ROPER INDUSTRIES INC
Form 10-Q
November 02, 2009

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2009.

[ ] 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 (State or other jurisdiction of incorporation or organization)	51-0263969 (I.R.S. Employer Identification No.)
6901 Professional Pkwy. East, Suite 200 Sarasota, Florida (Address of principal executive offices)	34240 (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. þ 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). þ 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):

þ 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 12-b2 of the Act). ¨ Yes þ No

The number of shares outstanding of the Registrant's common stock as of October 23, 2009 was approximately 91,054,995.

ROPER INDUSTRIES, INC.

REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED September 30, 2009

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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,	
	2009	2008*	2009	2008*
Net sales	$ 485,676	$ 593,100	$ 1,496,030	$ 1,730,509
Cost of sales	240,156	284,340	744,304	840,029
Gross profit	245,520	308,760	751,726	890,480
Selling, general and administrative expenses	153,648	176,461	477,098	523,374
Income from operations	91,872	132,299	274,628	367,106
Interest expense	14,437	16,122	41,708	42,141
Other income/(expense)	105	(2,836)	2,917	(1,695)
Earnings before income taxes	77,540	113,341	235,837	323,270
Income taxes	21,130	39,312	68,280	112,267
Net earnings	$ 56,410	$ 74,029	$ 167,557	$ 211,003
Net earnings per share:				
Basic	$ 0.62	$ 0.83	$ 1.85	$ 2.36
Diluted	0.61	0.79	1.81	2.24
Weighted average common shares outstanding:				
Basic	90,877	89,629	90,526	89,381
Diluted	92,908	94,251	92,635	94,026
Dividends declared per common share	$ 0.0825	$ 0.0725	$ 0.2475	$ 0.2175

*As restated – see Note 2 of the notes to the Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2009	December 31, 2008*
ASSETS:		
Cash and cash equivalents	$ 256,024	$ 178,069
Accounts receivable, net	323,959	376,855
Inventories, net	174,055	185,919
Deferred taxes	27,540	29,390
Unbilled receivables	60,344	61,168
Other current assets	65,572	26,906
Total current assets	907,494	858,307
Property, plant and equipment, net	104,748	112,463
Goodwill	2,142,765	2,118,852
Other intangible assets, net	759,241	804,020
Deferred taxes	31,190	28,050
Other noncurrent assets	56,383	49,846
Total assets	$ 4,001,821	$ 3,971,538
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable	$ 100,561	$ 121,807
Accrued liabilities	224,483	261,682
Income taxes payable	-	1,892
Deferred taxes	1,079	-
Current portion of long-term debt	119,852	233,526
Total current liabilities	445,975	618,907
Long-term debt, net of current portion	1,004,357	1,033,689
Deferred taxes	286,352	272,182
Other liabilities	42,662	42,826
Total liabilities	1,779,346	1,967,604
Commitments and contingencies		
Common stock	931	919
Additional paid-in capital	846,966	815,736
Retained earnings	1,332,555	1,187,467
Accumulated other comprehensive earnings	63,425	21,513
Treasury stock	(21,402)	(21,701)
Total stockholders' equity	2,222,475	2,003,934
Total liabilities and stockholders' equity	$ 4,001,821	$ 3,971,538

*As restated - see Note 2 of the notes to the Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30, 2009	2008
Cash flows from operating activities:		
Net earnings	$ 167,557	$ 211,003
Non-cash items:		
Depreciation	25,828	24,775
Amortization	51,280	50,588
Stock-based compensation	20,821	22,848
Changes in assets and liabilities		
Receivables	54,127	(5,517)
Inventory	14,496	(12,157)
Accounts payable	(22,354)	5,358
Accrued liabilities	(42,375)	2,234
Income taxes	(24,146)	2,602
Other, net	2,615	3,805
Cash provided by operating activities	247,849	305,539
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(1,248)	(701,935)
Capital expenditures	(18,708)	(20,787)
Proceeds from sale of assets	10,589	1,184
Other, net	(3,606)	(5,268)
Cash used in investing activities	(12,973)	(726,806)
Cash flows from financing activities:		
Proceeds from senior notes	500,000	500,000
Proceeds/(payments) of senior unsecured term loan	(350,000)	350,000
Convertible note principal payments	(116,186)	-
Borrowings/(payments) under revolving line of credit, net	(179,000)	393,000
Repayment of borrowings under prior credit facility	-	(908,620)
Principal payments on term note under prior credit facility	-	(49,125)
Debt issuance costs	(4,310)	(10,169)
Dividends paid	(22,343)	(19,393)
Excess tax benefits from share based payments	1,055	4,688
Proceeds from exercise of stock options	4,845	10,050
Other, net	(604)	918
Cash provided by /(used in) financing activities	(166,543)	271,349
Effect of foreign currency exchange rate changes on cash	9,622	(2,578)
Net increase/(decrease) in cash and cash equivalents	77,955	(152,496)
Cash and cash equivalents, beginning of period	178,069	308,768

Cash and cash equivalents, end of period	$	256,024	$	156,272

See accompanying notes to condensed consolidated financial statements.

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, 2008, as reported	$ 919	$ 798,486	$ 1,204,521	$ 21,513	$ (21,701)	$ 2,003,738
Adjustment to adopt new accounting standard (Note 2)	-	17,250	(17,054)	-	-	196
Balances at December 31, 2008, as adjusted	$ 919	$ 815,736	$ 1,187,467	$ 21,513	$ (21,701)	$ 2,003,934
Net earnings	-	-	167,557	-	-	167,557
Stock option exercises	2	4,843	-	-	-	4,845
Treasury stock transactions	-	997	-	-	299	1,296
Restricted stock grants	-	(3,219)	-	-	-	(3,219)
Stock based compensation	-	20,255	-	-	-	20,255
Stock option tax benefit, net of shortfalls	-	240	-	-	-	240
Currency translation adjustments, net of $1,890 tax	-	-	-	41,912	-	41,912
Conversion of senior subordinated convertible notes	10	8,114	-	-	-	8,124
Dividends declared	-	-	(22,469)	-	-	(22,469)
Balances at September 30, 2009	$ 931	$ 846,966	$ 1,332,555	$ 63,425	$ (21,402)	$ 2,222,475

See accompanying notes to condensed consolidated financial statements

Roper Industries, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
September 30, 2009

1. Basis of Presentation

The accompanying condensed consolidated financial statements for the three and nine month periods ended September 30, 2009 and 2008 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 and cash flows of Roper Industries, Inc. and its subsidiaries ("Roper", "we" or "us") for all periods presented.

Our management has made a number of 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 accounting principles generally accepted in the United States of America ("GAAP"). Actual results could differ from those estimates.

The results of operations for the three and nine month periods ended September 30, 2009 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 2008 Annual Report on Form 10-K ("Annual Report") filed on March 2, 2009 with the Securities and Exchange Commission ("SEC"), as supplemented by our Current Report on Form 8-K filed on May 15, 2009 to retrospectively adopt accounting guidance related to the treatment of certain convertible debt instruments– see Note 2 below.

In May 2009, the Financial Accounting Standards Board ("FASB") issued a standard which established general accounting standards and disclosure for subsequent events. We adopted this standard during the second quarter of 2009 and have accordingly evaluated subsequent events through the date and time the financial statements were issued on November 2, 2009.

2. Recent Accounting Pronouncements

In May 2008, the FASB issued guidance regarding convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement). Issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Retrospective application is required for all periods presented.

The adoption of this guidance on January 1, 2009 impacted the historical accounting for our 3.75% senior subordinated convertible notes due 2034 as of December 6, 2004, the date that the notes were modified to allow holders to receive cash only for accreted principal upon settlement of the notes with any remainder of the conversion value payable in cash or common stock, thus qualifying the notes for treatment under the new guidance. The required retrospective adoption resulted in a decrease in long term debt (debt discount) of $26.5 million, an increase in deferred tax liabilities of $9.3 million, and an increase in additional paid in capital of $17.3 million at December 9, 2004. The debt discount was amortized using the effective interest rate method based on an annual effective rate of 7.0%, which represented a market interest rate for similar debt without a conversion option on the modification date. The debt discount was amortized through January 15, 2009, the first date that holders of the notes could exercise their put option and we could exercise our call option. For more information on our senior subordinated convertible notes, please see Note 9 of the notes to the Consolidated Financial Statements in our Annual Report.

The following financial statement line items for the three and nine month periods ended September 30, 2008 and as of December 31, 2008 were affected by the change in accounting principle (amounts are in thousands, except per share data):

	Three months ended September 30, 2008		
	As reported	Adjustment	As adjusted
Interest Expense	$14,322	$ 1,800	$16,122
Earnings before income taxes	115,141	(1,800)	113,341
Income taxes	39,942	(630)	39,312
Net Earnings	75,199	(1,170)	74,029
Net earnings per share-Basic	$0.84	$ (0.01)	$0.83
Net earnings per share-Diluted	0.80	(0.01)	0.79

	Nine months ended September 30, 2008		
	As reported	Adjustment	As adjusted
Interest Expense	$36,833	$ 5,308	$42,141
Earnings before income taxes	328,578	(5,308)	323,270
Income taxes	114,124	(1,857)	112,267
Net Earnings	214,454	(3,451)	211,003
Net earnings per share-Basic	$2.40	$ (0.04)	$2.36
Net earnings per share-Diluted	2.28	(0.04)	2.24

	December 31, 2008		
	As reported	Adjustment	As adjusted
Current portion of long-term debt	$233,827	$ (301)	$233,526
Total current liabilities	619,208	(301)	618,907
Long-term deferred taxes	272,077	105	272,182
Total liabilities	1,967,800	(196)	1,967,604
Additional paid in capital	798,486	17,250	815,736
Retained earnings	1,204,521	(17,054)	1,187,467
Total stockholders' equity	2,003,738	196	2,003,934

In June 2009, the FASB issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" (the "Codification") as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification is nonauthoritative. The codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the Codification during the quarter ended September 30, 2009. Adoption of the Codification had no impact on our results of operations, financial condition or cash flows.

In October 2009, the FASB issued amendments to the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted), modify the criteria for recognizing revenue in multiple element arrangements and the scope of what constitutes a non-software deliverable. We are currently assessing the impact on our results of operations, financial condition and cash flows.

In September 2009, the FASB issued guidance on the measurement of liabilities at fair value, effective as of the beginning of the next interim or annual reporting period after issuance. We do not expect adoption of this guidance to have an impact on our results of operations, financial condition or cash flows.

In May 2009, the FASB issued general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This requires an entity to disclose the date subsequent events were evaluated and whether that evaluation took place on the date financial statements were issued or were available to be issued. It was effective for interim and annual periods ending after June 15, 2009. The adoption did not have a material impact on our results of operations, financial condition or cash flows.

In April 2009, the FASB issued guidance requiring disclosures about fair value of financial instruments in summarized financial information for interim reporting periods. We have adopted the guidance and provided the additional disclosures required.

In December 2007, the FASB issued a statement regarding business combinations which establishes principles and requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interest (previously referred to as minority interest) in the acquiree. On April 1, 2009, the FASB issued an amendment addressing application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. We will apply the provisions of this statement prospectively to business combinations acquired on or after January 1, 2009.

In April 2008, the FASB issued guidance related to the determination of the useful life of intangible assets, amending the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under previous standards. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions on or after January 1, 2009, and increases the disclosure requirements related to renewal or extension assumptions. We will apply the provisions of this guidance prospectively to business combinations acquired on or after January 1, 2009.

In June 2008, the FASB issued guidance clarifying that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. We adopted this guidance on January 1, 2009. The implementation of this standard did not have a material impact on our consolidated financial position and results of operations.

In September 2006, the FASB issued a standard which clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements. The standard was effective for fiscal years beginning after November 15, 2007 and did not have a material impact on our consolidated financial statements. In February 2008, the FASB issued guidance which delayed the effective date of this standard for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. We adopted this guidance on January 1, 2009. The adoption of the provisions related to non-financial assets and liabilities did not have a material effect on our consolidated financial statements.

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 our 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. For the three and nine month periods ended September 30, 2009 there were 2,128,000 and 2,234,000 outstanding stock options, respectively, that were not included in the determination of diluted earnings per share because doing so would have been antidilutive; this compares to 28,000 outstanding stock options that would have been antidilutive for both the three and nine month periods ended September 30, 2008.

	Three months ended September 30,		Nine months ended September 30,	
	(in thousands)			
	2009	2008	2009	2008
Basic shares outstanding	90,877	89,629	90,526	89,381
Effect of potential common stock:				
Common stock awards	867	1,216	831	1,262
Senior subordinated convertible notes	1,164	3,406	1,278	3,383
Diluted shares outstanding	92,908	94,251	92,635	94,026

4. Stock Based Compensation

The Roper Industries, Inc. Amended and Restated 2006 Incentive Plan allows us to grant incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights or equivalent instruments to our employees, officers, directors and consultants.

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

The following table provides information regarding our stock based compensation expense (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Stock based compensation	$6.7	$8.1	$20.8	$22.8
Tax effect recognized in net income	2.4	2.8	7.3	8.0
Tax benefit, net	0.6	0.8	0.2	4.7

Stock Options - In the nine month period ended September 30, 2009, 505,100 options were granted with a weighted average fair value per share of $12.40. During the same period in 2008, 1,050,500 options were granted with a weighted average fair value per share of $12.83. All options were issued at grant date fair value.

We record 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. We use historical data among other factors 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 periods using the Black-Scholes option-pricing model:

	Nine months ended September 30,	
	2009	2008
Fair value per share ($)	12.40	12.83
Risk-free interest rate (%)	1.74	2.87
Expected option life (years)	5.37	5.02
Expected volatility (%)	32.10	21.10
Expected dividend yield (%)	0.79	0.53

Cash received from option exercises for the nine months ended September 30, 2009 and 2008 was approximately $4.8 million and $10.1 million, respectively.

Restricted Stock Awards - During the nine months ended September 30, 2009, we granted 181,900 restricted stock awards with a weighted average fair value per share of $41.66. During the same period in 2008, 604,800 awards were granted with a weighted average fair value per share of $56.96. All grants were issued at grant date fair value.

During the nine months ended September 30, 2009, 251,700 restricted awards vested with a weighted average grant date fair value per share of $51.42, at a weighted average vest date fair value per share of $40.83.

Employee Stock Purchase Plan - During the nine month periods ended September 30, 2009 and 2008, participants of the employee stock purchase plan purchased 30,160 and 25,280 shares, respectively, of our common stock for total consideration of $1.3 million and $1.5 million, respectively. All shares were purchased from our treasury shares.

5. Comprehensive Earnings

Comprehensive earnings include net earnings and all other non-owner sources of changes in net assets and are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008*	2009	2008*
Net income	$56,410	$74,029	$167,557	$211,003
Currency translation adjustments	16,752	(27,143)	41,912	(7,761)
Unrealized loss on interest rate swap	-	-	-	(540)
Comprehensive earnings	$73,162	$46,886	$209,469	$202,702

* as adjusted, see Note 2

6. Inventories

	September 30, 2009	December 31, 2008
	(in thousands)	
Raw materials and supplies	$ 113,542	$ 120,604
Work in process	27,895	26,913
Finished products	61,810	68,510
Inventory reserves	(29,192)	(30,108)
	$ 174,055	$ 185,919

7. Goodwill

	Industrial Technology	Energy Systems & Controls	Scientific & Industrial Imaging	RF Technology	Total
	(in thousands)				
Balances at December 31, 2008	$ 423,661	$ 381,656			