

ROPER TECHNOLOGIES INC  
Form 10-Q  
May 06, 2016  
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 March 31, 2016.

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 TECHNOLOGIES, 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)

(Former name, former address and former fiscal year, if changed since last report)

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

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(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 April 29, 2016 was 101,200,868.

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ROPER TECHNOLOGIES, INC.

REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|  | Three months ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2016                            | 2015      |
| Net sales                                    | \$902,423                       | \$865,281 |
| Cost of sales                                | 342,904                         | 347,120   |
| Gross profit                                 | 559,519                         | 518,161   |
| Selling, general and administrative expenses | 314,528                         | 271,265   |
| Income from operations                       | 244,991                         | 246,896   |
| Interest expense, net                        | 27,413                          | 19,836    |
| Other expense, net                           | (129 )                          | (679 )    |
| Earnings before income taxes                 | 217,449                         | 226,381   |
| Income taxes                                 | 66,033                          | 70,608    |
| Net earnings                                 | \$151,416                       | \$155,773 |
| Earnings per share:                          |                                 |           |
| Basic  | \$1.50                          | \$1.55    |
| Diluted                                      | 1.48                            | 1.54      |
| Weighted average common shares outstanding:  |                                 |           |
| Basic  | 101,071                         | 100,377   |
| Diluted                                      | 102,318                         | 101,361   |
| Dividends declared per common share          | \$0.30                          | \$0.25    |

See accompanying notes to condensed consolidated financial statements.

Roper Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)

|   | Three months ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2016                            | 2015       |
| Net earnings                                      | \$ 151,416                      | \$ 155,773 |
| Other comprehensive gain/(loss), net of tax:      |                                 |            |
| Foreign currency translation adjustments          | 1,743                           | (92,010 )  |
| Post-retirement benefit plan adjustments          | -                               | (1,063 )   |
| Total other comprehensive gain/(loss), net of tax | 1,743                           | (93,073 )  |
| Comprehensive income                              | \$ 153,159                      | \$ 62,700  |

See accompanying notes to condensed consolidated financial statements.

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

|  | March 31,<br>2016 | December 31,<br>2015 |
|--|-------------------|----------------------|
| <b>ASSETS:</b>                               |                   |                      |
| Cash and cash equivalents                    | \$523,033         | \$ 778,511           |
| Accounts receivable, net                     | 514,616           | 488,271              |
| Inventories, net                             | 196,321           | 189,868              |
| Unbilled receivables                         | 120,746           | 122,042              |
| Prepaid income taxes                         | 31,124            | -                    |
| Other current assets                         | 46,492            | 39,355               |
| Total current assets                         | 1,432,332         | 1,618,047            |
| Property, plant and equipment, net           | 106,212           | 105,510              |
| Goodwill                                     | 5,975,803         | 5,824,726            |
| Other intangible assets, net                 | 2,622,157         | 2,528,996            |
| Deferred taxes                               | 31,254            | 31,532               |
| Other assets                                 | 56,650            | 59,554               |
| Total assets                                 | \$ 10,224,408     | \$ 10,168,365        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b> |                   |                      |
| Accounts payable                             | \$ 140,421        | \$ 139,737           |
| Accrued compensation                         | 91,288            | 119,511              |
| Deferred revenue                             | 275,230           | 267,030              |
| Other accrued liabilities                    | 185,305           | 168,513              |
| Income taxes payable                         | 80,879            | 18,532               |
| Current portion of long-term debt, net       | 6,365             | 6,805                |
| Total current liabilities                    | 779,488           | 720,128              |
| Long-term debt, net of current portion       | 3,105,340         | 3,264,417            |
| Deferred taxes                               | 826,425           | 810,856              |
| Other liabilities                            | 71,920            | 74,017               |
| Total liabilities                            | 4,783,173         | 4,869,418            |
| Commitments and contingencies (Note 10)      |                   |                      |
| Common stock                                 | 1,031             | 1,028                |
| Additional paid-in capital                   | 1,438,695         | 1,419,262            |
| Retained earnings                            | 4,231,589         | 4,110,530            |
| Accumulated other comprehensive earnings     | (211,036 )        | (212,779 )           |
| Treasury stock                               | (19,044 )         | (19,094 )            |
| Total stockholders' equity                   | 5,441,235         | 5,298,947            |
| Total liabilities and stockholders' equity   | \$ 10,224,408     | \$ 10,168,365        |

See accompanying notes to condensed consolidated financial statements.

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

|  | Three months ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2016                            | 2015       |
| Cash flows from operating activities:  |                                 |            |
| Net earnings   | \$ 151,416                      | \$ 155,773 |
| Adjustments to reconcile net earnings to cash flows from operating activities: |                                 |            |
| Depreciation and amortization of property, plant and equipment                 | 9,702                           | 9,880      |
| Amortization of intangible assets  | 49,549                          | 38,428     |
| Amortization of deferred financing costs                                       | 1,359                           | 1,001      |
| Non-cash stock compensation  | 18,979                          | 13,801     |
| Changes in operating assets and liabilities, net of acquired businesses:       |                                 |            |
| Accounts receivable  | (16,355 )                       | 20,304     |
| Unbilled receivables   | 2,296                           | (11,042 )  |
| Inventories  | (3,907 )                        | (7,680 )   |
| Accounts payable and accrued liabilities                                       | (19,731 )                       | 8,705      |
| Income taxes payable   | 20,127                          | 38,837     |
| Other, net   | (6,363 )                        | (7,608 )   |
| Cash provided by operating activities  | 207,072                         | 260,399    |
| Cash flows from investing activities:  |                                 |            |
| Acquisitions of businesses, net of cash acquired                               | (265,248 )                      | (589,577)  |
| Capital expenditures   | (9,489 )                        | (9,950 )   |
| Proceeds from sale of assets   | 673                             | 140        |
| Other, net   | 108                             | (3,736 )   |
| Cash used in investing activities  | (273,956)                       | (603,123)  |
| Cash flows from financing activities:  |                                 |            |
| Borrowings/(payments) under revolving line of credit, net                      | (160,000)                       | 415,000    |
| Principal payments on convertible notes  | (289 )                          | (3,454 )   |
| Cash premiums paid on convertible note conversions                             | (915 )                          | (11,236 )  |
| Debt issuance costs  | (63 )                           | -          |
| Cash dividends to stockholders   | (30,173 )                       | (25,024 )  |
| Proceeds from stock based compensation, net                                    | 690                             | 6,267      |
| Stock award tax excess windfall benefit  | -                               | 4,093      |
| Treasury stock sales   | 879                             | 787        |
| Other  | (311 )                          | (289 )     |
| Cash provided by/(used in) financing activities                                | (190,182)                       | 386,144    |
| Effect of foreign currency exchange rate changes on cash                       | 1,588                           | (38,357 )  |
| Net increase/(decrease) in cash and cash equivalents                           | (255,478)                       | 5,063      |
| Cash and cash equivalents, beginning of period                                 | 778,511                         | 610,430    |
| Cash and cash equivalents, end of period                                       | \$ 523,033                      | \$ 615,493 |



See accompanying notes to condensed consolidated financial statements.

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Roper Technologies, Inc. and Subsidiaries  
Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited)  
(in thousands)

|   | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>earnings | Treasury<br>stock | Total       |
|---|-----------------|----------------------------------|----------------------|---|-------------------|-------------|
| Balances at December 31, 2015   | \$ 1,028        | \$ 1,419,262                     | \$ 4,110,530         | \$ (212,779 )                                     | \$(19,094)        | \$5,298,947 |
| Net earnings  | -               | -                                | 151,416              | -   | -                 | 151,416     |
| Stock option exercises  | -               | 1,947                            | -                    | -   | -                 | 1,947       |
| Treasury stock sold   | -               | 829                              | -                    | -   | 50                | 879         |
| Currency translation adjustments, net<br>of \$3,486 tax                 | -               | -                                | -                    | 1,743   | -                 | 1,743       |
| Stock based compensation  | -               | 18,757                           | -                    | -   | -                 | 18,757      |
| Restricted stock activity   | 3               | (1,261 )                         | -                    | -   | -                 | (1,258 )    |
| Conversion of senior subordinated<br>convertible notes, net of \$76 tax | -               | (839 )                           | -                    | -   | -                 | (839 )      |
| Dividends declared  | -               | -                                | (30,357 )            | -   | -                 | (30,357 )   |
| Balances at March 31, 2016  | \$ 1,031        | \$ 1,438,695                     | \$ 4,231,589         | \$ (211,036 )                                     | \$(19,044)        | \$5,441,235 |

See accompanying notes to condensed consolidated financial statements.

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Roper Technologies, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)  
March 31, 2016

## 1. Basis of Presentation

The accompanying condensed consolidated financial statements for the three months ended March 31, 2016 and 2015 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 Technologies, Inc. and its subsidiaries ("Roper" or the "Company") for all periods presented. The December 31, 2015 financial position data included herein was derived from the audited consolidated financial statements included in the 2015 Annual Report on Form 10-K ("Annual Report") filed on February 26, 2016 with the Securities and Exchange Commission ("SEC") but does not include all disclosures required by U.S. generally accepted accounting principles ("GAAP").

In the three month period ended March 31, 2016, Roper early adopted the provisions of an accounting standards update ("ASU") which affected the accounting for share-based payment awards. The provisions changed the reporting of excess tax benefits and tax deficiencies so that they are now reported in the income statement instead of additional paid-in capital, and the related cash flows are classified as operating activities as compared to the previous classification of financing activities. See Note 2 for additional information regarding the ASU.

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 months ended March 31, 2016 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 to the FASB's Accounting Standards Codification. The Company considers the applicability and impact of all ASUs. Any ASUs not listed below were assessed and determined to be either not applicable or are expected to have an immaterial impact on the Company's results of operations, financial position or cash flows.

In March 2016, the FASB issued an update on stock compensation. The ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This standard is effective for annual reporting periods beginning after December 15, 2016. The Company elected to early adopt this standard in the quarter ended March 31, 2016. The impact of the early adoption resulted in the following:

The Company recorded a tax benefit of \$1.3 million within income tax expense for the three months ended March 31, 2016 related to the excess tax benefit on share-based awards. Prior to adoption this amount would have been recorded as a reduction of additional paid-in capital. This change could create volatility in the Company's effective tax rate.

The Company no longer reclassifies the excess tax benefit from operating activities to financing activities in the statement of cash flows. The Company elected to apply this change in presentation prospectively and thus prior periods have not been adjusted.

The Company elected not to change its policy on accounting for forfeitures and continued to estimate the total number of awards for which the requisite service period will not be rendered.

The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the quarter ended March 31, 2016. This increased diluted weighted average common shares outstanding by 318 thousand shares.

In March 2016, the FASB issued an update amending the equity method of accounting, eliminating the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for the equity method as a result of an increase in the level of ownership or degree of influence. The amendments in the update, to be applied prospectively, are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company elected to early adopt on a prospective basis effective January 1, 2016. The update did not have a material impact on its results of operations, financial condition or cash flows.

In September 2015, the FASB issued an update providing guidance to simplify the accounting for measurement period adjustments. This update, effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The Company adopted the update effective January 1, 2016. The update did not have a material impact on its results of operations, financial condition or cash flows.

In April 2015, the FASB issued an update providing guidance to determine whether the fee paid by an entity for a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the software license element of the arrangement should be accounted for consistently with the acquisition of other software licenses. A cloud computing arrangement that does not include a software license should be accounted for as a service contract. The update is effective for annual periods beginning after December 15, 2015, and may be adopted prospectively or retrospectively. The Company adopted the update prospectively effective January 1, 2016. The update did not have a material impact on its results of operations, financial condition or cash flows.

In June 2014, the FASB issued an update to the accounting for stock compensation. This update, effective for fiscal years beginning after December 15, 2015, modifies 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 adopted the update prospectively effective January 1, 2016. The update did not have a material impact on its results of operations, financial condition or cash flows.

In February 2016, the FASB issued an update on lease accounting. The update, effective for annual reporting periods after December 15, 2018, including interim periods within those annual periods, provides amendments to current lease accounting. These amendments include the recognition of lease assets and lease liabilities on the balance sheet and disclosing other key information about leasing arrangements. The Company is evaluating the impact of these updates on its results of operations, financial condition and cash flows.

In July 2015, the FASB issued an update providing guidance to simplify the measurement of inventory. This update, effective for fiscal years beginning after December 15, 2016, requires that inventory within the scope of the update be measured at the lower of cost and net realizable value. The Company does not expect the update to have a material 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, 2017, 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

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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 Roper's senior subordinated convertible notes based upon the trading price of Roper's common stock. Effective January 1, 2016, Roper adopted an ASU (see Note 2) on a prospective basis which increased the number of potentially dilutive stock options as there is no longer a tax benefit in the calculation of dilutive stock options. The effects of potential common stock were determined using the treasury stock method. Weighted average shares outstanding are shown below (in thousands):

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|                                       | Three months ended |         |
|---------------------------------------|--------------------|---------|
|                                       | March 31,          |         |
|                                       | 2016               | 2015    |
| Basic shares outstanding              | 101,071            | 100,377 |
| Effect of potential common stock:     |                    |         |
| Common stock awards                   | 1,172              | 852     |
| Senior subordinated convertible notes | 75                 | 132     |
| Diluted shares outstanding            | 102,318            | 101,361 |

For the three months ended March 31, 2016 there were 988,475 outstanding stock options that were not included in the determination of diluted earnings per share because doing so would have been antidilutive, as compared to 697,555 outstanding stock options that would have been antidilutive for the three months ended March 31, 2015.

#### 4. Business Acquisitions

Roper completed two business acquisitions in the first quarter of 2016, with an aggregate purchase price of \$264 million using cash on hand. The results of operations of the acquired companies have been included in Roper's consolidated results since the date of each acquisition. Supplemental pro forma information has not been provided as the acquisitions did not have a material impact on Roper's consolidated results of operations individually or in aggregate.

On January 7, 2016, Roper acquired 100% of the shares of CliniSys Group, Ltd. ("CliniSys"), a provider of clinical laboratory software headquartered in the United Kingdom.

On March 17, 2016, Roper acquired the assets of PCI Medical, LLC, a provider of medical probe and scope disinfection products.

Both acquisitions are reported in the Medical & Scientific Imaging segment and were acquired to enhance existing platforms and product lines.

The Company recorded \$145 million in goodwill and \$141 million of other identifiable intangibles in connection with the acquisitions; however, purchase price allocations are preliminary pending final intangible valuations and tax-related adjustments. Of the \$141 million intangible assets acquired, \$10 million was assigned to trade names that are not subject to amortization. The remaining \$131 million of acquired intangible assets have a weighted average useful life of 17 years. The amortizable intangible assets include customer relationships of \$95 million (20 year weighted average useful life) and unpatented technology of \$36 million (8 year weighted average useful life).

#### 5. Stock Based Compensation

The Roper Technologies, 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

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|                                     | March 31, |           |
|-------------------------------------|-----------|-----------|
|                                     | 2016      | 2015      |
| Stock based compensation            | \$ 18,979 | \$ 13,801 |
| Tax effect recognized in net income | 6,643     | 4,830     |
| Windfall tax benefit, net           | -         | 4,107     |



Windfall tax benefits are no longer calculated due to the adoption of the ASU related to stock compensation (see Note 2), as all tax benefits are recognized in net income.

Stock Options - In the three months ended March 31, 2016, 547,125 options were granted with a weighted average fair value of \$34.44 per option. During the same period in 2015, 537,555 options were granted with a weighted average fair value of \$33.76 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 periods using the Black-Scholes option-pricing model:

|                              | Three Months Ended March 31, |       |
|------------------------------|------------------------------|-------|
|                              | 2016                         | 2015  |
| Risk-free interest rate (%)  | 1.41                         | 1.51  |
| Expected option life (years) | 5.20                         | 5.10  |
| Expected volatility (%)      | 21.63                        | 22.28 |
| Expected dividend yield (%)  | 0.70                         | 0.63  |

Cash received from option exercises for the three months ended March 31, 2016 and 2015 was \$1.9 million and \$7.4 million, respectively.

Restricted Stock Awards - During the three months ended March 31, 2016, 315,000 restricted stock awards were granted with a weighted average grant date fair value of \$167.11 per restricted share. During the same period in 2015, 304,175 restricted stock awards were granted with a weighted average grant date fair value of \$149.66 per restricted share. All grants were issued at grant date fair value.

During the three months ended March 31, 2016, 32,702 restricted awards vested with a weighted average grant date fair value of \$125.86 per restricted share, and a weighted average vest date fair value of \$171.60 per restricted share.

Employee Stock Purchase Plan - During the three months ended March 31, 2016 and 2015, participants in the employee stock purchase plan purchased 5,007 and 5,042 shares, respectively, of Roper's common stock for total consideration of \$0.88 million and \$0.79 million, respectively. All shares were purchased from Roper's treasury shares.

## 6. Inventories

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

|                            | March 31,  | December 31, |
|----------------------------|------------|--------------|
|                            | 2016       | 2015         |
| Raw materials and supplies | \$ 123,527 | \$ 120,811   |
| Work in process            | 24,699     | 22,979       |
| Finished products          | 84,932     | 80,118       |
| Inventory reserves         | (36,837 )  | (34,040 )    |
|                            | \$ 196,321 | \$ 189,868   |

## 7. Goodwill and Other Intangible Assets

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

|                                     | Medical &<br>Scientific<br>Imaging | RF<br>Technology | Industrial<br>Technology | Energy<br>Systems<br>& Controls | Total       |
|-------------------------------------|------------------------------------|------------------|--------------------------|---------------------------------|-------------|
| Balances at December 31,<br>2015    | \$ 3,039,197                       | \$ 1,993,299     | \$ 374,033               | \$ 418,197                      | \$5,824,726 |
| Goodwill acquired                   | 145,411                            | -                | -                        | -                               | 145,411     |
| Other                               | (375                               | ) 1,467          | -                        | -                               | 1,092       |
| Currency translation<br>adjustments | 6,839                              | (2,735           | ) 589                    | (119                            | ) 4,574     |
| Balances at March 31, 2016          | \$ 3,191,072                       | \$ 1,992,031     | \$ 374,622               | \$ 418,078                      | \$5,975,803 |

Other relates to tax purchase accounting adjustments for 2015 acquisitions.

Other intangible assets were comprised of (in thousands):

|                                     | Cost        | Accumulated<br>amortization | Net book<br>value |
|-------------------------------------|-------------|-----------------------------|-------------------|
| Assets subject to amortization:     |             |                             |                   |
| Customer related intangibles        | \$2,448,509 | \$ (602,615                 | ) \$1,845,894     |
| Unpatented technology               | 270,170     | (117,405                    | ) 152,765         |
| Software                            | 161,201     | (44,298                     | ) 116,903         |
| Patents and other protective rights | 24,160      | (18,659                     | ) 5,501           |
| Backlog                             | 700         | (700                        | ) -               |
| Trade names                         | 595         | (122                        | ) 473             |
| Assets not subject to amortization: |             |                             |                   |
| Trade names                         | 407,460     | -                           | 407,460           |
| Balances at December 31, 2015       | \$3,312,795 | \$ (783,799                 | ) \$2,528,996     |
| Assets subject to amortization:     |             |                             |                   |
| Customer related intangibles        | \$2,545,037 | \$ (636,565                 | ) \$1,908,472     |
| Unpatented technology               | 307,543     | (129,788                    | ) 177,755         |
| Software                            | 154,366     | (41,742                     | ) 112,624         |
| Patents and other protective rights | 24,190      | (19,189                     | ) 5,001           |
| Backlog                             | 700         | (700                        | ) -               |
| Trade names                         | 570         | (130                        | ) 440             |
| Assets not subject to amortization: |             |                             |                   |
| Trade names                         | 417,865     | -                           | 417,865           |
| Balances at March 31, 2016          | \$3,450,271 | \$ (828,114                 | ) \$2,622,157     |

Amortization expense of other intangible assets was \$49,048 and \$37,859 during the three months ended March 31, 2016 and 2015, 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 2016. The Company expects to perform the annual analysis during the fourth quarter.



## 8. Debt

Roper's 3.75% senior subordinated convertible notes due 2034 became convertible on January 15, 2009. During the three months ended March 31, 2016, 564 notes were converted by note holders for \$1.2 million in cash. No gain or loss was recorded upon these conversions. In addition, a related \$0.1 million deferred tax liability associated with excess deductions recorded for tax purposes was relieved to additional paid-in capital upon the conversions.

At March 31, 2016, the conversion price on the remaining outstanding notes was \$516.38 per note. If converted at March 31, 2016, the value would have exceeded the \$4 million principal amount of the outstanding notes by \$14 million and could have resulted in the issuance of 74,973 shares of Roper's common stock.

## 9. Fair Value of Financial Instruments

Roper's debt at March 31, 2016 included \$3.1 billion of fixed-rate senior notes with the following fair values (in millions):

|                                     |       |
|-------------------------------------|-------|
| \$400 million senior notes due 2017 | \$401 |
| \$800 million senior notes due 2018 | 816   |
| \$500 million senior notes due 2019 | 558   |
| \$600 million senior notes due 2020 | 614   |
| \$500 million senior notes due 2022 | 503   |
| \$300 million senior notes due 2025 | 312   |

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 at March 31, 2016 included \$4 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 consolidated 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 three months ended March 31, 2016 is presented below (in thousands):

|                              |          |
|------------------------------|----------|
| Balance at December 31, 2015 | \$10,183 |
|------------------------------|----------|

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|   |          |
|---|----------|
| Additions charged to costs and expenses | 4,711    |
| Deductions                              | (4,106 ) |
| Other                                   | 52       |
| Balances at March 31, 2016              | \$10,840 |

## 11. Business Segments

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

|                              | Three months ended March 31, |            |          |
|------------------------------|------------------------------|------------|----------|
|                              | 2016                         | 2015       | Change   |
| Net sales:                   |                              |            |          |
| Medical & Scientific Imaging | \$ 332,214                   | \$ 291,700 | 13.9 %   |
| RF Technology                | 280,210                      | 242,954    | 15.3 %   |
| Industrial Technology        | 171,235                      | 190,728    | (10.2) % |
| Energy Systems & Controls    | 118,764                      | 139,899    | (15.1) % |
| Total                        | \$ 902,423                   | \$ 865,281 | 4.3 %    |
| Gross profit:                |                              |            |          |
| Medical & Scientific Imaging | \$ 246,897                   | \$ 215,326 | 14.7 %   |
| RF Technology                | 160,365                      | 130,046    | 23.3 %   |
| Industrial Technology        | 86,020                       | 95,242     | (9.7) %  |
| Energy Systems & Controls    | 66,237                       | 77,547     | (14.6) % |
| Total                        | \$ 559,519                   | \$ 518,161 | 8.0 %    |
| Operating profit*:           |                              |            |          |
| Medical & Scientific Imaging | \$ 114,456                   | \$ 107,779 | 6.2 %    |
| RF Technology                | 88,766                       | 73,977     | 20.0 %   |
| Industrial Technology        | 46,759                       | 57,897     | (19.2) % |
| Energy Systems & Controls    | 24,182                       | 30,422     | (20.5) % |
| Total                        | \$ 274,163                   | \$ 270,075 | 1.5 %    |
| Long-lived assets:           |                              |            |          |
| Medical & Scientific Imaging | \$ 40,621                    | \$ 36,347  | 11.8 %   |
| RF Technology                | 30,828                       | 29,585     | 4.2 %    |
| Industrial Technology        | 36,802                       | 44,697     | (17.7) % |
| Energy Systems & Controls    | 12,071                       | 15,177     | (20.5) % |
| Total                        | \$ 120,322                   | \$ 125,806 | (4.4) %  |

\* Segment operating profit is before unallocated corporate general and administrative expenses of \$29,172 and \$23,179 for the three months ended March 31, 2016 and 2015, 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, 2015 as filed on February 26, 2016 with the U.S. Securities and Exchange Commission ("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 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.

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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 cash 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, expected outcomes of pending litigation, competitive conditions and general economic conditions. 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;
- 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, including cybersecurity threats, 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 Technologies, Inc. ("Roper," "we" or "us") is a diversified technology company. We operate businesses that design and develop software (both license and software-as-a-service) and engineered products and solutions for a variety of niche end markets; including healthcare, transportation, food, energy, water, education and academic research.



We pursue consistent and sustainable growth in earnings by emphasizing continuous improvement in the operating performance of our existing businesses and by acquiring other businesses that offer high value-added services, engineered products and solutions and are capable of achieving growth and maintaining high margins. We compete in many niche markets and believe we are the market leader or a competitive alternative to the market leader in most of these markets.

#### Critical Accounting Policies

There were no material changes during the three months ended March 31, 2016 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 2015 Annual Report on Form 10-K filed on February 26, 2016.

## 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 March 31, |   |            |   |
|---|------------------------------|---|------------|---|
|   | 2016                         |   | 2015       |   |
| Net sales:                                  |                              |   |            |   |
| Medical & Scientific Imaging                | \$ 332,214                   |   | \$ 291,700 |   |
| RF Technology                               | 280,210                      |   | 242,954    |   |
| Industrial Technology                       | 171,235                      |   | 190,728    |   |
| Energy Systems & Controls                   | 118,764                      |   | 139,899    |   |
| Total                                       | \$ 902,423                   |   | \$ 865,281 |   |
| Gross margin:                               |                              |   |            |   |
| Medical & Scientific Imaging                | 74.3                         | % | 73.8       | % |
| RF Technology                               | 57.2                         |   | 53.5       |   |
| Industrial Technology                       | 50.2                         |   | 49.9       |   |
| Energy Systems & Controls                   | 55.8                         |   | 55.4       |   |
| Total                                       | 62.0                         |   | 59.9       |   |
| Selling, general & administrative expenses: |                              |   |            |   |
| Medical & Scientific Imaging                | 39.9                         | % | 36.9       | % |
| RF Technology                               | 25.6                         |   | 23.1       |   |
| Industrial Technology                       | 22.9                         |   | 19.6       |   |
| Energy Systems & Controls                   | 35.4                         |   | 33.7       |   |
| Total                                       | 31.6                         |   | 28.7       |   |
| Segment operating margin:                   |                              |   |            |   |
| Medical & Scientific Imaging                | 34.5                         | % | 36.9       | % |
| RF Technology                               | 31.7                         |   | 30.4       |   |
| Industrial Technology                       | 27.3                         |   | 30.4       |   |
| Energy Systems & Controls                   | 20.4                         |   | 21.7       |   |
| Total                                       | 30.4                         |   | 31.2       |   |
| Corporate administrative expenses           | (3.2)                        | ) | (2.7)      | ) |
|   | 27.1                         |   | 28.5       |   |
| Interest expense                            | (3.0)                        | ) | (2.3)      | ) |
| Other income/(expense)                      | 0.0                          |   | (0.1)      | ) |
| Earnings before income taxes                | 24.1                         |   | 26.2       |   |
| Income taxes                                | (7.3)                        | ) | (8.2)      | ) |
| Net earnings                                | 16.8                         | % | 18.0       | % |

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Three months ended March 31, 2016 compared to three months ended March 31, 2015

Net sales for the three months ended March 31, 2016 increased by 4% as compared to the three months ended March 31, 2015. Acquisitions, net of divestitures, added 8%, organic growth was a negative 3% and the negative foreign exchange impact was 1%.

Our Medical & Scientific Imaging segment net sales increased by 14% to \$332 million in the first quarter of 2016 as compared to \$292 million in the first quarter of 2015. Acquisitions added 13%, organic sales increased by 2% and the negative foreign exchange impact was 1%. The increase in organic sales was due to increased sales in our medical businesses, led by Verathon and NDI. Gross margin increased to 74.3% in the first quarter of 2016 from 73.8% in the first quarter of 2015 due primarily to additional sales from medical products and software which have a higher gross margin. Selling, general and administrative ("SG&A") expenses as a percentage of net sales were 39.9% in the first quarter of 2016 as compared to 36.9% in the first quarter of 2015 due to a higher percentage of sales at our medical businesses, which have a higher SG&A structure. As a result, operating margin was 34.5% in the first quarter of 2016 as compared to 36.9% in the first quarter of 2015.

In our RF Technology segment, net sales were \$280 million in the first quarter of 2016 as compared to \$243 million in the first quarter of 2015, an increase of 15%. The net effect of acquisitions and the divestiture of the Black Diamond Advanced Technology business was 17%, organic sales decreased by 1% and the negative impact of foreign exchange was 1%. The decrease in organic sales was due primarily to the completion of large projects in our toll and traffic businesses in 2015. Gross margin increased to 57.2% in the first quarter of 2016 as compared to 53.5% in the first quarter of 2015, due primarily to product mix in our toll and traffic businesses as well an increased percentage of sales at our software businesses which have a higher gross margin. SG&A expenses as a percentage of net sales in the first quarter of 2016 increased to 25.6% as compared to 23.1% in the prior year due to an increased percentage of sales at our software businesses which have a higher SG&A structure. The resulting operating margin was 31.7% in the first quarter of 2016 as compared to 30.4% in the first quarter of 2015.

Our Industrial Technology segment net sales decreased by 10% to \$171 million in the first quarter of 2016 as compared to \$191 million in the first quarter of 2015. Organic sales decreased by 4%, the divestiture of the Abel Pumps business accounted for negative 5% and the negative foreign exchange impact was 1%. The decrease in organic sales was due primarily to decreased sales in our fluid handling businesses which serve oil and gas markets. Gross margin was relatively unchanged at 50.2% for the first quarter of 2016 as compared to 49.9% for the first quarter of 2015. SG&A expenses as a percentage of net sales increased to 22.9% in the current year quarter as compared to 19.6% in the prior year quarter due to product mix. The resulting operating margin was 27.3% in the first quarter of 2016 as compared to 30.4% in the first quarter of 2015.

Net sales in our Energy Systems & Controls segment decreased by 15% to \$119 million during the first quarter of 2016 compared to \$140 million in the first quarter of 2015. Organic sales decreased by 14% and the negative foreign exchange impact was 1%. The decrease in organic sales was due to decreased sales in oil and gas products, including safety systems and valves. Gross margin was relatively unchanged at 55.8% in the first quarter of 2016 as compared to 55.4% in the first quarter of 2015. SG&A expenses as a percentage of net sales increased to 35.4% in the current year quarter as compared to 33.7% in the prior year quarter due to negative operating leverage on lower sales volume. As a result, operating margin was 20.4% in the first quarter of 2016 as compared to 21.7% in the first quarter of 2015.

Corporate expenses increased to \$29.2 million, or 3.2% of sales, in the first quarter of 2016 as compared to \$23.2 million, or 2.7% of sales, in the first quarter of 2015, due primarily to increased equity compensation costs as a result of increases in our common stock price.

Interest expense was \$27.4 million for the first quarter of 2016 as compared to \$19.8 in the first quarter of 2015 due to higher weighted average debt balances and higher interest rates in the current quarter.

Other expense was \$0.1 million in the first quarter of 2016 as compared to \$0.7 million in the first quarter of 2015.

Income taxes as a percent of pretax earnings were 30.4% in the first quarter of 2016 as compared to 31.2% in the first quarter of 2015. The decrease in the income tax rate was due primarily to the recognition of excess tax benefits in the current year in accordance with the stock compensation ASU adopted in the quarter (see Note 2 of the Notes to Condensed Consolidated Financial Statements) as well as the settlement of a state tax issue. We expect the effective tax rate for 2016 to be approximately 30%.

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At March 31, 2016, the functional currencies of most of our European and Canadian subsidiaries were stronger, and the British Pound weaker, against the U.S. dollar compared to currency exchange rates at December 31, 2015. The currency changes resulted in a pretax increase of \$5 million in the foreign exchange component of comprehensive earnings for the current year quarter, the majority of which is related to goodwill and does not directly affect our expected future cash flows. During the quarter ended March 31, 2016, the functional currencies of our European and Canadian subsidiaries were weaker against the U.S. dollar as compared to the quarter ended March 31, 2015. The difference in operating profit related to foreign exchange, translated into U.S. dollars, was less than 1% for these subsidiaries in the first quarter of 2016 compared to the first quarter of 2015.

Net orders were \$927 million in the first quarter of 2016 as compared to \$849 million in the first quarter of 2015. Acquisitions contributed 10% to the current quarter orders, which were also impacted by a negative foreign exchange effect of 1%. Our order backlog was \$1.12 billion at March 31, 2016 as compared to \$1.04 billion at March 31, 2015, an increase of 7%.

|                              | Net orders booked for<br>the    |           |                                  |             |
|------------------------------|---------------------------------|-----------|----------------------------------|-------------|
|                              | three months ended<br>March 31, |           | Order backlog as of<br>March 31, |             |
|                              | 2016                            | 2015      | 2016                             | 2015        |
|                              | (in thousands)                  |           |                                  |             |
| Medical & Scientific Imaging | \$343,850                       | \$275,796 | \$405,093                        | \$305,001   |
| RF Technology                | 281,125                         | 253,127   | 539,164                          | 529,133     |
| Industrial Technology        | 178,905                         | 188,740   | 76,380                           | 91,981      |
| Energy Systems & Controls    | 122,770                         | 131,070   | 94,453                           | 114,686     |
| Total                        | \$926,650                       | \$848,733 | \$1,115,090                      | \$1,040,801 |

#### Financial Condition, Liquidity and Capital Resources

Selected cash flows for the three months ended March 31, 2016 and 2015 were as follows (in millions):

|                             | Three months ended March 31, |          |
|-----------------------------|------------------------------|----------|
| Cash provided by/(used in): | 2016                         | 2015     |
| Operating activities        | \$ 207.1                     | \$ 260.4 |
| Investing activities        | (274.0 )                     | (603.1 ) |
| Financing activities        | (190.2 )                     | 386.1    |

Operating activities - Net cash provided by operating activities decreased by 20% to \$207 million in the first quarter of 2016 as compared to \$260 million in the first quarter of 2015 due primarily to an income tax payment in the first quarter of 2016 related to the gain on the sale of the Abel Pumps business in the fourth quarter of 2015 and increased receivables balances due to timing of sales.

Investing activities - Cash used in investing activities during the three months ended March 31, 2016 and 2015 was primarily for business acquisitions and capital expenditures.

Financing activities - Cash used in financing activities was primarily for debt principal repayments and dividends in the three months ended March 31, 2016 and primarily dividends in the three months ended March 31, 2015. Cash provided by financing activities in the three months ended March 31, 2016 was primarily from stock option proceeds and primarily from debt borrowings to fund acquisitions in the three months ended March 31, 2015. Net debt payments were \$160 million in the three months ended March 31, 2016 as compared to net debt proceeds of \$412 million in the three months ended March 31, 2015.



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Total debt at March 31, 2016 consisted of the following (amounts in thousands):

|   |             |
|---|-------------|
| \$400 million senior notes due 2017           | \$400,000   |
| \$800 million senior notes due 2018           | 800,000     |
| \$500 million senior notes due 2019           | 500,000     |
| \$600 million senior notes due 2020           | 600,000     |
| \$500 million senior notes due 2022           | 500,000     |
| \$300 million senior notes due 2025           | 300,000     |
| Convertible Notes                             | 3,927       |
| Revolving Debt Facility                       | 20,000      |
| Deferred finance costs                        | (16,351 )   |
| Other   | 4,129       |
| Total debt, net of deferred finance costs     | 3,111,705   |
| Less current portion                          | 6,365       |
| Long-term debt, net of deferred finance costs | \$3,105,340 |

The interest rate on borrowings under our \$1.85 billion unsecured credit facility is calculated based upon various recognized indices plus a margin as defined in the credit agreement. At March 31, 2016, there were \$20 million of outstanding borrowings under the facility. At March 31, 2016, we had \$4.1 million of other debt in the form of capital leases, several smaller facilities that allow for borrowings or the issuance of letters of credit in various foreign locations to support our non-U.S. businesses and \$44 million of outstanding letters of credit.

Cash and short-term investments at our foreign subsidiaries at March 31, 2016 totaled \$465 million. Repatriation of these funds under current regulatory and tax law for use in domestic operations would expose us to additional taxes. We consider this cash to be permanently reinvested. We expect existing cash and cash equivalents, cash generated by our U.S. operations, our unsecured credit facility, as well as our expected ability to access the capital markets, will be sufficient to fund operating requirements in the U.S. for the foreseeable future.

We were in compliance with all debt covenants related to our credit facilities throughout the three months ended March 31, 2016.

Net working capital (total current assets, excluding cash, less total current liabilities, excluding debt) was \$136 million at March 31, 2016 compared to \$126 million at December 31, 2015, reflecting increases in working capital due primarily to increases in receivables and bonus payments, offset in part by the timing of income tax payments. Total debt was \$3.13 billion at March 31, 2016 as compared to \$3.29 billion at December 31, 2015, due to payments on outstanding revolver borrowings made using cash from operations in the current quarter. Our leverage is shown in the following table (in thousands):

|                              | March 31, 2016 | December 31, 2015 |
|------------------------------|----------------|-------------------|
| Total Debt                   | \$ 3,128,056   | \$ 3,288,614      |
| Cash                         | (523,033 )     | (778,511 )        |
| Net Debt                     | 2,605,023      | 2,510,103         |
| Stockholders' Equity         | 5,441,235      | 5,298,947         |
| Total Net Capital            | \$ 8,046,258   | \$ 7,809,050      |
| Net Debt / Total Net Capital | 32.4 %         | 32.1 %            |

Capital expenditures of \$9 million and \$10 million were incurred during the three months ended March 31, 2016 and 2015, respectively. We expect capital expenditures for the balance of the year to be comparable to prior years as a percentage of sales.

There have been no significant changes to our contractual obligations from those disclosed in our 2015 Annual Report on Form 10-K filed on February 26, 2016.



## Off-Balance Sheet Arrangements

At March 31, 2016, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

## Outlook

Current geopolitical uncertainties could adversely affect our business prospects. A significant terrorist attack or other global conflict could cause changes in world economies that would adversely affect us. It is impossible to isolate each of these factor's effects on current economic conditions. It is also impossible to predict with any reasonable degree of certainty what or when any additional events may occur that also would similarly disrupt the economy.

We maintain an active acquisition program; however, future acquisitions will be dependent on numerous factors and it is not feasible to reasonably estimate if or when any such acquisitions will occur and what the impact will be on our business, financial condition and results of operations. Such acquisitions may be financed by the use of existing credit lines, future cash flows from operations, the proceeds from the issuance of new debt or equity securities or some combination of these methods.

We anticipate that our recently acquired companies as well as our other companies will generate positive cash flows from operating activities, and that these cash flows will permit the reduction of currently outstanding debt. However, the rate at which we can reduce our debt during 2016 (and reduce the associated interest expense) will be affected by, among other things, the financing and operating requirements of any new acquisitions and the financial performance of our existing companies; and none of these factors can be predicted with certainty.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Item 7A - Quantitative and Qualitative Disclosures about Market Risk," in our 2015 Annual Report on Form 10-K filed on February 26, 2016. There were no material changes during the three months ended March 31, 2016.

## ITEM 4. CONTROLS AND PROCEDURES

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report ("Evaluation Date"). This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation as of the Evaluation Date, these officers have concluded that the design and operation of our disclosure controls and procedures are effective.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes to our internal controls during the period covered by this quarterly report that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.



## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

Information pertaining to legal proceedings can be found in Note 10 of the Notes to Condensed Consolidated Financial Statements included elsewhere in this report, and is incorporated by reference herein.

### Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition and liquidity, see the risk factors discussion in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 as filed on February 26, 2016 with the SEC. See also, "Information about Forward-Looking Statements" included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

### Item 6. Exhibits

<sup>a</sup>3.2 Amended and Restated By-Laws.

31.1 Rule 13a-14(a)/15d-14(a), Certification of the Chief Executive Officer, filed herewith.

31.2 Rule 13a-14(a)/15d-14(a), Certification of the Chief Financial Officer, filed herewith.

32.1 Section 1350 Certification of the Chief Executive and Chief Financial Officers, filed herewith.

101.INS XBRL Instance Document, furnished herewith.

101.SCH XBRL Taxonomy Extension Schema Document, furnished herewith.