shares of common stock and potential common stock outstanding during the respective period. Potentially dilutive common stock consisted of stock options and the premium over the conversion price on

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Roper's senior subordinated convertible notes based upon the trading price of Roper's common stock. The effects of potential common stock were determined using the treasury stock method. Weighted average shares outstanding are shown below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Basic shares outstanding	100,068	99,207	99,837	\$ 99,058
Effect of potential common stock:				
Common stock awards	788	905	815	894
Senior subordinated convertible notes	150	190	151	200
Diluted shares outstanding	101,006	100,302	100,803	100,152

For the three and nine month periods ended September 30, 2014 there were 670,000 and 781,000 outstanding stock options, respectively, that were not included in the determination of diluted earnings per share because doing so would have been antidilutive, as compared to 551,850 and 601,350 outstanding stock options, respectively, that would have been antidilutive for the three and nine month periods ended September 30, 2013.

4. Business Acquisitions

During the quarter ended September 30, 2014, Roper acquired 100% of the shares of for million of cash, in order . Foodlink is reported in the RF Technology segment, and SHP and IPA are both reported in the Medical & Scientific Imaging segment. The Company recorded million in goodwill and million of other identifiable intangibles in connection with the acquisitions; however, purchase price allocations are preliminary pending final intangibles valuations and tax-related adjustments. Supplemental pro forma information has not been provided as the acquisitions were immaterial both individually and in aggregate.

During the nine month period ended September 30, 2014, the Company expensed transaction costs of million related to the acquisitions as corporate general and administrative expenses, as incurred.

5. Stock Based Compensation

The Roper Industries, Inc. Amended and Restated 2006 Incentive Plan is a stock-based compensation plan used to grant incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights or equivalent instruments to Roper's employees, officers and directors.

Roper's stock purchase plan allows employees in the U.S. and Canada to designate up to 10% of eligible earnings to purchase Roper's common stock at a 5% discount to the average closing price of the stock at the beginning and end of a quarterly offering period. Common stock sold to employees may be either treasury stock, stock purchased on the open market, or newly issued shares.

The following table provides information regarding the Company's stock-based compensation expense (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Stock based compensation	\$ 16,998	\$ 13,756	\$ 47,011	\$ 40,040
Tax effect recognized in net income	5,949	4,814	16,454	14,014
Windfall tax benefit/(shortfall), net	3,126	2,075	14,727	7,632

Stock Options - In the nine months ended September 30, 2014, 614,500 options were granted with a weighted average fair value of \$35.02 per option. During the same period in 2013, 560,350 options were granted with a weighted average fair value of \$36.87 per option. All options were issued at grant date fair value, which is defined by the Plan as the closing price of Roper's common stock on the date of grant.

Roper records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. Historical data is used to estimate the expected price volatility, the expected dividend yield, the expected option life and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The following weighted average assumptions were used to estimate the fair value of options granted during current and prior year quarters using the Black-Scholes option-pricing model:

	Nine Months Ended September 30,	
	2014	2013
Risk-free interest rate (%)	1.63	0.80
Expected option life (years)	5.23	5.19
Expected volatility (%)	27.27	36.20

Expected dividend yield (%) 0.59 0.57

Cash received from option exercises for the nine months ended September 30, 2014 and 2013 was \$29.5 million and \$20.5 million, respectively.

Restricted Stock Awards - During the nine months ended September 30, 2014, 341,810 restricted stock awards were granted with a weighted average fair value of \$140.91 per restricted share. During the same period in 2013, 357,240 restricted stock awards were granted with a weighted average fair value of \$116.76 per restricted share. All grants were issued at grant date fair value.

During the nine months ended September 30, 2014, 94,645 restricted awards vested with a weighted average grant date fair value of \$85.33 per restricted share, and a weighted average vest date fair value of \$143.14 per restricted share.

Employee Stock Purchase Plan - During the nine months ended September 30, 2014 and 2013, participants of the employee stock purchase plan purchased 15,695 and 15,458 shares, respectively, of Roper's common stock for total consideration of \$2.10 million and \$1.80 million, respectively. All shares were purchased from Roper's treasury shares.

6. Inventories

The components of inventory were as follows (in thousands):

	September 30, 2014	December 31, 2013
Raw materials and supplies	\$ 133,473	\$ 127,525
Work in process	33,915	30,498
Finished products	91,054	90,352
Inventory reserves	(45,002)	(43,452)
	\$ 213,440	\$ 204,923

7. Goodwill and Other Intangible Assets

The carrying value of goodwill by segment was as follows (in thousands):

	Industrial Technology	Energy Systems & Controls	Medical & Scientific Imaging	RF Technology	Total
Balances at December 31, 2013	\$ 425,501	\$ 434,697	\$ 2,435,506	\$ 1,254,294	\$4,549,998
Goodwill Acquired	-	-	173,707	33,470	207,177
Other	-	275	(2,549)	-	(2,274)
Currency translation adjustments	(8,913)	(3,550)	(9,484)	(1,560)	(23,507)
Balances at September 30, 2014	\$ 416,588	\$ 431,422	\$ 2,597,180	\$ 1,286,204	\$4,731,394

Other relates primarily to a tax purchase accounting adjustment for MHA, Inc., acquired in May 2013.

Other intangible assets were comprised of (in thousands):

	Cost	Accumulated amortization	Net book value
Assets subject to amortization:			
Customer related intangibles	\$1,936,336	\$ (464,018)	\$1,472,318
Unpatented technology	216,044	(120,091)	95,953
Software	160,618	(58,084)	102,534
Patents and other protective rights	31,394	(21,922)	9,472
Trade names	656	(16)	640
Assets not subject to amortization:			
Trade names	358,219	-	358,219
Balances at December 31, 2013	\$2,703,267	\$ (664,131)	\$2,039,136
Assets subject to amortization:			
Customer related intangibles	\$1,988,946	\$ (522,581)	\$1,466,365
Unpatented technology	212,812	(129,498)	83,314
Software	156,740	(59,716)	97,024
Patents and other protective rights	26,771	(17,866)	8,905
Backlog	1,100	(168)	932
Trade names	653	(60)	593
Assets not subject to amortization:			
Trade names	363,665	-	363,665
Balances at September 30, 2014	\$2,750,687	\$ (729,889)	\$2,020,798

Amortization expense of other intangible assets was \$114,317 and \$108,223 during the nine months ended September 30, 2014 and 2013, respectively.

An evaluation of the carrying value of goodwill and indefinite-lived intangibles is required to be performed on an annual basis and on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. There have been no events or changes in circumstances which indicate an interim impairment review is required in 2014. The Company expects to perform the annual analysis during the fourth quarter.

10

8. Debt

Roper's 3.75% senior subordinated convertible notes due 2034 became convertible on January 15, 2009. During the nine months ended September 30, 2014, 1,178 notes were converted by note holders for \$2.1 million in cash. No gain or loss was recorded upon these conversions. In addition, a related \$0.12 million deferred tax liability associated with excess deductions recorded for tax purposes was relieved to additional paid-in capital upon the conversions.

At September 30, 2014, the conversion price on the remaining outstanding notes was \$488.37 per note. If converted at September 30, 2014, the value would have exceeded the \$8 million principal amount of the outstanding notes by \$22 million and could have resulted in the issuance of 151,922 shares of Roper's common stock.

9. Fair Value of Financial Instruments

Roper's debt at September 30, 2014 included \$2.2 billion of fixed-rate senior notes with the following fair values (in millions):

\$400 million senior notes due 2017	\$403
\$800 million senior notes due 2018	797
\$500 million senior notes due 2019	582
\$500 million senior notes due 2022	487

The fair values of the senior notes are based on the trading prices of the notes, which the Company has determined to be Level 2 in the FASB fair value hierarchy. Short-term debt included \$8 million of fixed-rate convertible notes which were at fair value due to the ability of note holders to exercise the conversion option of the notes.

10. Contingencies

Roper, in the ordinary course of business, is the subject of, or a party to, various pending or threatened legal actions, including product liability and employment practices. It is vigorously contesting all lawsuits that, in general, are based upon claims of the kind that have been customary over the past several years. After analyzing the Company's contingent liabilities on a gross basis and, based upon past experience with resolution of its product liability and employment practices claims and the limits of the primary, excess, and umbrella liability insurance coverages that are available with respect to pending claims, management believes that adequate provision has been made to cover any potential liability not covered by insurance, and that the ultimate liability, if any, arising from these actions should not have a material adverse effect on Roper's consolidated financial position, results of operations or cash flows.

Over recent years there has been an increase in certain U.S. states in asbestos-related litigation claims against numerous industrial companies. Roper or its subsidiaries have been named defendants in some such cases. No significant resources have been required by Roper to respond to these cases and the Company believes it has valid defenses to such claims and, if required, intends to defend them vigorously. Given the state of these claims it is not possible to determine the potential liability, if any.

Roper's financial statements include accruals for potential product liability and warranty claims based on its claims experience. Such costs are accrued at the time revenue is recognized. A summary of the warranty accrual activity for the nine months ended September 30, 2014 is presented below (in thousands):

Balance at December 31, 2013	\$14,336
Additions charged to costs and expenses	10,357
Deductions	(13,561)
Other	(1)
Balance at September 30, 2014	\$11,131

11. Business Segments

Sales and operating profit by industry segment are set forth in the following table (dollars in thousands):

	Three months ended September			Nine months ended September		
	30, 2014	2013	Change	30, 2014	2013	Change
Net sales:						
Industrial Technology	\$ 205,688	\$ 200,684	2.5 %	\$ 607,503	\$ 580,466	4.7 %
Energy Systems & Controls	170,765	155,058	10.1 %	491,804	456,031	7.8 %
Medical & Scientific Imaging	268,809	237,338	13.3 %	793,899	645,739	22.9 %
RF Technology	238,860	234,730	1.8 %	710,143	666,719	6.5 %
Total	\$ 884,122	\$ 827,810	6.8 %	\$ 2,603,349	\$ 2,348,955	10.8 %
Gross profit:						
Industrial Technology	\$ 104,012	\$ 101,259	2.7 %	\$ 306,464	\$ 296,414	3.4 %
Energy Systems & Controls	99,233	88,104	12.6 %	281,055	256,431	9.6 %
Medical & Scientific Imaging	193,132	167,433	15.3 %	572,738	440,718	30.0 %
RF Technology	127,663	125,829	1.5 %	375,901	356,145	5.5 %
Total	\$ 524,040	\$ 482,625	8.6 %	\$ 1,536,158	\$ 1,349,708	13.8 %
Operating profit*:						
Industrial Technology	\$ 62,046	\$ 60,753	2.1 %	\$ 178,540	\$ 164,278	8.7 %
Energy Systems & Controls	49,033	41,076	19.4 %	130,844	118,432	10.5 %
Medical & Scientific Imaging	91,227	71,968	26.8 %	275,379	179,433	53.5 %
RF Technology	69,351	66,469	4.3 %	203,183	183,828	10.5 %
Total	\$ 271,657	\$ 240,266	13.1 %	\$ 787,946	\$ 645,971	22.0 %
Long-lived assets:						
Industrial Technology	\$ 47,147	\$ 49,055	(3.9)%			
Energy Systems & Controls	17,537	19,501	(10.1)%			
Medical & Scientific Imaging	44,513	43,105	3.3 %			
RF Technology	29,211	28,360	3.0 %			
Total	\$ 138,408	\$ 140,021	(1.2)%			

*Segment operating profit is before unallocated corporate general and administrative expenses. These expenses were \$25,999 and \$20,917 for the three months ended September 30, 2014 and 2013, respectively, and \$72,222 and \$61,699 for the nine months ended September 30, 2014 and 2013, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with Management's Discussion and Analysis of Financial Conditions and Results of Operations included in our Annual Report for the year ended December 31, 2013 as filed on February 21, 2014 with the SEC and the notes to our Condensed Consolidated Financial Statements included

elsewhere in this report.

Information About Forward-Looking Statements

This report includes "forward-looking statements" within the meaning of the federal securities laws. In addition, we, or our executive officers on our behalf, may from time to time make forward-looking statements in reports and other documents we file with the U.S. Securities and Exchange Commission ("SEC") or in connection with oral statements made to the press, potential investors or others. All statements that are not historical facts are "forward-looking statements." Forward-looking statements may be indicated by words or phrases such as "anticipate," "estimate," "plans," "expects," "projects," "should," "will," "believes" or "intends" and similar words and phrases. These statements reflect management's current beliefs and are not guarantees of future performance. They involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in any forward-looking statement.

Examples of forward-looking statements in this report include but are not limited to statements regarding operating results, the success of our internal operating plans, our expectations regarding our ability to generate operating cash flows and reduce debt and associated interest expense, profit and cash flow expectations, the prospects for newly acquired businesses to be integrated and contribute to future growth and our expectations regarding growth through acquisitions. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the cost, timing and success of product upgrades and new product introductions, raw materials costs, expected pricing levels, the timing and cost of expected capital expenditures, expected outcomes of pending litigation, competitive conditions, general economic conditions and expected synergies relating to acquisitions, joint ventures and alliances. These assumptions could prove inaccurate. Although we believe that the estimates and projections reflected in the forward-looking statements are reasonable, our expectations may prove to be incorrect. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, but are not limited to:

- general economic conditions;
- difficulty making acquisitions and successfully integrating acquired businesses;
- any unforeseen liabilities associated with future acquisitions;
- limitations on our business imposed by our indebtedness;
- unfavorable changes in foreign exchange rates;
- difficulties associated with exports;
- risks and costs associated with our international sales and operations;
- increased directors' and officers' liability and other insurance costs;
- risk of rising interest rates;
- product liability and insurance risks;
- increased warranty exposure;
- future competition;
- the cyclical nature of some of our markets;
- reduction of business with large customers;
- risks associated with government contracts;
- changes in the supply of, or price for, raw materials, parts and components;
- environmental compliance costs and liabilities;
- risks and costs associated with asbestos-related litigation;
- potential write-offs of our substantial goodwill and other intangible assets;
- our ability to successfully develop new products;
- failure to protect our intellectual property;
- the effect of, or change in, government regulations (including tax);
- economic disruption caused by terrorist attacks, health crises or other unforeseen events; and
- the factors discussed in other reports filed with the SEC.

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to publicly update any of these statements in light of new information or future events.

Overview

Roper Industries, Inc. ("Roper," "we" or "us") is a diversified technology company that designs, manufactures and distributes radio frequency ("RF") products, services and application software, industrial technology products, energy systems and controls and medical and scientific imaging products and software. We market these products and services to a broad range of markets, including RF applications, medical, water, energy, research, education, software-as-a-service ("SaaS")-based information networks, security and other niche markets.

We pursue consistent and sustainable growth in earnings by emphasizing continuous improvement in the operating performance of our existing businesses and by acquiring other carefully selected businesses that offer high value-added services, engineered products and solutions and are capable of achieving growth and maintaining high margins. Our acquisitions have represented both financial bolt-ons and new strategic platforms. We strive for high cash and earnings returns from our investments.

Critical Accounting Policies

There were no material changes during the nine months ended September 30, 2014 to the items that we disclosed as our critical accounting policies and estimates in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2013 Annual Report on Form 10-K filed on February 21, 2014.

Recently Issued Accounting Standards

Information regarding new accounting pronouncements is included in Note 2 of the Notes to Condensed Consolidated Financial Statements.

Results of Operations

General

The following table sets forth selected information for the periods indicated. Dollar amounts are in thousands and percentages are the particular line item shown as a percentage of net sales. Percentages may not foot due to rounding.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net sales:				
Industrial Technology	\$ 205,688	\$ 200,684	\$ 607,503	\$ 580,466
Energy Systems & Controls	170,765	155,058	491,804	456,031
Medical & Scientific Imaging	268,809	237,338	793,899	645,739
RF Technology	238,860	234,730	710,143	666,719
Total	\$ 884,122	\$ 827,810	\$ 2,603,349	\$ 2,348,955
Gross margin:				
Industrial Technology	50.6	% 50.5	% 50.4	% 51.1
Energy Systems & Controls	58.1	56.8	57.1	56.2
Medical & Scientific Imaging	71.8	70.5	72.1	68.3
RF Technology	53.4	53.6	52.9	