

ROPER INDUSTRIES INC /DE/

Form 424B5

December 10, 2003

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The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-110491

**Subject to Completion**  
**Preliminary Prospectus Supplement dated December 8, 2003**

**PROSPECTUS SUPPLEMENT**

(To prospectus dated December 1, 2003)

**3,955,000 Shares**

**Common Stock**

Our common stock is listed on the New York Stock Exchange under the symbol ROP. On December 3, 2003, the last reported sale price for our common stock as reported on the New York Stock Exchange was \$50.57 per share.

We will use the proceeds from this offering, together with borrowings under our new senior secured credit facility, to pay for our acquisition of Neptune Technology Group Holdings Inc., or NTGH, repay our existing credit facility and pay related fees and expenses.

Concurrently with this offering, we are offering, by means of a separate prospectus supplement, senior subordinated convertible notes of \$150 million principal amount at issuance, assuming the underwriters' overallotment option is not exercised. We will use all of the proceeds from the notes offering to redeem our outstanding senior notes. The closing of this offering is conditioned upon the completion of our new senior secured credit facility and the NTGH acquisition. We refer you to Prospectus Supplement Summary Acquisition Financing and Related Transactions in this prospectus supplement. We expect this offering to close concurrently with the notes offering, our new senior secured credit facility and the NTGH acquisition.

Holders of shares purchased in this offering will initially be entitled to one vote per share. Holders of our common stock who have held their shares for at least four years without a change in beneficial ownership are entitled to five votes per share. If there is no change in beneficial ownership of the shares you purchase in this offering for at least four years, the shares will become entitled to five votes per share until a change in beneficial ownership occurs, at which time the shares will revert to one vote per share for a period of at least four years. See Description of Common Stock in the accompanying prospectus.

**Investing in our common stock involves risks. See Risk Factors beginning on page S-18 of this prospectus supplement.**

	Per Share	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters may also purchase up to an additional 593,250 shares from us at the public offering price less the underwriting discount, within 30 days from the date of this prospectus supplement to cover any overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a

criminal offense.

The shares will be ready for delivery on or about December , 2003.

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*Sole Book-Running Manager*

**Merrill Lynch & Co.**

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**JPMorgan**

**Wachovia Securities**

**Robert W. Baird & Co.**

**JMP Securities**

**McDonald**

**SunTrust Robinson Humphrey**

**Investments Inc.**

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The date of this prospectus supplement is , 2003.

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**We have not authorized anyone to provide you with any information other than the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. This document may only be used where it is legal to offer and sell the common stock.**

This prospectus supplement is part of, and you should read it in conjunction with, the accompanying prospectus. Unless the context otherwise requires, references in this prospectus supplement to Roper, we, us and our and similar references refer to Roper Industries, Inc., a Delaware corporation, and its consolidated subsidiaries, including, after giving effect to the NTGH acquisition, NTGH. NTGH refers to Neptune Technology Group Holdings Inc., a Delaware corporation, and its consolidated subsidiaries.

This prospectus supplement and the accompanying prospectus contain some of our and NTGH's trademarks and service marks.

## Edgar Filing: ROPER INDUSTRIES INC /DE/ - Form 424B5

Market and industry data used throughout this prospectus supplement and the accompanying prospectus, including information relating to market share and trends, is based on our good faith estimates. These estimates were based on our review of internal surveys, independent industry publications and other publicly available information. Although we believe these sources are reliable, we have not independently verified this information.

Certain persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of our common stock. Such transactions may include stabilization and the purchase of common stock to cover short positions. For a description of these activities, see Underwriting.

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**Special Note Regarding Forward-Looking Statements**

This prospectus supplement includes and incorporates by reference forward-looking statements within the meaning of the federal securities laws. All statements that are not historical facts are forward-looking statements. The words estimate, project, intend, expect, anticipate and similar expressions identify forward-looking statements. In particular, this prospectus supplement contains forward-looking statements regarding the NTGH acquisition and its benefits to our business, and as described in the risk factor We may not be able to realize the anticipated benefits from the NTGH acquisition and we may experience unforeseen liabilities in connection with the acquisition, we may not be able to realize these benefits to our business. Other forward-looking statements include statements regarding our expected financial position, business, financing plans, business strategy, business prospectus, revenues, working capital, liquidity, capital needs, interest costs and income and potential acquisitions.

Forward-looking statements are estimates and projections reflecting our best judgment and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the cost, timing and success of product upgrades and new product introductions, raw materials costs, expected pricing levels, the timing and cost of expected capital expenditures, expected outcomes of pending litigation, competitive conditions, general economic conditions and expected synergies relating to acquisitions, joint ventures and alliances. These assumptions could prove inaccurate. Although we believe that the estimates and projections reflected in the forward-looking statements are reasonable, our expectations may prove to be incorrect. In particular, the forward-looking statements regarding the NTGH acquisition are subject to the risks described in Risk Factors. Important factors that could cause actual results to differ materially from our other estimates or projections contained in the forward-looking statements include:

- our ability to realize the anticipated benefits from the NTGH acquisition;
- any unforeseen liabilities associated with the NTGH acquisition;
- limitations on our business imposed by our indebtedness;
- reductions in our business with Gazprom;
- unfavorable changes in foreign exchange rates;
- difficulties associated with exports;
- risks and costs associated with our international sales and operations;
- difficulty making acquisitions and successfully integrating acquired businesses;
- product liability and insurance risks and costs;
- our ability to achieve anticipated benefits from the realignment of our operating structure;
- the cyclical nature of our industry;
- future competition;
- changes in the supply of, or price for, parts and components;
- environmental compliance costs and liabilities;
- potential write-offs of our substantial intangible assets;

our ability to develop new products;

failure to protect our technology;

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terrorist attacks;

future health crises; and

those factors listed in this prospectus supplement under "Risk Factors" as well as those included in our SEC filings incorporated by reference in this prospectus supplement and the accompanying prospectus.

We believe our forward-looking statements are reasonable; however, undue reliance should not be placed 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 update publicly any of them in light of new information or future events.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*The following summary highlights selected information in this prospectus supplement. The summary does not contain all of the information that may be important to you, and you should carefully read the entire prospectus supplement and accompanying prospectus before deciding whether to invest in our common stock. In August 2003, we changed our fiscal year-end from October 31 to December 31 to more closely align our reporting periods with those of our customers. In this prospectus supplement and the accompanying prospectus, references to one of our fiscal years mean a year ended October 31 and references to one of NTGH's years means a year ended December 31. In this prospectus supplement, we use the terms adjusted EBITDA and free cash flow, which are financial measures not calculated in accordance with generally accepted accounting principles, or GAAP. We include reconciliations of these measures to the most directly comparable GAAP measures in Summary Consolidated Financial Data Roper, Summary Consolidated Financial Data NTGH and Summary Pro Forma Consolidated Financial Data. Unless otherwise noted herein, the information in this prospectus supplement assumes no exercise of the underwriters' overallotment options in this offering and the notes offering.*

**Roper Industries**

We design, manufacture and distribute engineered products and solutions for selected segments of a broad range of global markets. Our principal markets include oil and gas, scientific and industrial research, medical, semiconductor, refrigeration, automotive, water and wastewater, power generation and general industrial.

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

We believe that our financial results reflect the high value we provide to our customers, our continuous improvement initiatives, our end market and geographic diversification and our ability to acquire and integrate businesses successfully. From fiscal 1992, the year of our initial public offering, through our fiscal year ended October 31, 2002, our net sales have grown at a compound annual growth rate of 24% and earnings from continuing operations before change in accounting principle per share have grown at a compound annual growth rate of 27%. In fiscal 2002, we generated net sales of \$617 million, adjusted EBITDA of \$130 million, or 21% of net sales, cash flows from operating activities of \$87 million, earnings from continuing operations before change in accounting principle of \$66 million and net earnings of \$40 million. During the nine months ended September 30, 2003, we generated net sales of \$488 million, adjusted EBITDA of \$96 million, or 20% of net sales, cash flows from operating activities of \$58 million, earnings from continuing operations of \$46 million and net earnings of \$43 million and during the nine months ended September 30, 2002, we generated net sales of \$455 million, adjusted EBITDA of \$90 million, or 20% of net sales, cash flows from operating activities of \$66 million and earnings from continuing operations and net earnings of \$45 million.

**Our Business Segments**

In early 2003, we realigned our operations into four market-based segments: Instrumentation, Industrial Technology, Energy Systems and Controls and Scientific and Industrial Imaging.

*Instrumentation.* Our Instrumentation segment provides sophisticated products and solutions that prepare material samples for analysis, test fluid products for physical and elemental properties, detect leaks in consumer and industrial products, perform spectrographic analyses and dispense fluids with extremely high precision. This segment focuses primarily on the test, inspection and measurement applications in oil and gas, research and industrial markets. Our primary business units in this segment are Acton Research, Antek Instruments, Integrated Designs, Logitech, PAC, Struers and Uson.

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*Industrial Technology.* Our Industrial Technology segment provides products and solutions for improving our customers' productivity. Industrial Technology offerings include centrifugal, gear, progressing cavity and diaphragm pumps; refrigeration controls and systems; rotating machinery and process controls; and precision metering, measurement and valves for specialty applications. Our primary business units in this segment are Abel Pump, AMOT Controls, Cornell Pump, Flow Technology, Fluid Metering, Hansen Technologies and Roper Pump, which provide products and solutions largely for diverse industrial, energy, commercial refrigeration and water and wastewater markets.

*Energy Systems and Controls.* Our Energy Systems and Controls segment provides control, monitoring and inspection systems and services, which improve the quality, safety and efficiency of customer equipment and processes, primarily in the energy markets. We offer our customers technologies for vibration measurement and monitoring of rotating and reciprocating machinery, control systems for turbomachinery and non-destructive testing solutions used primarily in power plant maintenance. Our primary business units in this segment are Compressor Controls, Metrix and Zetec.

*Scientific and Industrial Imaging.* Our Scientific and Industrial Imaging segment provides solutions that enable research in life and physical sciences and are used in various industrial applications. Our products include digital imaging cameras, spectrographic systems, electron microscope accessories, high-speed digital video equipment and image processing software. Our primary business units in this segment are Gatan, Media Cybernetics, QImaging, Redlake and Roper Scientific.

## **Our Strengths**

### ***Strategic***

*Leadership in Niche Markets.* We have developed and maintained a leading position in many of our markets. We believe our market positions are attributable to the technical sophistication of our products, the applications expertise used to create our advanced products and systems and our service capabilities.

*Diversified End Markets and Geographic Reach.* Over the past decade, we have strategically expanded the number of end markets we serve to increase revenue and business stability and expand our opportunities for growth. During that same period, we grew our global presence to the degree that sales to customers outside the U.S. accounted for \$361 million for fiscal 2002, up from \$23 million in fiscal 1992.

*Disciplined Acquisition Process.* Acquisitions are an important part of our growth strategy. Over the past decade, we have followed a disciplined acquisition process to complement our existing businesses and to migrate into higher growth areas. From fiscal 1992 through fiscal 2002, we completed 33 acquisitions for an aggregate investment of over \$700 million.

*Experienced Management Team.* Our company combines disciplined corporate leadership with entrepreneurial business unit management to create stockholder value. We support the growth of our business units by providing strategic direction, assisting in the development of strategic initiatives, encouraging best practices among our business unit management teams, developing our managers' skills through focused forums, setting appropriate compensation policies and incentives and providing financial support. We believe that our recent organizational change to four market-based segments, led by a strengthened executive team, will allow us to better capture synergistic benefits among our business units and accelerate organic growth.

### ***Financial***

*Significant and Consistent Growth.* A decade of disciplined execution of our operating and acquisition strategies has led to sustained growth in our net sales, net earnings and cash flow. From fiscal 1992 through fiscal 2002, our net sales and earnings from continuing operations before change in accounting principle per share have grown at compound annual growth rates of 24% and 27%, respectively. As a result of our strong operations management and emphasis on working capital improvement, our free cash flow (cash flows from operating activities minus capital expenditures) has exceeded net earnings

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every year since 1998. We consistently reinvest in research and development to maintain technological leadership in our markets.

*Strong and Sustainable Margins.* We have been able to obtain favorable pricing and attractive gross margins throughout the business cycle due to the high level of engineered content of our customer offerings and our market leadership positions. In each fiscal year since 1993, we have achieved gross margins in excess of 50%, and our margins are well above those of most comparable industrial companies.

*Attractive Cash Flow Characteristics.* Our favorable margins and selective use of capital have allowed us to produce strong cash flows. All of our business units are actively focused on reducing capital intensity and improving contributions to working capital. From fiscal 1992 through fiscal 2002, we grew adjusted EBITDA by a compound annual growth rate of 25%. For fiscal 2002, we achieved adjusted EBITDA margins of 21% and generated \$87 million of cash flows from operating activities and free cash flow of \$79 million.

## **Our Business Strategy**

We create stockholder value through the disciplined execution of our strategy:

*Engineered Content for Diverse Niche Markets.* Our operating units grow their businesses through new product development and development of new applications for existing products to satisfy customer needs. In addition, our operating units continue to grow our customer base by expanding our distribution.

*Strong Operations Management.* We continuously seek to improve our operations to increase our margins and cash flow. Our business units employ initiatives such as process reengineering, lean manufacturing techniques and global sourcing to increase productivity and reduce costs. In fiscal 2002, we generated approximately \$18 million of cash from working capital reductions and achieved gross margins of 54%.

*Strategic Reinvestment of Cash Flow.* We invest our strong cash flow in the development of new technologies and products, distribution channel management and operational improvements to drive organic growth and market expansion. We have increased our research and development spending by a compound annual growth rate of 39% since 1992, to \$30 million in fiscal 2002, which represented 5% of our fiscal 2002 net sales. We also strategically invest our cash flow in a disciplined manner in acquisitions meeting our stated criteria:

engineered, high value-added products and solutions;

high gross margins;

rapid cash return;

opportunity for enhanced growth; and

new strategic solutions and products.

### **The Neptune Technology Group Holdings Inc. Acquisition**

On October 21, 2003, we entered into a stock purchase agreement to acquire NTGH, a leader in the water management market, for a cash purchase price of approximately \$475 million, which is net of cash acquired and includes debt to be repaid. The closing of this offering is conditioned on the closing of the NTGH acquisition. In connection with our acquisition of NTGH, we intend to enter into an agreement to purchase the remaining one-third interest in DAP Technologies, a Canadian company that manufactures fully-rugged handheld computers, that NTGH does not own for total consideration of approximately \$9.2 million.

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### **NTGH**

NTGH operates in four lines of business:

meter products serving the water management market under the Neptune brand name;

automatic meter reading products and systems serving the water management market under the Neptune brand name;

fully-rugged handheld computers serving both utility and non-utility customers under the DAP Technologies brand name; and

software for route optimization, mapping and work order management under the DB Microware brand name.

Collectively, these technologies are brought together to provide a complete solution for measuring, metering and reading water consumption, primarily for North American residential markets. For over 110 years, many of the over 50,000 utilities and water systems throughout North America have used NTGH's water management systems and products to more efficiently and accurately measure water usage by consumers.

*Meter Products.* NTGH's meters currently account for approximately 35% of the installed base of approximately 70 million residential water meters in the U.S. In the commercial and industrial segments, NTGH offers fully integrated meters and metering systems for both potable and fire service use in high volume and high performance applications. Approximately 97% of NTGH's unit sales are for residential applications, while the remaining 3% are for commercial and industrial applications.

*Automatic Meter Reading Products and Systems.* NTGH's automatic meter reading, or AMR, systems allow for remote monitoring, measurement and reading of water usage. This feature reduces the labor costs required under manual methods, improves customer service through increased accuracy and faster identification of leaks, lowers environmental risks for meter-reading workers and enables utilities to bill customers more frequently and accurately. Since entering the radio frequency, or RF, segment of the AMR market in 1999, NTGH had increased its share of the AMR market to 16% and more than doubled its total AMR sales through 2002.

*Fully-Rugged Handheld Computers.* NTGH's DAP Technologies business unit is a growing business that manufactures fully-rugged handheld computers that serve utility and non-utility markets.

*Software.* NTGH's DB Microware business unit provides automation software for meter reading and service order management.

NTGH had net sales of \$190 million for 2002 and \$147 million for the nine months ended September 30, 2003, and employs approximately 800 people. NTGH's sales from AMR and water meters were roughly equivalent and represented the substantial majority of its net sales during 2002 and the nine months ended September 30, 2003, with the remainder of sales coming from fully-rugged handheld computers and automation software.

### **Strategic Benefits of the NTGH Acquisition**

We expect to realize a number of strategic benefits as a result of the NTGH acquisition, including the following:

*Furthering our Market Leadership in Niche Markets.* NTGH is a market leader in North American residential water meters and AMR technologies, and also serves the global fully-rugged handheld computer market, which among other applications, includes applications for water utilities. NTGH offers a complete range of products from meters to the most innovative solutions available using RF capabilities, handheld computers and meter reading software.

*Establishing a Strong Platform in the Attractive Water Management Market.* The North American water management market is growing as utilities demand more accurate and reliable water management

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solutions to meet water conservation and operational efficiency goals. We believe that the North American residential water meter and AMR markets currently represent a combined \$550 million annual market, with meters experiencing steady growth and AMR growing at an approximate 28% compound annual growth rate since 1999. The growth of the AMR market is an example of technological innovation being embraced by water utilities seeking to achieve improved operational efficiencies, service levels, billing cycles and conservation. We believe the migration of utilities from standard water meters to water management systems increases the market opportunity for NTGH. In addition, we believe NTGH's large installed base, strong relationships with many of the over 50,000 utilities and water systems in its current markets and its broad product offerings, including fully-rugged handheld computers and software, provide it with a strong growth platform.

*Positioning our Portfolio in Attractive Markets.* The NTGH acquisition positions our portfolio in attractive end markets with a stable and diversified customer base. In addition, we believe that the NTGH acquisition will provide us with a more stable mix of geographic end markets. Giving effect to the NTGH acquisition, on a combined basis in fiscal 2002, our largest net sales and market concentration would have been 25% in the water and wastewater markets, and net sales into North America would have represented 58% of total net sales. We believe that our combined end markets and geographic territories provide stability and attractive growth opportunities.

*Enhancing Cash Flow Characteristics and Growth Profile.* NTGH's strong adjusted EBITDA margins combined with its low working capital and capital expenditure requirements have provided significant cash flow. In 2002, NTGH generated \$190 million in net sales, 20% higher than in 2001, and \$54 million of adjusted EBITDA, representing a 28% margin. For the nine months ended September 30, 2003, NTGH generated \$147 million in net sales, 6% higher than the nine months ended September 30, 2002, and \$39 million of adjusted EBITDA, representing a 27% margin. Through internal product development and strategic investments, NTGH has become a leading provider of complete water management solutions. A key element of NTGH's growth strategy has been to migrate its customers to more efficient, higher value products. We believe this movement of customers to higher technology water management solutions combined with our market-focused philosophy, should improve our margins, cash flow and growth.

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Roper was incorporated in Delaware in 1981. Our principal executive offices are located at 2160 Satellite Boulevard, Suite 200, Duluth, Georgia 30097, and our telephone number is (770) 495-5100.

**Table of Contents****Acquisition Financing and Related Transactions**

We are offering the common stock in connection with our acquisition of NTGH. We are acquiring NTGH for a cash purchase price of approximately \$475 million, which is net of cash acquired and includes debt to be repaid, as more fully described under The Acquisition. Concurrently with this offering, we are offering, by means of a separate prospectus supplement, senior subordinated convertible notes of \$150 million principal amount at issuance. In addition, in connection with the NTGH acquisition, we will enter into a new \$625 million senior secured credit facility consisting of a five-year term loan and a three-year revolving credit facility. See Description of Certain Indebtedness. We expect this offering to close concurrently with the notes offering, our new senior secured credit facility and the NTGH acquisition.

The closing of this offering of our common stock is conditioned upon:

the completion of our new senior secured credit facility; and

the completion of the NTGH acquisition.

We will use the proceeds from this offering, together with borrowings under our new senior secured credit facility, to pay for the NTGH acquisition and the cash portion of the DAP Technologies acquisition, repay our existing credit facility and pay related fees and expenses. We will use all of the proceeds from the notes offering to redeem our outstanding senior notes. In addition to paying \$7.5 million in cash in connection with the DAP Technologies acquisition, we also intend to issue 34,000 shares of our common stock. In this prospectus supplement, we refer to all of the foregoing transactions as the Transactions.

The following table sets forth the estimated sources and uses of funds relating to the Transactions, assuming that the Transactions had occurred on September 30, 2003 (in thousands):

Sources of Funds		Uses of Funds	
Common stock offered hereby(1)	\$ 200,004	NTGH acquisition(4)	\$ 475,000
Senior subordinated convertible notes offering(1)	150,000	Cash portion of DAP Technologies acquisition(5)	7,500
Borrowings under our new senior secured credit facility(2)(3)	476,662	Repayment of indebtedness under our existing credit facility(3)	162,266
		Redemption of our outstanding senior notes(6)	147,900
		Fees and expenses(7)	34,000
<b>Total sources of funds</b>	<b>\$ 826,666</b>	<b>Total uses of funds</b>	<b>\$ 826,666</b>

- (1) Does not reflect the underwriting discounts and expenses payable by us in connection with the offerings.
- (2) In connection with the Transactions, we will borrow \$26.7 million under our new revolving credit facility to repay indebtedness under our existing credit facility. After giving pro forma effect to these borrowings, we would have approximately \$148.3 million available for borrowing under our new revolving credit facility.
- (3) Upon the closing of the NTGH acquisition, the new senior secured credit facility will replace our existing credit facility. As of September 30, 2003, \$162.3 million was outstanding under our existing credit facility. The weighted average interest rate on our existing credit facility as of September 30, 2003 was 2.65%.
- (4) Includes NTGH's existing debt to be repaid in connection with the NTGH acquisition.
- (5) NTGH currently owns two-thirds of DAP Technologies. In connection with our acquisition of NTGH, we intend to purchase the remaining one-third interest in DAP Technologies for





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approximately \$9.2 million, consisting of cash consideration of \$7.5 million and 34,000 shares of our common stock.

- (6) We currently have \$125 million of senior notes outstanding. In connection with the redemption of these notes, we will be required to pay a make-whole payment of \$22.9 million. We intend to take a charge for this amount in the quarter in which the senior notes are redeemed, less a tax benefit of \$8.0 million.
- (7) Includes the underwriting discounts and other expenses incurred or to be incurred in connection with the Transactions.

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**The Offering**

Common stock offered by us in this offering	3,955,000 shares
Common stock outstanding after the offering(1)	35,770,905 shares
Voting rights	<p>Holders of all outstanding shares of our common stock vote together as one class on all matters submitted to a vote of our stockholders. Holders of shares purchased in this offering will initially be entitled to one vote per share. Holders of our common stock who have held their shares for at least four years without a change in beneficial ownership are entitled to five votes per share. If there is no change in beneficial ownership of the shares you purchase in this offering for at least four years, the shares will become entitled to five votes per share until a change in beneficial ownership occurs, at which time the shares will revert to one vote per share for a period of at least four years. See <u>Description of Common Stock</u> in the accompanying prospectus.</p>
Use of proceeds	<p>We intend to use the proceeds from this offering, together with borrowings under our new senior secured credit facility, to pay for the NTGH acquisition and the cash portion of the DAP Technologies acquisition, repay our existing credit facility and pay related fees and expenses. We intend to use all of the proceeds from the concurrent notes offering to redeem our outstanding senior notes.</p>
Risk factors	<p>See <u>Risk Factors</u> beginning on page S-18 of this prospectus supplement for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.</p>
New York Stock Exchange Symbol	ROP

(1) The number of shares of our common stock outstanding after the offering are based on the number of shares outstanding as of September 30, 2003 and excludes:

593,250 shares issuable upon any exercise of the underwriters' overallotment option;

2,524,616 shares issuable upon the exercise of stock options outstanding as of September 30, 2003, which had a weighted average exercise price of \$32.56 per share;

1,664,758 shares issuable upon the exercise of options reserved for grant under our stock option plans as of September 30, 2003;

34,000 shares to be issued in connection with the DAP Technologies acquisition; and

shares reserved for issuance upon conversion of our senior subordinated convertible notes being offered in the notes offering.

**Table of Contents****Summary Consolidated Financial Data Roper**

The following summary consolidated financial data for and as of the end of each of the three fiscal years ended October 31, 2002 are derived from our audited consolidated financial statements. Our consolidated financial statements for and as of the end of each of the three years ended October 31, 2002 were audited by PricewaterhouseCoopers LLP, independent accountants. In August 2003, we changed our fiscal year-end from October 31 to December 31 effective as of January 1, 2003, with the two months ended December 31, 2002 being the transition period. The summary consolidated financial data as of and for the two months ended December 31, 2001 and December 31, 2002 and for the nine months ended September 30, 2002 and September 30, 2003 were derived from our unaudited consolidated financial statements and, in our opinion, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the data for those periods. Our results of operations for the nine months ended September 30, 2003 may not be indicative of results that may be expected for the full fiscal year.

We filed an amendment to our annual report on Form 10-K for the fiscal year ended October 31, 2002 on November 3, 2003 to restate our consolidated financial statements as of October 31, 2001 and 2002 and for the three years ended October 31, 2002 to reflect the discontinued operations of our Petrotech operation and the realignment of our operations into four new segments.

You should read the table below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations Roper and our consolidated financial statements and related notes included elsewhere in this prospectus supplement.

	Year Ended October 31,			Two Months Ended December 31,		Nine Months Ended September 30,	
	2000	2001	2002	2001	2002	2002	2003
				(unaudited)		(unaudited)	
	(in thousands, except per share amounts and percentages)						
<b>Statement of operations data:</b>							
Net sales	\$ 469,999	\$ 562,955	\$ 617,462	\$ 86,904	\$ 83,885	\$ 455,375	\$ 487,562
Gross profit	252,522	304,750	333,755	45,334	41,565	244,927	257,058
Income from operations	88,662	100,866	115,545	10,517	4,568	81,142	78,796
Earnings from continuing operations before change in accounting principle(1)	49,575	57,415	66,438	5,052	853	44,945	46,164
Net earnings (loss)	49,278	55,839	40,053	(20,918)	853	44,615	43,342(2)
Earnings per common share from continuing operations before change in accounting principle:							
Basic	\$ 1.63	\$ 1.87	\$ 2.13	\$ 0.17	\$ 0.04	\$ 1.44	\$ 1.47
Diluted	1.59	1.82	2.09	0.17	0.04	1.41	1.45
Net earnings (loss) per common share:							
Basic	\$ 1.62	\$ 1.82	\$ 1.28	\$ (0.68)	\$ 0.03	\$ 1.43	\$ 1.38
Diluted	1.58	1.77	1.26	(0.66)	0.03	1.40	1.36
Dividends per common share	\$ 0.28	\$ 0.30	\$ 0.33	\$ 0.0825	\$ 0.0875	\$ 0.2475	\$ 0.2625
<b>Other financial data:</b>							
Cash flows from operating activities	\$ 67,799	\$ 102,439	\$ 86,758	\$ 1,012	\$ 7,381	\$ 65,510	\$ 57,770
Adjusted EBITDA(3)	111,213	132,000	130,164	14,658	7,367	89,710	95,892
Adjusted EBITDA margin(4)	23.7%	23.4%	21.1%	16.9%	8.8%	19.7%	19.7%
Capital expenditures	(14,935)	(7,432)	(7,738)	(2,016)	(658)	(4,502)	(8,084)
Free cash flow(5)	52,864	95,007	79,020	(1,004)	6,723	61,008	49,686

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	At October 31,			At December 31,	At September 30,
	2000	2001	2002	2002	2003
				(unaudited)	(unaudited)
	(in thousands)				
<b>Balance sheet data:</b>					
Working capital	\$ 136,909	\$ 135,972	\$ 118,590	\$ 115,238	\$ 142,692
Total assets	596,902	762,122	828,973	821,805	835,677
Long-term debt, less current portion	234,603	323,830	311,590	308,684	287,470
Stockholders equity	270,191	323,506	376,012	380,981	441,728

	Year Ended October 31, 2002	Nine Months Ended September 30, 2003
	(in thousands, except percentages)	
<b>Combined Financial Data:</b>		
Combined adjusted EBITDA(3)(6)	\$ 186,071	\$ 136,013
Combined adjusted EBITDA margin(4)	23.1%	21.4%

- (1) There was no impact for change in accounting principle for the nine months ended September 30, 2002 and 2003.
- (2) Net earnings for the nine months ended September 30, 2003 reflect costs of \$5.2 million from restructuring activities following the realignment of our operations into new segments. These costs are included in costs of goods sold and selling, general and administrative expenses.
- (3) Adjusted EBITDA is a supplemental non-GAAP financial measure. EBITDA is commonly defined as net earnings plus (a) interest expense, (b) income taxes and (c) depreciation and amortization. Our definition of adjusted EBITDA is different from EBITDA because we also add the following items to net earnings: (a) loss from discontinued operations during each period, (b) restructuring costs included in cost of goods sold and selling, general and administrative expenses (as described in note 2 above), (c) change in accounting principle and (d) loss on extinguishment of debt. However, adjusted EBITDA for Roper for the periods presented does not add any loss on extinguishment of debt back to net earnings since none is applicable for the periods presented. We use adjusted EBITDA, in addition to net earnings, operating income, cash flows from operating activities and free cash flow, to assess our performance and believe it is important for investors to be able to evaluate us using the same measures used by management. We believe this measure is an important indicator of our operational strength and performance of our business because it provides a link between profitability and operating cash flow. In addition, we use adjusted EBITDA, as opposed to EBITDA, because adjusted EBITDA adds back items to net earnings which we believe are generally not operational in nature and not indicative of core operating performance of our continuing operations. We also believe that adjusted EBITDA is a supplemental measurement tool used by analysts and investors to help evaluate a company's overall operating performance by including only transactions related to core cash operating business activities.

Adjusted EBITDA as calculated by us is not necessarily comparable to similarly titled measures reported by other companies. In addition, adjusted EBITDA: (a) does not represent net income or cash flows from operations as defined by GAAP; (b) is not necessarily indicative of cash available to fund our cash flow needs; and (c) should not be considered as an alternative to net earnings, operating income, cash flows from operating activities or our other financial information determined under GAAP.

We believe the line on our consolidated statement of operations entitled net earnings is the most directly comparable GAAP measure to adjusted EBITDA. The following table reconciles adjusted

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EBITDA on a consolidated basis to the line on our consolidated statement of operations entitled net earnings for the periods presented in the table above:

	Year Ended October 31,			Two Months Ended December 31,		Nine Months Ended September 30,	
	2000	2001	2002	2001	2002	2002	2003
	(in thousands)						
Net earnings	\$ 49,278	\$ 55,839	\$ 40,053	\$(20,918)	\$ 853	\$44,615	\$43,342
Interest expense	13,483	15,917	18,506	2,970	2,978	13,703	12,653
Income taxes	26,811	31,450	29,889	2,895	529	20,196	19,784
Depreciation and amortization	21,344	26,709	15,331	3,424	2,620	10,866	12,106
EBITDA	110,916	129,915	103,779	(11,629)	6,980	89,380	87,885
Loss from discontinued operations, net of taxes	297	1,576	415	317	387	330	2,822
Restructuring costs		509					5,185
Change in accounting principle			25,970	25,970			
Adjusted EBITDA	\$ 111,213	\$ 132,000	\$ 130,164	\$ 14,658	\$ 7,367	\$ 89,710	\$ 95,892

- (4) Adjusted EBITDA margin represents adjusted EBITDA as a percentage of net sales.
- (5) Free cash flow is a supplemental non-GAAP financial measure. We define free cash flow as cash flows from operating activities minus capital expenditures. Free cash flow is one of the measures we use to evaluate our operating performance.

We use free cash flow internally to measure the amount of cash available for the repayment of indebtedness, for strategic acquisitions, to pay dividends and for potential stock repurchases. As a result, we believe free cash flow is a significant measure of our ability to generate long-term value and that it is useful for investors to know whether this ability is being enhanced or diminished as a result of our operating performance. We believe the presentation of free cash flow is relevant and useful for investors because it allows investors to view performance in a manner similar to the method used by management. In addition, free cash flow is also a primary measure used externally by our analysts and investors for purposes of valuation and comparing our operating performance to other industrial companies.

Free cash flow as calculated by us is not necessarily comparable to similarly titled measures reported by other companies.

In addition, free cash flow: (a) does not represent net earnings or cash flows from operations as defined by GAAP; (b) is not necessarily indicative of cash available to fund our cash flow needs; and (c) should not be considered as an alternative to cash flows from operating activities or our other financial information determined under GAAP.

We believe the line on our consolidated statement of operations entitled cash flows from operating activities is the most directly comparable GAAP measure to free cash flow. The following table reconciles free cash flow to the line on our consolidated statement of cash flows entitled cash flows from operating activities for the periods presented in the table above:

	Year Ended October 31,			Two Months Ended December 31,		Nine Months Ended September 30,	
	2000	2001	2002	2001	2002	2002	2003
	(in thousands)						
Cash flows from operating activities	\$ 67,799	\$ 102,439	\$ 86,758	\$ 1,012	\$ 7,381	\$ 65,510	\$ 57,770
Capital expenditures	(14,935)	(7,432)	(7,738)	(2,016)	(658)	(4,502)	(8,084)

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Free cash flow	\$ 52,864	\$ 95,007	\$ 79,020	\$ (1,004)	\$ 6,723	\$ 61,008	\$ 49,686
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- (6) Represents adjusted EBITDA for Roper, after giving pro forma effect to the Transactions as if they had occurred at the beginning of the periods presented. We believe the line on our pro forma consolidated statement of operations entitled earnings from continuing operations before change in accounting principle is the most directly comparable GAAP measure to adjusted EBITDA. The following tables reconcile adjusted EBITDA to the line on our consolidated statement of operations entitled earnings from continuing operations before change in accounting principle for the periods presented in the tables above. Supplementally, we have also provided a reconciliation of our pro forma consolidated net earnings to net earnings from continuing operations before change in accounting principle. Our pro forma consolidated net earnings represent our pro forma consolidated earnings from continuing operations before change in accounting principle less (a) loss from discontinued operations, net of taxes, (b) change in accounting principle and (c) minority interest in consolidated subsidiaries. See note 3 above for a further discussion of adjusted EBITDA. For the purpose of presenting combined adjusted EBITDA information for the year ended October 31, 2002, the audited income statements of NTGH for the year ended December 31, 2002 have been utilized. The adjustment for minority interest in consolidated subsidiaries represents an adjustment to remove the impact of the DAP Technologies minority interest (which we intend to acquire as part of the Transactions) as this amount is not required to be presented in our pro forma results under Article 11 of Regulation S-X. See our Unaudited Pro Forma Consolidated Financial Information included elsewhere in this prospectus supplement for a description of the other adjustments for the Transactions.

	<b>Year Ended October 31, 2002</b>			
	<b>Roper</b>	<b>NTGH</b>	<b>Adjustments for the Transactions</b>	<b>As Adjusted</b>
	(in thousands)			
Earnings from continuing operations before change in accounting principle	\$ 66,438	\$ 13,402	\$ 1,941	\$ 81,781
Loss from discontinued operations, net of taxes	(415)			(415)
Change in accounting principle	(25,970)			(25,970)
Minority interest in consolidated subsidiaries		(1,575)	1,575	
Net earnings	40,053	11,827	3,516	55,396
Interest expense	18,506	12,880	(4,886)	26,500
Income taxes	29,889	7,833	1,045	38,767
Depreciation and amortization	15,331	20,439	1,900	37,670
EBITDA	103,779	52,979	1,575	158,333
Loss from discontinued operations, net of taxes	415			415
Restructuring costs				
Change in accounting principle	25,970			25,970
Loss on extinguishment of debt		1,353		1,353
Adjusted EBITDA	\$ 130,164	\$ 54,332	\$ 1,575	\$ 186,071

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Nine Months Ended September 30, 2003				
	Roper	NTGH	Adjustments for the Transactions	As Adjusted
(in thousands)				
Earnings from continuing operations before change in accounting principle	\$46,164	\$ (975)	\$ 4,758	\$ 49,947
Loss from discontinued operations, net of taxes	(2,822)			2,822
Change in accounting principle				
Minority interest in consolidated subsidiaries		(817)	817	
Net earnings (loss)	43,342	(1,792)	5,575	47,125
Interest expense	12,653	14,867	(7,920)	19,600
Income taxes	19,784	451	2,562	22,797
Depreciation and amortization	12,106	16,449	600	29,155
EBITDA	87,885	29,975	817	118,677
Loss from discontinued operations, net of taxes	2,822			2,822
Restructuring costs	5,185			5,185
Change in accounting principle				
Loss on extinguishment of debt		9,329		9,329
Adjusted EBITDA	\$95,892	\$39,304	\$ 817	\$136,013



**Table of Contents****Summary Consolidated Financial Data NTGH**

NTGH did not conduct business until November 1, 2001, when it acquired a division of Schlumberger that was engaged in the production and sale of AMR equipment and software and water meters principally sold into North American water utility markets. For financial reporting purposes the results of operations for the Schlumberger division are reported separately as set forth below from the results of operations of NTGH subsequent to the November 1, 2001 acquisition. The following summary consolidated financial data for the ten months ended October 31, 2001, for and as of the two months ended December 31, 2001 and for and as of the end of the year ended December 31, 2002 are derived from NTGH's audited consolidated financial statements which were audited by PricewaterhouseCoopers LLP, independent accountants. The summary consolidated financial data as of and for the nine months ended September 30, 2002 and September 30, 2003 were derived from NTGH's unaudited consolidated financial statements and, in NTGH's opinion, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the data for those periods. NTGH's results of operations for the nine months ended September 30, 2003 may not be indicative of results that may be expected for the full fiscal year. You should read the table below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations NTGH and NTGH's consolidated financial statements and related notes included elsewhere in this prospectus supplement.

	Ten Months Ended October 31, 2001	Two Months Ended December 31, 2001	Year Ended December 31, 2002	Nine Months Ended September 30,	
				2002	2003
(unaudited)					
(in thousands, except percentages)					
<b>Statement of operations data:</b>					
Revenues	\$ 130,951	\$ 27,498	\$ 189,544	\$ 138,681	\$ 147,473
Gross profit	52,755	7,474	80,333	58,690	63,700
Operating income	25,290	1,273	34,540	26,138	26,228
Net income (loss)(1)	13,197	(606)	11,827	8,847	(1,792)
<b>Other financial data:</b>					
Cash flows from operating activities(1)	\$ 19,226	\$ 9,137	\$ 47,755	\$ 35,554	\$ 30,589
Adjusted EBITDA(2)	31,666	4,548	54,332	40,775	39,304
Adjusted EBITDA margin(3)	24.2%	16.5%	28.7%	29.4%	26.7%
Depreciation and amortization	6,718	3,141	20,439	14,977	16,449
Capital expenditures	3,325	555	5,852	4,450	4,254
(in thousands)					
<b>Balance sheet data:</b>					
Working capital		\$ 26,514	\$ 38,896	\$ 36,876	
Total assets		346,742	368,690	368,242	
Long-term debt, less current portion		206,433	200,529	277,304	
Stockholders' equity		118,325	130,457	10,040	

- (1) During April 2003, NTGH completed a recapitalization transaction. As part of the recapitalization, NTGH, among other transactions, entered into a new term loan and issued new senior subordinated notes, in part to refinance existing indebtedness, resulting in greater leverage and a higher weighted average interest rate. For the nine months ended September 30, 2002 and 2003, interest expense was \$9.8 million and \$14.9 million, respectively, and loss on extinguishment of debt was \$1.4 million and \$9.3 million, respectively.

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- (2) Adjusted EBITDA is a supplemental non-GAAP financial measure. EBITDA is commonly defined as net income plus (a) interest expense, (b) income taxes and (c) depreciation and amortization. The definition of adjusted EBITDA is different from EBITDA because we also add the following items to net income (loss): (a) loss from discontinued operations, (b) restructuring costs included in cost of goods sold and selling, general and administrative expenses, (c) change in accounting principle and (d) loss on extinguishment of debt. However, NTGH's adjusted EBITDA does not add back loss from discontinued operations, restructuring costs or change in accounting principle to net income as NTGH did not experience such losses, costs or charges during the periods presented. Adjusted EBITDA is used, in addition to net income (loss), operating income, cash flows from operating activities, and free cash flow to assess NTGH's business performance and we believe it is important for investors to be able to evaluate NTGH and the NTGH acquisition using the same measures used by us. We believe this measure is an important indicator of NTGH's operational strength and performance of its business because it provides a link between profitability and operating cash flow. In addition, we use adjusted EBITDA, as opposed to EBITDA, because adjusted EBITDA adds back items to net income which we believe are generally not operational in nature and therefore not indicative of core operating performance. We believe that adjusted EBITDA is a supplemental measurement tool used by analysts and investors to help evaluate a company's overall operating performance, its ability to incur and service debt and its capacity for making capital expenditures by including only transactions related to core cash operating business activities.

Adjusted EBITDA as calculated by us is not necessarily comparable to similarly titled measures reported by other companies. In addition, adjusted EBITDA: (a) does not represent net income or cash flows from operations as defined by GAAP; (b) is not necessarily indicative of cash available to fund our cash flow needs; and (c) should not be considered as an alternative to net income, operating income, cash flows from operating activities or our other financial information determined under GAAP.

We believe the line on NTGH's consolidated statement of operations entitled net income is the most directly comparable GAAP measure to adjusted EBITDA. The following table reconciles adjusted EBITDA on a consolidated basis to the line on NTGH's consolidated statement of operations entitled net income for the periods presented in the table above:

	Ten Months Ended October 31, 2001	Two Months Ended December 31, 2001	Year Ended December 31, 2002	Nine Months Ended September 30,	
				2002	2003
	(in thousands)				
Net income (loss)	\$ 13,197	\$ (606)	\$ 11,827	\$ 8,847	\$ (1,792)
Interest expense	1,154	2,394	12,880	9,784	14,867
Provision (benefit) for income taxes	10,597	(381)	7,833	5,814	451
Depreciation and amortization	6,718	3,141	20,439	14,977	16,449
EBITDA	31,666	4,548	52,979	39,422	29,975
Loss on extinguishment of debt			1,353	1,353	9,329
Adjusted EBITDA	\$ 31,666	\$ 4,548	\$ 54,332	\$ 40,775	\$ 39,304

- (3) Adjusted EBITDA margin represents adjusted EBITDA as a percentage of net sales.

**Table of Contents****Summary Pro Forma Consolidated Financial Data**

The summary pro forma consolidated statement of operations data for the year ended October 31, 2002 and the nine months ended September 30, 2003 and summary pro forma consolidated balance sheet data as of September 30, 2003 have been derived from the pro forma consolidated statement of operations for the year ended October 31, 2002 and the nine months ended September 30, 2003 and the pro forma consolidated balance sheet as of September 30, 2003 appearing elsewhere in this prospectus supplement. The pro forma consolidated statement of operations data gives effect to the Transactions as if they had occurred at the beginning of the periods presented, and the pro forma consolidated balance sheet data gives effect to these Transactions as if they had occurred on September 30, 2003. See Unaudited Pro Forma Consolidated Financial Information.

<b>Year Ended October 31, 2002</b>			
<b>Roper</b>	<b>NTGH(1)</b>	<b>Adjustments for the Transactions</b>	<b>As Adjusted</b>
(in thousands, except per share data)			
<b>Statement of operations data:</b>			
Net sales	\$ 617,462	\$ 189,544	\$ 807,006
Gross profit	333,755	80,333	414,088
Operating profit	115,545	34,540	(1,900)(2)
Loss on extinguishment of debt		1,353(3)	1,353
Earnings from continuing operations before income taxes and change in accounting principle	96,327	21,235	2,986
Earnings from continuing operations before change in accounting principle	66,438	13,402	1,941
Earnings per share from continuing operations before change in accounting principle:			
Basic	\$ 2.13		\$ 2.33(3)
Diluted	2.09		2.29(3)
<b>Nine Months Ended September 30, 2003</b>			
<b>Roper</b>	<b>NTGH</b>	<b>Adjustments for the Transactions</b>	<b>As Adjusted</b>
(in thousands, except per share data)			
<b>Statement of operations data:</b>			
Net sales	\$ 487,562	\$ 147,473	\$ 635,035
Gross profit	257,058	63,700	320,758
Operating profit	78,796	26,228	(600)(2)
Loss on extinguishment of debt		9,329(3)	9,329
Earnings (loss) from continuing operations before income taxes	65,948	(524)	7,320
Earnings (loss) from continuing operations	46,164	(975)	4,758
Earnings per share from continuing operations:			
Basic	\$ 1.47		\$ 1.41(3)
Diluted	1.45		1.40(3)

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At September 30, 2003

	Roper	NTGH	Adjustments for the Transactions	As Adjusted
(in thousands)				
<b>Balance sheet data:</b>				
Cash and cash equivalents	\$ 14,510	\$ 24,159	\$ (24,159)	\$ 14,510
Total assets	835,677	368,242	213,588	1,417,507
Long-term debt, less current portion	287,470	277,304	39,596	604,370
Stockholders' equity	441,728	10,040	167,811(4)	619,579

- (1) For the purpose of presenting pro forma consolidated statement of operations data for the year ended October 31, 2002, the audited income statements of NTGH for the year ended December 31, 2002 have been utilized.
- (2) Reflects the net adjustment to the historical amortization expense of NTGH from the elimination of certain non-recurring management fees and financing expenses, partially offset by additional intangibles amortization of identifiable finite-lived intangible assets.
- (3) During the year ended October 31, 2002, and the nine months ended September 30, 2003, NTGH recorded losses on early extinguishment of debt. These losses were associated with financing arrangements typical of private equity group ownership. These losses are required to be presented in the unaudited pro forma consolidated financial statements under Article 11 of Regulation S-X. These amounts will not recur for Roper as NTGH will not have separate debt following the NTGH acquisition. The table below reflects the pro forma earnings from continuing operations before income taxes adjusted to exclude these losses as well as the earnings per share effect of the adjustments for these losses (dollars in thousands):

	Year Ended October 31, 2002	Nine Months Ended September 30, 2003
Pro forma earnings from continuing operations before income taxes	\$ 120,548	\$ 72,744
Loss on extinguishment of debt	1,353	9,329
Adjusted earnings from continuing operations before income taxes	\$ 121,901	\$ 82,073
Basic:		
Pro forma earnings per share from continuing operations	\$ 2.33	\$ 1.41
Loss on extinguishment of debt	0.04	0.26
Adjusted earnings per share from continuing operations	\$ 2.37	\$ 1.67
Diluted:		
Pro forma earnings per share from continuing operations	\$ 2.29	\$ 1.40
Loss on extinguishment of debt	0.04	0.26
Adjusted earnings per share from continuing operations	\$ 2.33	\$ 1.66

- (4) Includes: (a) \$192,736 as a result of the acquisition and the related financing transactions, (b) \$14,885 which represents the estimated costs associated with extinguishing our outstanding senior notes and the write-off of deferred financing costs associated with those notes and our existing revolving credit facility which will also be extinguished in conjunction with this transaction and (c) \$10,040 which reflects the elimination of NTGH's historical share capital, retained earnings, minority interest and other equity accounts pursuant to the application of purchase accounting in accordance with SFAS No. 141, Business Combinations. The non-recurring expense associated with early extinguishment of our outstanding senior notes is tax deductible and a tax benefit of \$8,015 has been recognized at the federal statutory

rate.

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**RISK FACTORS**

*You should carefully consider the risks described below, as well as other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, before making any investment in shares of our common stock.*

**Risks Relating to Our Business**

***We may not be able to realize the anticipated benefits from the NTGH acquisition and we may experience unforeseen liabilities in connection with the acquisition.***

We may not be able to realize the anticipated benefits from the businesses we are acquiring in the NTGH acquisition, either in the amount or the time frame that we currently expect. These anticipated benefits include furthering our market leadership in niche markets, establishing a strong platform in the water management market, balancing our portfolio in attractive markets and enhancing our cash flow characteristics and growth profile. Factors that could affect our ability to achieve these benefits include:

significant competition in the water management market;

buying patterns of municipalities, utilities and other customers, many of which are currently facing fiscal constraints; and

the introduction of new technologies into the marketplace.

If NTGH's businesses do not operate as we anticipate, we may not be able to benefit from these opportunities, which could materially harm our business, financial condition and results of operations.

In addition, under the agreement governing the NTGH acquisition, we have agreed to assume NTGH's liabilities. If NTGH's known liabilities are greater than projected, or if there are obligations of NTGH of which we are not aware at the time of completion of the acquisition, we will not receive indemnification from any party to cover costs associated with those liabilities. As a result, we could incur liabilities that could have a material adverse effect on our business, financial condition and results of operations.

***Our indebtedness may affect our business and may restrict our operating flexibility.***

As of September 30, 2003, we had \$288.5 million in total consolidated indebtedness. We expect to incur additional indebtedness to finance the NTGH acquisition. After giving pro forma effect to the Transactions, as of September 30, 2003, we would have had total consolidated debt of approximately \$628 million and approximately \$148.3 million of availability under our new senior secured credit facility. Our total consolidated debt could increase due to this additional borrowing capacity. Subject to certain restrictions contained in our new senior secured credit facility and other debt agreements, we may incur additional indebtedness in the future, including indebtedness incurred to finance, or which is assumed in connection with, acquisitions.

Our level of indebtedness and the debt servicing costs associated with that indebtedness could have important effects on our operations and business strategy. For example, our indebtedness could:

limit our flexibility in planning for, or reacting to, changes in the industries in which we compete;

place us at a competitive disadvantage relative to our competitors, some of which have lower debt service obligations and greater financial resources than us;

limit our ability to borrow additional funds;

limit our ability to complete future acquisitions;

limit our ability to pay dividends;



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limit our ability to make capital expenditures; and

increase our vulnerability to general adverse economic and industry conditions.

Our ability to make scheduled payments of principal of, to pay interest on, or to refinance our indebtedness and to satisfy our other debt obligations will depend upon our future operating performance, which may be affected by factors beyond our control. In addition, there can be no assurance that future borrowings or equity financing will be available to us on favorable terms for the payment or refinancing of our indebtedness. If we are unable to service our indebtedness, our business, financial condition and results of operations would be materially adversely affected.

In addition, our new senior secured credit facility will contain financial covenants requiring us to achieve certain financial and operating results and maintain compliance with specified financial ratios. Our ability to meet the financial covenants or requirements in our senior secured credit facility may be affected by events beyond our control, and we may not be able to satisfy such covenants and requirements. A breach of these covenants or our inability to comply with the financial ratios, tests or other restrictions contained in our senior secured credit facility could result in an event of default under this facility, which in turn could result in an event of default under the terms of our other indebtedness. Upon the occurrence of an event of default under our senior secured credit facility, and the expiration of any grace periods, the lenders could elect to declare all amounts outstanding under the facility, together with accrued interest, to be immediately due and payable. If this were to occur, our assets may not be sufficient to fully repay in full the payments due under this facility or our other indebtedness. See Description of Certain Indebtedness New Senior Secured Credit Facility.

***Our operating results could be adversely affected by a reduction of business with Gazprom.***

Our largest customer is OAO Gazprom, a large Russian gas exploration and distribution company, with whom we have dealt over the past ten years through a number of its procurement affiliates. In late 2002, Gazprom assigned a new procurement affiliate to negotiate with us and during the second calendar quarter of 2003 we secured a new supply agreement. Orders received under this agreement have been received on a delayed basis and at lower levels than initially indicated by the procurement affiliate and consequently have resulted in lower order bookings volume than in comparable prior year periods. New orders received under this agreement during the three months and nine months ended September 30, 2003 totaled \$10.3 million and \$20.8 million, or 6.3% and 4.4% of total new orders, respectively. Total net sales to Gazprom during the nine months ended September 30, 2003 were \$17.5 million as compared to \$43.7 million during the nine months ended September 30, 2002, or 3.6% of total sales compared to 9.6% of total sales, respectively. We have no agreement providing for a minimum commitment of purchases by Gazprom. The level and timing of future business with Gazprom will depend on our relationship with Gazprom as well as its ability to obtain financing, increased competition for obtaining Gazprom business and customer delays in commissioning and start-up of installations and on general economic conditions in Russia. If Gazprom continues to reduce the amount of products it purchases from us for any reason, we likely could not replace these sales and our operating results would be negatively affected.

***Unfavorable changes in foreign exchange rates may significantly harm our business.***

Several of our operating companies have transactions and balances denominated in currencies other than the U.S. dollar. Most of these transactions and balances are denominated in euros, British pounds, Danish krone and Japanese yen. Sales by our operating companies whose functional currency is not the U.S. dollar represented approximately 28% of our total net sales for fiscal 2002 compared to 24% for fiscal 2001. Unfavorable changes in exchange rates between the U.S. dollar and those currencies could significantly reduce our reported sales and earnings. At present, we do not hedge against foreign currency risks.



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***We export a significant portion of our products. Difficulties associated with the export of our products could harm our business.***

Sales to customers outside the U.S. by our businesses located in the U.S. account for a significant portion of our net sales. These sales accounted for approximately 36% and 42% of our net sales for the years ended October 31, 2002 and 2001, respectively. We are subject to risks that could limit our ability to export our products or otherwise reduce the demand for these products in our foreign markets. Such risks include, without limitation, the following:

unfavorable changes in or noncompliance with U.S. and other jurisdictions' export requirements;

restrictions on the export of technology and related products;

unfavorable changes in U.S. and other jurisdictions' export policies to certain countries;

unfavorable changes in the import policies of our foreign markets; and

a general economic downturn in our foreign markets.

The occurrence of any of these events and our ability to comply with applicable law could limit our ability to export our products generally or to certain countries, or could reduce the foreign demand for our products and therefore, could materially negatively affect our future sales and earnings.

***Economic, political and other risks associated with our international operations could adversely affect our business.***

As of October 31, 2002, approximately 31% of our total assets and 11% of NTGH's total assets were attributable to operations outside the U.S. We expect our international operations to continue to contribute materially to our business for the foreseeable future. Our international operations are subject to varying degrees of risk inherent in doing business outside the U.S. including, without limitation, the following:

adverse changes in a specific country's or region's political or economic conditions, particularly in emerging markets;

trade protection measures and import or export requirements;

trade liberalization measures which could expose our international operations to increased competition;

subsidies or increased access to capital for firms who are currently or may emerge as competitors in countries in which we have operations;

partial or total expropriation;

potentially negative consequences from changes in tax laws;

difficulty in staffing and managing widespread operations;

differing labor regulations;

differing protection of intellectual property;

unexpected changes in regulatory requirements; and

longer payment cycles of foreign customers and difficulty in collecting receivables in foreign jurisdictions.

The impact of any of these events could materially harm our business.



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***Our growth strategy includes acquisitions. We may not be able to identify suitable acquisition candidates, complete acquisitions or integrate acquisitions successfully.***

Our ability to achieve significant growth has depended and is likely to continue to depend, to a significant degree on our ability to make acquisitions, such as our proposed acquisition of NTGH, and to successfully integrate acquired businesses. We intend to continue to seek additional acquisition opportunities both to expand into new markets and to enhance our position in existing markets globally. We cannot assure you, however, that we will be able to successfully identify suitable candidates, negotiate appropriate acquisition terms, obtain necessary financing on acceptable terms, complete proposed acquisitions, successfully integrate acquired businesses into our existing operations or expand into new markets. Once integrated, acquired operations may not achieve levels of revenues, profitability or productivity comparable with those achieved by our existing operations, or otherwise perform as expected.

As an example of the impact of acquisitions on our growth, our net sales and earnings from continuing operations for the nine months ended September 30, 2003 grew 7% and 3%, respectively, as compared to the nine months ended September 30, 2002, with our lower relative growth during the nine months ended September 30, 2003 being partially attributable to the fact that we did not complete any acquisitions during the period.

Acquisitions involve numerous risks, including difficulties in the integrations of the operations, technologies, services and products of the acquired companies and the diversion of management's attention from other business concerns. Although our management will endeavor to evaluate the risks inherent in any particular transaction, we cannot assure you that we will properly ascertain all such risks. In addition, prior acquisitions have resulted, and future acquisitions could result, in the incurrence of substantial additional indebtedness and other expenses. Future acquisitions may also result in potentially dilutive issuances of equity securities. We cannot assure you that difficulties encountered with acquisitions will not have a material adverse effect on our business, financial condition and results of operations.

***Product liability, insurance risks and increased insurance costs could harm our operating results.***

Our business exposes us to potential product liability risks that are inherent in the design, manufacturing and distribution of our and NTGH's products. In addition, certain of our products are used in potentially hazardous environments. We currently have product liability insurance; however, we may not be able to maintain our insurance at a reasonable cost or in sufficient amounts to protect us against potential losses. We also maintain other insurance policies, including directors and officers liability insurance. Our insurance costs increased in recent periods and may continue to increase in the future. We believe that we have adequately accrued estimated losses, principally related to deductible amounts under our insurance policies, with respect to all product liability and other claims, based upon our past experience and available facts. However, a successful product liability and other claim or series of claims brought against us could have a material adverse effect on our business, financial condition and results of operations. In addition, a significant increase in our insurance costs could have an adverse impact on our operating results.

***We and NTGH both face intense competition. If we do not compete effectively, our business may suffer.***

We and NTGH both face intense competition from numerous competitors. Each of our and NTGH's product lines face different competitors with different financial resources. We may not be able to compete effectively with all of these competitors. Our products compete primarily on the basis of product quality, performance, innovation, price, applications expertise and established customer service capabilities with existing customers. To remain competitive, we must develop new products, respond to new technologies and periodically enhance our existing products in a timely manner. We anticipate that we may have to adjust prices of many of our products to stay competitive. In addition, new competitors may emerge, and product lines may be threatened by new technologies or market trends that reduce the value of these product lines. See Business Competition.

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***Changes in the supply of, or price for, parts and components used in our products could affect our business.***

We and NTGH purchase many parts and components from suppliers. The availability and prices of parts and components are subject to curtailment or change due to, among other things, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and prevailing price levels. Some high-performance components for digital imaging products may be in short supply and/or suppliers may have occasional difficulty manufacturing these components to meet our specifications. In addition, some of our products are provided by sole source suppliers. Any change in the supply of, or price for, these parts and components could affect our business, financial condition and results of operations.

***Realignment of our operations under four key market-focused segments is subject to risk and may not achieve the anticipated benefits.***

We recently announced a realignment of our operating structure into four market-focused segments: instrumentation, industrial technology, energy systems and controls, and scientific and industrial imaging. The realignment structures our operations based on similar customers and end users, whereas our segments were formerly organized based on technological and more purely operational considerations. As a result of this realignment, we may experience a loss of productivity, sales and key personnel. This loss could prevent us from realizing any potential benefits from the realignment and could adversely affect our operating results and financial performance.

***Environmental compliance costs and liabilities could increase our expenses and adversely affect our financial condition.***

Our operations and properties and those of NTGH are subject to increasingly stringent laws and regulations relating to environmental protection, including laws and regulations governing air emissions, water discharges, waste management and workplace safety. These laws and regulations can result in the imposition of substantial fines and sanctions for violations and could require the installation of costly pollution control equipment or operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. We and NTGH must conform our operations and properties to these laws, and adapt to regulatory requirements in the countries in which we operate as these requirements change.

We and NTGH use and generate hazardous substances and wastes in our operations and, as a result, could be subject to potentially material liabilities relating to the investigation and clean-up of contaminated properties and to claims alleging personal injury. We and NTGH have experienced, and expect to continue to experience, costs relating to compliance with environmental laws and regulations. In connection with our acquisitions, we may assume significant environmental liabilities, some of which we may not be aware of at the time of acquisition. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs or become the basis for new or increased liabilities that could have a material adverse effect on our business, financial condition and results of operations.

***Many of the industries in which we operate are cyclical, and, accordingly, our business is subject to changes in the economy.***

Many of the business areas in which we operate are subject to specific industry and general economic cycles. Certain businesses are subject to industry cycles, including but not limited to, the energy and semiconductor industries. Accordingly, any downturn in these or other markets in which we participate could materially adversely affect us. If demand changes and we fail to respond accordingly, our results of operations could be materially adversely affected in any given quarter. The business cycles of our different operations may occur contemporaneously. Consequently, the effect of an economic downturn may have a

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magnified negative effect on our business. The businesses we are acquiring in the NTGH acquisition could also experience cyclical downturns which may occur contemporaneously with downturns in our cycles.

***Our intangible assets are valued at an amount that is high relative to our total assets and a write-off of our intangible assets would negatively affect our results of operations and total capitalization.***

Our total assets reflect substantial intangible assets, primarily goodwill. At September 30, 2003, goodwill totaled \$483 million compared to \$442 million of stockholders' equity, which was over half of our total assets of \$836 million. After giving pro forma effect to the Transactions, at September 30, 2003, goodwill would have been approximately \$729 million compared to \$619 million, of stockholders' equity. The goodwill results from our acquisitions, representing the excess of cost over the fair value of the net assets we have acquired. We assess at least annually whether there has been an impairment in the value of our intangible assets. If future operating performance at one or more of our business units were to fall significantly below current levels, if competing or alternative technologies emerge or if business valuations become more conservative, we could incur, under current applicable accounting rules, a non-cash charge to operating earnings for goodwill impairment. Any determination requiring the write-off of a significant portion of unamortized intangible assets would negatively affect our results of operations and total capitalization, which effect could be material.

***We and NTGH depend on our abilities to develop new products.***

The future success of our and NTGH's business will depend, in part, on our ability to design and manufacture new competitive products and to enhance existing products so that our products can be sold with high margins. This product development may require substantial investment by us. There can be no assurance that unforeseen problems will not occur with respect to the development, performance or market acceptance of new technologies or products or that we will otherwise be able to successfully develop and market new products. Failure of our products to gain market acceptance or our failure to successfully develop and market new products could reduce our margins, which would have an adverse effect on our business, financial condition and results of operations.

***Our technology is important to our success and our failure to protect this technology could put us at a competitive disadvantage.***

Because many of our and NTGH's products rely on proprietary technology, we believe that the development and protection of these intellectual property rights is important to the future success of our business. In addition to relying on patent, trademark, and copyright rights, we and NTGH rely on unpatented proprietary know-how and trade secrets, and employ various methods, including confidentiality agreements with employees, to protect our know-how and trade secrets. Despite our and NTGH's efforts to protect proprietary rights, unauthorized parties or competitors may copy or otherwise obtain and use these products or technology. The steps we and NTGH have taken may not prevent unauthorized use of this technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the U.S., and there can be no assurance that others will not independently develop the know-how and trade secrets or develop better technology than us or that current and former employees, contractors and other parties will not breach confidentiality agreements, misappropriate proprietary information and copy or otherwise obtain and use our information and proprietary technology without authorization or otherwise infringe on our intellectual property rights.

***The recent conflict in Iraq and any future armed conflict or terrorist activities may cause the economic conditions in the U.S. or abroad to deteriorate, which could harm our business.***

The U.S. and other countries recently engaged in a war in Iraq and military personnel are still engaged in that country. The duration and outcome of these activities are unknown. Continued occupation of Iraq, future terrorist attacks against U.S. targets, rumor or threats of war, additional conflicts involving the U.S. or its allies or trade disruptions may impact our operations or cause general economic conditions in the U.S. and abroad to deteriorate. A prolonged economic slowdown or recession in the U.S. or in other

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areas of the world could reduce the demand for our products and, therefore, negatively affect our future sales and profits. Any of these events could have a significant impact on our business, financial condition or results of operations and may result in the volatility of the market price for our common stock and other securities.

### ***Our business may be adversely impacted by a new outbreak of Severe Acute Respiratory Syndrome or a similar health crisis.***

In early 2003, there was an outbreak of Severe Acute Respiratory Syndrome, or SARS, primarily in Asia. The occurrence of this medical crisis severely disrupted business activity in Asia, particularly in Hong Kong and elsewhere in China. During fiscal 2002, approximately 15% of our net sales were attributable to Asia and we have operations in Asia. The U.S. or other countries could impose import restrictions on products, or private parties may cease purchasing products, from areas impacted by a new outbreak of SARS or a similar health crisis. We are unable to predict the ultimate impact that a renewed outbreak of SARS or a similar health crisis would have on us or our operations, but it could become material to our business, financial condition or results of operations.

## **Risks Relating to Our Common Stock**

### ***Our stock price may fluctuate significantly.***

The market price of our common stock could fluctuate significantly in response to variations in quarterly operating results and other factors, such as:

- changes in our business, operations or prospects;
- developments in our relationships with our customers;
- announcements of technological innovations or new products by us or by our competitors;
- announcement or completion of acquisitions by us or by our competitors;
- changes in existing or adoption of additional government regulations;
- unfavorable or reduced analyst coverage; and
- prevailing domestic and international market and economic conditions.

In addition, the stock market has experienced significant price fluctuations in recent years. Many companies experienced material fluctuations in their stock price that were unrelated to their operating performance. Broad market fluctuations, general economic conditions and specific conditions in the industries in which we operate may adversely affect the market price of our common stock.

### ***Limited trading volume of our common stock may contribute to its price volatility.***

Our common stock is traded on the New York Stock Exchange, or NYSE. During the nine months ended September 30, 2003, the average daily trading volume for our common stock as reported by the NYSE was approximately 183,000 shares. We are uncertain whether a more active trading market in our common stock will develop. Also, many investment banks no longer find it profitable to provide securities research on small-cap and mid-cap companies. If analysts were to discontinue coverage of our stock, our trading volume may be further reduced. As a result, relatively small trades may have a significant impact on the market price of our common stock, which could increase the volatility and depress the price of our stock.

### ***Future sales of our common stock may cause our stock price to decline.***

We may, in the future, sell additional shares of our common stock in subsequent public offerings and may also issue additional shares of our common stock to finance future acquisitions. Shares of our common stock are also available for future sale pursuant to stock options that we have granted to our



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employees. Sales of substantial amounts of our common stock, or the perception that such sales could occur, may adversely affect prevailing market prices for shares of our common stock and could impair our ability to raise capital through future offerings.

Additionally, approximately \_\_\_\_\_ shares of our common stock will become issuable upon conversion of the notes being offered concurrently with this offering (at the initial conversion rate, which is subject to adjustment). Any such sales by the purchasers of the notes could adversely affect the market price of our common stock as could any hedging activities relating to our common stock engaged in by purchasers of the notes.

We and our directors and executive officers have agreed, with certain exceptions including, with respect to most of our directors and executive officers, the ability to do cashless exercises of options and to fund taxes payable upon such exercises, and with respect to us, subject to restrictions, allowing us to issue common stock in connection with business combinations and strategic or other significant investments, including 34,000 shares we intend to issue as part of the consideration for the acquisition of the remaining one-third interest of DAP Technologies, not to sell or otherwise transfer any shares of our common stock for 90 days after the date of this prospectus supplement, without first obtaining the written consent of Merrill Lynch, on behalf of the underwriters. With the consent of Merrill Lynch, we, our directors and executive officers may sell shares before the expiration of such 90-day period without prior notice to our other stockholders or to any public market in which our common stock trades.

### ***We may not be able to pay cash dividends in the foreseeable future.***

We have paid a cash dividend in each fiscal quarter since our February 1992 initial public offering and we have also increased our dividend rate each year. During fiscal 2001, 2002 and the first three quarters of fiscal 2003, we paid quarterly dividends of \$0.0750, \$0.0825 and \$0.0875 per share, respectively. In November 2003, our board of directors increased the dividend to be paid in the quarter ending March 31, 2004 to \$0.09625 per share, an increase of 10% from the prior rate. Any future cash dividends will depend upon our results of operations, financial conditions, cash requirements, the availability of a surplus and other factors, including restrictions imposed by our new senior secured credit facility or other future debt instruments and the ability of our subsidiaries to make distributions to us, which ability is restricted in the manner described above. See Description of Certain Indebtedness New Senior Secured Credit Facility.

### ***Provisions in our certificate of incorporation and bylaws and Delaware state law could make a merger, tender offer or proxy contest difficult, including provisions relating to some of our holders having five votes per share.***

Our certificate of incorporation provides that each share of common stock that is held by the same person for at least four years entitles the holder to five votes, and that each share held for less than four years entitles the holder to one vote. In addition, under our certificate of incorporation, our board of directors has the authority to issue common stock carrying five votes per share in private placement transactions. The existence of shares carrying five votes may result in the holders of those shares, who may own a relatively small number of shares of common stock, being able to control the outcome of a matter submitted to the stockholders for approval.

Our certificate of incorporation and bylaws contain certain other provisions that may discourage, delay or prevent a change in control of our company that stockholders may consider favorable. Our certificate of incorporation and bylaws:

authorize the board of directors to fix the terms of and issue preferred stock without stockholder approval, which could be used to oppose a takeover attempt;

provide for a board of directors comprised of three classes with staggered terms;

limit who may call special meetings of stockholders;



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prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders;

establish advance notice requirements for nominating directors and proposing matters to be voted on by stockholders at stockholder meetings;

provide that directors may be removed by stockholders only for cause; and

require that vacancies on our board of directors, including newly-created directorships, be filled only by a majority vote of directors then in office.

Our board of directors has also adopted a stockholder rights plan intended to encourage anyone seeking to acquire us to negotiate with the board prior to attempting a takeover.

In addition, Section 203 of the Delaware General Corporation Law also imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our common stock, which may discourage, delay or prevent a change in control favored by stockholders generally.

Any or all of these provisions may discourage or prevent a change of control that might offer our stockholders a premium over prevailing market prices, or otherwise benefit our stockholders, even if such a change of control is favored by a majority of stockholders.

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**THE ACQUISITION**

**General**

On October 21, 2003, we entered into a stock purchase agreement pursuant to which we have agreed to acquire all of the outstanding capital stock of NTGH for cash. Under the stock purchase agreement, we will pay total consideration of approximately \$475 million, net of cash acquired and including debt to be repaid.

**Representations and Warranties and Indemnification**

The agreement contains customary representations and warranties. The representations relating to the capitalization and debt of NTGH and title to shares will survive for a period of one year following the closing and the sellers are required to indemnify us for any losses we incur as a result of a breach of those representations and warranties.

**Covenants**

The agreement contains customary covenants, including (but not limited to), those relating to the conduct of the business of NTGH between signing and closing.

**Conditions to the Closing**

The agreement contains customary conditions to each of our and the sellers' obligation to close, including (but not limited to) the following:

the representations and warranties made by the other party in the agreement are true and correct in all material respects as of the closing;

the other party has performed in all material respects all agreements required to be performed by them at or prior to the closing;

there is no governmental order prohibiting the transaction and all applicable governmental approvals have been obtained, including approvals required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and

in the case of our obligation to close, no material adverse effect related to NTGH shall have occurred between signing and closing.

**Closing and Termination**

Pursuant to the stock purchase agreement, the closing of the transaction will take place on the latest of the following dates:

the fifth business day after the date on which the conditions to closing have been satisfied;

the date which is the earlier of (1) February 27, 2004 or (2) the first business day after the 90th day after the effective date of the registration statement pursuant to which this offering is being completed; and

such other date as we and the sellers mutually agree.

The parties have mutually agreed to close the NTGH acquisition concurrently with this offering.

**Noncompete and Nondisclosure/Nonsolicitation Agreements**

Simultaneously with the signing of the stock purchase agreement, certain of the sellers entered into noncompete agreements pursuant to which they agreed not to engage in certain activities of the type conducted by NTGH and certain sellers entered into nondisclosure and nonsolicitation agreements



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pursuant to which they agreed not to disclose certain information related to NTGH or solicit customers or employees of NTGH.

**Employment Agreements**

Simultaneously with the signing of the stock purchase agreement, certain employees of NTGH entered into employment agreements pursuant to which they agreed to be employed by NTGH following the closing of the acquisition.

**DAP Technologies**

NTGH currently owns two-thirds of the outstanding capital stock of DAP Technologies. We intend to purchase the remaining one-third interest of DAP Technologies from the current holder for approximately \$9.2 million, consisting of cash consideration of \$7.5 million and 34,000 shares of our common stock.

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**Table of Contents****USE OF PROCEEDS**

We expect to receive \$200 million of gross proceeds from the sale of the shares of common stock in the offering. We also expect to receive approximately \$150 million of gross proceeds from our concurrent notes offering. We will use the proceeds from this offering, together with borrowings under our new senior secured credit facility, to pay for the NTGH acquisition and the cash portion of the DAP Technologies acquisition, repay our existing credit facility and pay related fees and expenses. We will use all of the proceeds from the notes offering to redeem our outstanding senior notes. In addition to paying \$7.5 million in cash in connection with the DAP Technologies acquisition, we also intend to issue 34,000 shares of our common stock out of treasury. We expect that any proceeds from the exercise of the underwriters' overallotment option in connection with this offering would permit us to borrow less, or to repay amounts, under our new senior secured credit facility or would be used for general corporate purposes and any proceeds from the exercise of the underwriters' overallotment option in connection with the notes offering would permit us to repay amounts under our new revolving credit facility or, if the overallotment option is exercised on the closing date, to pay down our existing credit facility. The closing of this offering is conditioned upon the completion of our new senior secured credit facility and the NTGH acquisition.

The following table sets forth the estimated sources and uses of funds for the offering and the related Transactions, assuming that the Transactions had occurred on September 30, 2003 (in thousands):

**Sources of Funds**

Common stock offered hereby(1)	\$200,004
Senior subordinated convertible notes offering(1)	150,000
Borrowings under our new senior secured credit facility(2)(3)	476,662
	<hr/>
Total sources of funds	\$826,666
	<hr/>

**Uses of Funds**

NTGH acquisition(4)	\$475,000
Cash portion of DAP Technologies acquisition(5)	7,500
Repayment of indebtedness under our existing credit facility(3)	162,266
Redemption of our outstanding senior notes(6)	147,900
Fees and expenses(7)	34,000
	<hr/>
Total uses of funds	\$826,666
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- (1) Does not reflect the underwriting discounts and expenses payable by us in connection with the offerings.
  - (2) In connection with the Transactions, we will borrow \$26.7 million under our new revolving credit facility to repay indebtedness under our existing credit facility. After giving pro forma effect to these borrowings, we would have approximately \$148.3 million available for borrowing under our new revolving credit facility.
  - (3) Upon the closing of the NTGH acquisition, the new senior secured credit facility will replace our existing credit facility. As of September 30, 2003, \$162.3 million was outstanding under our existing credit facility. The weighted average interest rate on our existing credit facility as of September 30, 2003 was 2.65%.
  - (4) Includes NTGH's existing debt to be repaid in connection with the NTGH acquisition.
  - (5) NTGH currently owns two-thirds of DAP Technologies. In connection with our acquisition of NTGH, we intend to purchase the remaining one-third interest in DAP Technologies for approximately \$9.2 million, consisting of cash consideration of \$7.5 million and 34,000 shares

of our common stock.

- (6) We currently have \$125 million of senior notes outstanding. In connection with the redemption of these notes, we will be required to pay a make-whole payment of \$22.9 million. We intend to take a charge for this amount in the quarter in which the senior notes are redeemed, less a tax benefit of \$8.0 million.
- (7) Includes the underwriting discounts and other expenses incurred or to be incurred in connection with the Transactions.

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**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2003:

on an actual basis;

on an as adjusted basis, giving effect to the Transactions, excluding the notes offering and the redemption of our outstanding senior notes; and

on an as adjusted basis, after giving effect to all of the Transactions.

You should read the following table in conjunction with Use of Proceeds, Management's Discussion and Analysis of Financial Condition and Results of Operations, our and NTGH's audited and unaudited consolidated financial statements and related notes and Unaudited Pro Forma Consolidated Financial Information included elsewhere in this prospectus supplement.

	As of September 30, 2003		
	Actual	As Adjusted for Certain of the Transactions(1)	As Adjusted for all Transactions
	(in thousands)		
Cash and cash equivalents	\$ 14,510	\$ 14,510	\$ 14,510
Current portion of long-term debt	\$ 1,017	\$ 23,527(2)	\$ 23,527(2)
Long-term debt, less current portion			
Existing credit facility(3)	162,266		
New senior secured credit facility		475,787	454,162(4)
Senior notes	125,000	125,000	
Senior subordinated convertible notes			150,000
Other	204	204	204
Total long-term debt	\$ 287,470	600,991	\$ 604,366
Stockholders' equity			
Preferred stock, \$0.01 par value per share; 1,000 shares authorized; none outstanding			
Common stock, \$0.01 par value per share; 80,000 shares authorized; 32,877 shares issued and 31,652 outstanding, actual; 36,832 shares issued and 35,641 outstanding, as adjusted	328	328	368
Additional paid-in capital	94,802	286,829	286,829
Retained earnings(5)	338,159	338,159	323,274
Accumulated other comprehensive earnings	32,645	32,645	32,645
Treasury stock, 1,225 shares actual and 1,191 as adjusted(6)	(24,206)	(23,532)	(23,532)
Total stockholders' equity	441,728	634,469	619,584
Total capitalization	\$ 730,205	\$ 1,258,987	\$ 1,247,477

- (1) Includes all fees payable in connection with the Transactions other than the underwriting discount payable in connection with the notes offering.
- (2) Includes \$22.5 million of borrowings under our new senior secured credit facility.
- (3) Upon the closing of the NTGH acquisition, the new senior secured credit facility will replace our existing credit facility. As of September 30, 2003, \$162.3 million was outstanding under our existing

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credit facility. The weighted average interest rate on our existing credit facility as of September 30, 2003 was 2.65%.

- (4) As of September 30, 2003, after giving pro forma effect to this offering and the related financing transactions, we would have had approximately \$148.3 million available for borrowing under our new senior secured credit facility.
- (5) In connection with the redemption of our outstanding senior notes, we will pay a make-whole amount of \$22.9 million. Of this amount, \$14.9 million will be applied as a reduction to retained earnings. The make-whole amount is offset by a tax benefit of \$8.0 million.
- (6) NTGH currently owns two-thirds of DAP Technologies. In connection with our acquisition of NTGH, we intend to purchase the remaining one-third interest in DAP Technologies for approximately \$9.2 million, consisting of cash consideration of \$7.5 million and 34,000 shares of our common stock.

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**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock trades on the NYSE under the symbol ROP. The table below sets forth, for the periods indicated, the range of high and low closing sales prices for our common stock as reported by the NYSE. In August 2003, we changed our fiscal year-end from October 31 to December 31.

Calendar Quarter	Roper Common Shares	
	High	Low
<b>2001</b>		
First Quarter	\$39.95	\$33.00
Second Quarter	45.80	33.65
Third Quarter	45.00	31.00
Fourth Quarter	52.25	34.65
<b>2002</b>		
First Quarter	\$52.91	\$41.04
Second Quarter	49.73	36.25
Third Quarter	37.74	27.25
Fourth Quarter	43.35	31.54
<b>2003</b>		
First Quarter	\$40.34	\$26.35
Second Quarter	38.52	28.33
Third Quarter	47.05	36.20
Fourth Quarter (through December 3, 2003)	51.58	43.90

On December 3, 2003, the last reported sale price for our common stock on the NYSE was \$50.57 per share. You should obtain current market quotations before making any decision with respect to an investment in our common stock. Based on information available to us and our transfer agent, we believe that as of September 30, 2003, there were 203 record holders of our common stock.

**DIVIDEND POLICY**

We have paid a cash dividend in each fiscal quarter since our February 1992 initial public offering and we have also increased our dividend rate each year. During fiscal 2001, 2002 and the first three quarters of fiscal 2003, we paid quarterly dividends of \$0.0750, \$0.0825 and \$0.0875 per share, respectively. In November 2003, our board of directors increased the dividend to be paid in the quarter ending March 31, 2004 to \$0.09625 per share, an increase of 10% from the prior rate. The timing, declaration and payment of future dividends will be at the sole discretion of our board of directors and will depend upon our profitability, financial condition, capital needs, future prospects, covenants in our senior secured credit facility and any other future debt instrument and other factors deemed relevant by our board of directors. Therefore, there can be no assurance as to the amount, if any, of cash dividends that will be paid in the future.

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**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

We derived the following unaudited pro forma consolidated financial data by the application of pro forma adjustments to our historical financial statements and the historical financial statements of NTGH. The following pro forma income statements for the year ended October 31, 2002 and the nine months ended September 30, 2003 reflect the following events as if each had occurred immediately prior to these periods, and the unaudited pro forma balance sheet as of September 30, 2003 reflects the following events as if each had occurred on September 30, 2003:

the acquisition of NTGH;

the acquisition of the remaining one-third interest in DAP Technologies;

the issuance of 3,915,427 shares of common stock in this offering at an assumed public offering price of \$51.08 per share;

the issuance of notes in the notes offering for proceeds of \$150 million;

the incurrence of approximately \$476.7 million of borrowings under our new senior secured credit facility;

the redemption of our outstanding senior notes, for an aggregate redemption price, including a make-whole payment and accrued and unpaid interest, of \$147.9 million; and

the repayment of all amounts outstanding under our existing credit facility, which aggregated \$162.3 million at September 30, 2003.

The pro forma consolidated statement of operations for the year ended October 31, 2002 utilize the audited consolidated statement of operations of Roper for the year ended October 31, 2002 and the audited consolidated statements of operations of NTGH for the year ended December 31, 2002.

The unaudited pro forma consolidated financial data has been prepared giving effect to the NTGH acquisition and our acquisition of the remaining one-third interest in DAP Technologies, which will be accounted for in accordance with SFAS No. 141, Business Combinations. The total purchase price will be allocated to the net assets of NTGH based upon estimates of fair value. The pro forma adjustments are based on a preliminary assessment of the value of NTGH's tangible and intangible assets by management. Management will utilize a formal valuation analysis by an outside appraisal firm in determining the final purchase price allocation. Accordingly, the final purchase price allocation may include an adjustment to the amounts recorded for the value of property and equipment, identifiable intangible assets and goodwill, as well as changes in cash consideration based on changes in cash, indebtedness and working capital on the closing date. A final valuation is in process and will be completed after the completion of the acquisition.

The adjustments to the unaudited pro forma consolidated statement of operations are based upon available information and certain assumptions that we believe are reasonable and exclude the following non-recurring charges that will be incurred therewith: (1) amortization of estimated inventory fair value step-up of approximately \$4 million from the acquisition expected to impact 2004 cost of sales; and (2) the write-off of approximately \$14.9 million of debt extinguishment costs, net of tax, related to the redemption of our outstanding senior notes and related deferred financing costs. The pro forma consolidated financial information should be read in conjunction with the historical financial statements of Roper and NTGH and the related notes thereto included in or incorporated by reference into this prospectus supplement. The pro forma financial information is presented for informational purposes only and does not purport to represent what our actual results of operations or financial position would have been had the NTGH acquisition and related Transactions described above been consummated at the date indicated, nor is it necessarily indicative of our future results of operations or financial condition.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****PRO FORMA CONSOLIDATED BALANCE SHEET**

September 30, 2003

	Historical Roper	Historical NTGH	Adjustments for the Transactions	Pro Forma
			(unaudited) (dollars in thousands)	
Cash and cash equivalents	\$ 14,510	\$ 24,159	\$ (24,159)	\$ 14,510
Accounts receivable, net	120,344	25,677		146,021
Inventories	95,233	14,631	4,000 (1)	113,864
Other current assets	5,238	9,373	(1,000)(2)	13,611
	<u>235,325</u>	<u>73,840</u>	<u>(21,159)</u>	<u>288,006</u>
Property, plant and equipment, net	51,908	26,085		77,993
Goodwill	482,465	77,231	169,390 (1)	729,086
Other intangible assets, net	36,852	180,644	61,356 (1)	278,852
Other noncurrent assets	29,127	10,442	13,400 (3)	43,570
			(9,399)(4)	
	<u>\$ 835,677</u>	<u>\$ 368,242</u>	<u>\$ 213,588</u>	<u>\$ 1,417,507</u>
Accounts payable	\$ 33,791	\$ 10,360	\$	\$ 44,151
Accrued liabilities	54,732	16,604	13,750 (1)	85,086
Income taxes payable	3,093		(8,015)(5)	(4,922)
Current portion of long-term debt	1,017	10,000	12,500 (6)	23,517
	<u>92,633</u>	<u>36,964</u>	<u>18,235</u>	<u>147,832</u>
Long-term debt	287,470	277,304	39,596 (6)	604,370
Other noncurrent liabilities	13,846	10,405	21,475 (1)	45,726
	<u>393,949</u>	<u>324,673</u>	<u>79,306</u>	<u>797,928</u>
Minority interest		4,512	(4,512)(7)	
Redeemable preferred stock		29,017	(29,017)(7)	
Total stockholders' equity	441,728	10,040	(14,885)(5)	619,579
			192,736 (8)	
			(10,040)(7)	
	<u>\$ 835,677</u>	<u>\$ 368,242</u>	<u>\$ 213,588</u>	<u>\$ 1,417,507</u>

See accompanying notes to the unaudited Pro Forma Consolidated Balance Sheet.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET****(In thousands)**

- (1) Under purchase accounting, the estimated acquisition consideration will be allocated to NTGH's assets and liabilities based on their relative fair values. The consideration remaining will be allocated to identifiable intangibles with a finite life and amortized over that life, as well as to goodwill and identifiable intangibles with an infinite life, which will be evaluated on an annual basis to determine impairment and adjusted accordingly. The pro forma adjustments were based on management's preliminary assessment of value of NTGH's tangible and intangible assets. The final purchase price allocation is in process and may include an adjustment of the total consideration payable at closing, as well as in the amount recorded for any changes in value of property and equipment, identifiable intangible assets, and goodwill determined by an outside appraisal after completion of the Transactions.

<b>Total acquisition consideration allocation:</b>	
Net cash paid for NTGH acquisition	\$ 475,000
Cash and stock consideration paid for the DAP Technologies acquisition	9,236
Estimated acquisition expenses	11,600
	<hr/>
Total acquisition consideration	495,836
Less: Net book value of assets acquired	(296,315)
	<hr/>
Excess purchase price to be allocated	\$ 199,521
	<hr/>
<b>Preliminary allocations:</b>	
Inventory step-up	\$ 4,000
Deferred tax liability	(21,475)
Restructuring and other incremental liabilities	(13,750)
Incremental identifiable intangible assets	61,356
Incremental goodwill	169,390
	<hr/>
	\$ 199,521
	<hr/>

Amortization of intangible assets, if applicable, will occur over their estimated useful lives, which we estimate will range from two to twenty-five years. The major categories of NTGH intangible assets are estimated as follows, subject to adjustment in connection with the final purchase price allocation:

<b>Assets subject to amortization:</b>	
Customer relationships	\$ 147,000
Technology	32,000
Software	8,000
Contracts	19,000
<b>Assets not subject to amortization:</b>	
Trade names	36,000
	<hr/>
	\$ 242,000
	<hr/>

- (2) Reflects the elimination of a capitalized management fee incurred by NTGH that was being amortized over a five-year period which will not be assumed in connection with the NTGH acquisition.
- (3) Estimated debt issuance costs of \$13,400 relating to our senior subordinated convertible notes being offered concurrently with this offering, our new senior secured credit facility and related expenses will be amortized over the weighted average life of the associated financings.



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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET (Continued)**

- (4) Reflects the elimination of capitalized financing fees that will no longer be amortized due to the repayment of NTGH's outstanding indebtedness in connection with the NTGH acquisition.
- (5) Represents the estimated costs associated with extinguishing our current outstanding senior notes and the write-off of deferred financing costs associated with those notes and our revolving credit facility. The non-recurring expense associated with early extinguishment of our current senior notes is tax deductible and a tax benefit of \$8,015 has been recognized at the federal statutory rate.
- (6) Reflects the increase in our outstanding indebtedness following the Transactions and the repayment of NTGH's outstanding indebtedness in connection with the Transactions.
- (7) Reflects the elimination of NTGH's historical share capital, retained earnings, minority interest and other equity accounts pursuant to the application of purchase accounting.
- (8) Reflects the issuance of shares in this offering and the application of the net proceeds from this offering, net of underwriting discounts and expenses, as well as the issuance of 34,000 shares of our common stock in the DAP Technologies acquisition.

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**

Year Ended October 31, 2002

	Historical Roper(1)	Historical NTGH(1)	Adjustments for the Transactions	Pro Forma
			(unaudited) (in thousands)	
Net sales	\$ 617,462	\$ 189,544	\$	\$ 807,006
Cost of good sold	283,707	109,211		392,918
Gross profit	333,755	80,333		414,088
Selling, general and administrative expenses	218,210	45,793	1,900 (3)	265,903
Operating profit	115,545	34,540	(1,900)	148,185
Interest expense	18,506	12,880	(4,886)(4)	26,500
Euro debt currency loss	4,093			4,093
Loss on extinguishment of debt(2)		1,353		1,353
Other income	3,381	928		4,309
Earnings from continuing operations before income taxes and change in accounting principle	96,327	21,235	2,986	120,548
Income taxes	29,889	7,833	1,045 (5)	38,767
Earnings from continuing operations before change in accounting principle	\$ 66,438	\$ 13,402	\$ 1,941	\$ 81,781
<b>Earnings per share from continuing operations</b>				
Basic	\$ 2.13			\$ 2.33
Diluted	2.09			2.29
<b>Average shares outstanding</b>				
Basic	31,210		3,949 (6)	35,159
Diluted	31,815		3,949 (6)	35,764

See accompanying notes to the unaudited Pro Forma Consolidated Statement of Operations.

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**

Nine Months Ended September 30, 2003

	Historical Roper(1)	Historical NTGH(1)	Adjustments for the Transactions	Pro Forma
			(unaudited) (in thousands)	
Net sales	\$487,562	\$147,473	\$	\$635,035
Cost of good sold	230,504	83,773		314,277
Gross profit	257,058	63,700		320,758
Selling, general and administrative expenses	178,262	37,472	600 (3)	216,334
Operating profit	78,796	26,228	(600)	104,424
Interest expense	12,653	14,867	(7,920)(4)	19,600
Loss on Extinguishment of debt(2)		9,329		9,329
Other expense	(195)	(2,556)		(2,751)
Earnings (loss) from continuing operations before income taxes	65,948	(524)	7,320	72,744
Income taxes	19,784	451	2,562 (5)	22,797
Earnings (loss) from continuing operations	\$ 46,164	\$ (975)	\$ 4,758	\$ 49,947
<b>Earnings per share from continuing operations</b>				
Basic	\$ 1.47			\$ 1.41
Diluted	1.45			1.40
<b>Average shares outstanding</b>				
Basic	31,482		3,949 (6)	35,431
Diluted	31,844		3,949 (6)	35,793

See accompanying notes to the unaudited Pro Forma Consolidated Statement of Operations.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**

- (1) Because of differing fiscal 2002 year-ends for Roper and NTGH, the pro-forma consolidated statement of operations for fiscal year ended October 31, 2002 utilizes the audited income statement of NTGH for the calendar year ended December 31, 2002. For fiscal 2003, both NTGH and Roper report on a calendar year basis and common reporting periods are used for the consolidated statement of operations for the nine months ended September 30, 2003.
- (2) During the year ended October 31, 2002, and the nine months ended September 30, 2003, NTGH recorded losses on early extinguishment of debt of \$1,353 and \$9,329 respectively. These losses were associated with financing arrangements typical of private equity group ownership. These losses are required to be presented in the pro formas under Article 11 of Regulation S-X. These amounts will not recur for Roper due to a different ownership structure following the NTGH acquisition. The table below reflects the pro forma earnings from continuing operations before income taxes adjusted to exclude these losses (dollars in thousands):

	<b>Year Ended October 31, 2002</b>	<b>Nine Months Ended September 30, 2003</b>
Pro forma earnings from continuing operations before income taxes	\$ 120,548	\$ 72,744
Loss on extinguishment of debt	1,353	9,329
Adjusted earnings from continuing operations before income taxes	<u>\$ 121,901</u>	<u>\$ 82,073</u>

- (3) Reflects the net adjustment to the historical amortization expense of NTGH from the elimination of certain non-recurring management fees and financing expenses, partially offset by additional intangibles amortization of identifiable finite-lived intangible assets.
- (4) Reflects the net change in interest expense to give effect to (a) borrowings under our proposed new senior secured credit facility, (b) the issuance of \$450 million of notes under our five year term-note facility, (c) the issuance of our senior subordinated convertible notes for initial gross proceeds of \$150 million, (d) the amortization of \$13.4 million of debt issuance costs over an average of four years and (e) the elimination of interest expense for both Roper and NTGH under their current financing structures. For every 1/8% change in the interest rates on the debt, the effect on interest expense of the combined entities is approximately \$800.
- (5) Tax effects of the pro forma adjustments have been calculated based on the applicable statutory rate of 35%.
- (6) Reflects the issuance of 3,915,427 shares of common stock in this offering and the issuance of 34,000 shares of common stock out of treasury in connection with the DAP Technologies acquisition. Assumes the issuance of an aggregate of 3,915,427 shares of our common stock with a market value of \$200 million based on a market price of \$51.08 per share. The price per share reflects the average closing price of our common stock on December 2, 2003 and December 3, 2003.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and related notes and other financial data of Roper and NTGH each included elsewhere in this prospectus supplement. In early 2003, we realigned our operations into four market-focused segments. All segment information has been restated to reflect these new categories.

**Roper**

**Overview**

We are a diversified industrial company that designs, manufactures and distributes energy systems and controls, scientific and industrial imaging products and software, industrial technology products and instrumentation products and services. We market these products and services to selected segments of a broad range of markets including oil and gas, research, power generation, medical, semiconductor, refrigeration, automotive, water and wastewater and general industry.

We pursue consistent and sustainable growth in earnings by emphasizing continuous improvement in the operating performance of our existing businesses and by acquiring other carefully selected businesses. Our acquisitions have represented both financial bolt-ons and new strategic platforms. Common characteristics of our acquisitions are engineered products or systems that have high gross margins and generate favorable financial results. We strive for high cash and earnings returns from our acquisition investments. During the nine months ended September 30, 2003, our results of operations benefited from five acquisitions made during the last six months of the prior calendar year:

Zetec, reported in our Energy Systems and Controls segment

Qualitek, reported in our Instrumentation segment

QImaging, reported in our Scientific and Industrial Imaging segment

Duncan Technologies, reported in our Scientific and Industrial Imaging segment

Definitive Imaging, reported in our Scientific and Industrial Imaging segment

Our largest customer is OAO Gazprom. Gazprom has been a customer over the past ten years through a number of its procurement affiliates. In late 2002, Gazprom assigned a new procurement affiliate to negotiate with us and during the second calendar quarter of 2003 we secured a new supply agreement. Orders received under this agreement have been received on a delayed basis and at lower levels than initially indicated by the procurement affiliate and consequently have resulted in lower order bookings volume than in comparative prior year periods. New orders received under this agreement during the three months and nine months ended September 30, 2003 totaled \$10.3 million and \$20.8 million, or 6.3% and 4.4% of total new orders, respectively. Net sales to Gazprom have been \$17.5 million during the nine months ended September 30, 2003 as compared to \$43.7 million during the nine months ended September 30, 2002.

During the transition period ended December 31, 2002, we began reporting our operations under a new segment structure. This structure has realigned our operations into four market-focused groups to capture value-creating opportunities around common customers, market orientation, sales channels and common cost opportunities. Having recruited and reassigned new managers to lead these realigned groups in the first quarter, we are cascading leadership through these segments with the hiring of several key managers from quality growth companies to provide enhanced functional and synergistic expertise.

Following the segment realignment, we started a number of restructuring activities. We have completed the integration of our Acton Research and Integrated Design business units, the integration of Qualitek into the Uson business unit and the integration of production operations of our Redlake business



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unit into other Imaging segment facilities. In addition, we have opened new production facilities in China and Mexico as a result of which we closed the U.S. production operations of the Dynamco business unit and commenced the movement of manufacturing of certain other Industrial Technology product lines to Mexico. During the third quarter, we completed our relocation of Struers manufacturing, engineering and administrative support activities into a new facility and continued our planning for various outsourcing activities in other operations. All of these actions are planned to lower manufacturing costs and enhance margins.

### **Application of Critical Accounting Policies**

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, or GAAP. A discussion of our significant accounting policies can be found in the notes to our consolidated financial statements for the year ended October 31, 2002 included elsewhere in this prospectus supplement.

GAAP offers acceptable alternative methods for accounting for certain issues affecting our financial results, such as determining inventory cost, depreciating long-lived assets, recognizing revenues and issuing stock options to employees. We have not changed the application of acceptable accounting methods or the significant estimates affecting the application of these principles in the last three years in a manner that had a material effect on our financial statements, except for the adoption of Statement of Financial Accounting Standards, or SFAS, No. 142, Goodwill and Other Intangible Assets.

The preparation of financial statements in accordance with GAAP requires the use of estimates, assumptions, judgments and interpretations that can affect the reported amounts of assets, liabilities, revenues and expenses, the disclosure of contingent assets and liabilities and other supplemental disclosures.

The development of accounting estimates is the responsibility of our management. Our management discusses those areas that require significant judgments with the audit committee of our board of directors. The audit committee discusses critical estimates with our external auditors and reviews all financial disclosures to be included in our filings with the SEC. Although we believe the positions we have taken with regard to uncertainties are reasonable, others might reach different conclusions and our positions can change over time as more information becomes available. If an accounting estimate changes, its effects are accounted for prospectively.

Our most significant accounting uncertainties are encountered in the areas of accounts receivable collectibility, inventory utilization, future warranty obligations, revenue recognition (percent of completion), income taxes and goodwill analysis. These issues, except for income taxes, which are not allocated to our business segments, affect each of our business segments. We evaluate these issues primarily using a combination of historical experience, current conditions and relatively short-term forecasting.

Accounts receivable collectibility is based on the economic circumstances of customers and credits given to customers after shipment of products, including in certain cases, credits for returned products. We regularly review accounts receivable to determine customers who have not paid within agreed upon terms, whether these amounts are consistent with past experiences, what our historical experience has been with amounts deemed uncollectible and the impact that current and near-term forecast economic conditions might have on collection efforts in general and with specific customers. We analyze the returns and other sales credit histories to determine likely future rates for such credits. At September 30, 2003, our allowance for doubtful accounts receivable, sales returns and sales credits was \$3.8 million, or 3.1% of total gross accounts receivable of \$124.4 million. The amount of the reserve remained unchanged from our prior fiscal quarter end.

We regularly compare inventory quantities on hand against anticipated future usage, which we determine as a function of historical usage or forecasts related to specific items in order to evaluate obsolescence and excessive quantities. When we use historical usage, we also qualitatively compare this information to business trends to evaluate the reasonableness of using historical information as an estimate

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of future usage. Business trends can change rapidly, and these events can affect the evaluation of inventory balances. At September 30, 2003, inventory reserves for excess and obsolete inventory were \$23.1 million, or 19.4% of gross first-in, first-out inventory cost. This amount and percentage were comparable to the prior fiscal quarter end values.

Most of our sales are covered by warranty provisions that generally provide for the repair or replacement of qualifying defective items for a specified period after the time of sale, typically 12 months. Future warranty obligations are evaluated using, among other factors, historical cost experience, product evolution and customer feedback. At September 30, 2003, the accrual for future warranty obligations was \$3.7 million or 0.5% of annualized quarter sales. The reserve was approximately the same value at the beginning of the quarter.

Net sales recognized under the percentage-of-completion method of accounting are estimated and dependent on a comparison of total costs incurred to date to total estimated costs for a project. During the nine months ended September 30, 2003, we recognized \$26.0 million of net sales using this method. In addition, \$10.7 million of net sales related to unfinished percentage-of-completion contracts had yet to be recognized at September 30, 2003. Net sales accounted for under this method are generally not significantly different in profitability compared with net sales for similar products and services accounted for under other methods.

Income taxes can be affected by estimates of whether, and within which jurisdictions, future earnings will occur and how and when cash is repatriated to the United States, combined with other aspects of an overall income tax strategy. Additionally, taxing jurisdictions could retroactively disagree with our tax treatment of certain items, and some historical transactions have income tax effects going forward. Accounting rules require these future effects to be evaluated using current laws, rules and regulations, each of which can change at any time and in an unpredictable manner. We continued to utilize an effective income tax rate of 30% during the three months ended September 30, 2003, which is 100 basis points lower than the 31% rate used during the three months ended September 30, 2002. This reduction was principally the result of reflecting the tax benefits arising from certain changes to our risk management practices and foreign business structures as well as improved expectations for our utilization of all available foreign income tax credits.

The evaluation of the carrying value of goodwill is required to be performed annually and necessitates the valuation of each reporting entity, as defined. These valuations can be significantly affected by estimates of future performance and discount rates over a relatively long period of time, market price valuation multiples and marketplace transactions in related markets. These estimates will likely change over time. Many of our businesses operate in cyclical industries and the valuation of these businesses can be expected to fluctuate as a result of this cyclicity. Our acquisitions have generally included a large goodwill component and we expect that to continue with future acquisitions.

## **Results of Operations**

### ***General***

In August 2003, our board of directors approved a change in our fiscal year-end from October 31 to December 31 effective January 1, 2003. We filed a transition report on Form 10-Q for the two months ended December 31, 2002 (the transition period), and filed our first report on the new calendar year basis for the period ending September 30, 2003. During the transition period ended December 31, 2002, we began reporting our operations under the segment structure shown below.

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The following tables set 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.

	Year Ended October 31,			Two Months Ended December 31,		Nine Months Ended September 30,	
	2000	2001	2002	2001	2002	2002	2003
(dollars in thousands)							
Net sales							
Instrumentation(1)	\$ 111,789	\$ 125,354	\$ 175,490	\$ 30,590	\$ 28,390	\$ 128,697	\$ 130,445
Industrial Technology(2)	131,251	170,822	164,160	21,246	21,379	126,120	126,816
Energy Systems and Controls(3)	86,582	107,043	126,709	10,341	12,353	91,669	105,260
Scientific and Industrial Imaging	140,377	159,736	151,103	24,727	21,763	108,889	125,041
Total	\$469,999	\$562,955	\$617,462	\$86,904	\$83,885	\$455,375	\$487,562
Gross profit:							
Instrumentation	56.1%	58.4%	58.6%	61.7%	57.7%	57.4%	58.4%
Industrial Technology	47.7	46.8	46.2	45.0	43.9	46.2	46.2
Energy Systems and Controls	61.7	62.8	59.8	40.7	38.7	61.1	52.5
Scientific and Industrial Imaging	52.5	52.8	52.3	51.3	50.6	52.1	53.6
Total	53.7	54.1	54.1	52.2	49.5	53.8	52.7
Selling, general and administrative expenses:							
Instrumentation	30.8%	37.7%	39.9%	39.4%	41.8%	40.4%	42.3%
Industrial Technology	23.6	22.8	23.4	30.6	29.5	23.0	24.4
Energy Systems and Controls	37.2	36.4	33.7	48.0	59.9	36.9	33.9
Scientific and Industrial Imaging	33.8	33.7	35.2	35.6	45.0	37.4	37.0
Total	30.8	31.7	33.2	37.2	42.2	34.2	34.4
Segment operating profit:							
Instrumentation	25.3%	20.7%	18.7%	22.3%	15.9%	17.0%	16.1%
Industrial Technology	24.1	24.0	22.8	14.4	14.4	23.2	21.8
Energy Systems and Controls	24.5	26.4	26.1	(7.3)	(21.2)	24.2	18.6
Scientific and Industrial Imaging	18.7	19.1	17.1	15.7	5.6	14.7	16.6
Total	22.9	22.3	20.9	15.0	7.3	19.6	18.3
Goodwill amortization	(2.6)%	(2.7)%					
Corporate administrative expenses	(1.4)	(1.7)	(2.2)%	(2.9)%	(1.9)%	(1.8)%	(2.1)%
Income from continuing operations							
Interest expense	(2.9)%	(2.8)%	(3.0)%	(3.4)%	(3.5)%	(3.0)%	(2.6)%
Euro debt conversion loss			(0.7)			(0.9)	
Other income / (expense)	0.3	0.7	0.5	0.8	0.2	0.4	

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Income from continuing operations before taxes and change in accounting principle	16.3%	15.8%	15.6%	9.5%	2.1%	14.3%	13.6%
Income taxes	(5.7)	(5.6)	(4.8)	(3.3)	(0.6)	(4.4)	(4.1)
Income from continuing operations before change in accounting principle	10.6	10.2	10.8	6.2	1.5	9.9	9.5
Loss from discontinued operations, net of tax	(0.1)%	(0.3)%	(0.1)%	(0.4)%	(0.5)%	(0.1)%	(0.6)%

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	Year Ended October 31,			Two Months Ended December 31,		Nine Months Ended September 30,	
	2000	2001	2002	2001	2002	2002	2003
(dollars in thousands)							
Goodwill adjusted effective November 1, 2001, net of taxes			(4.2)	(29.9)			
Net earnings	10.5%	9.9%	6.5%	(24.1)%	1.0%	9.8%	8.9%

- (1) Includes results of Antek Instruments from August 2000, Struers and Logitech from September 2001 and several smaller businesses acquired during the years presented.
- (2) Includes results of Abel Pump from May 2000, Hansen Technologies from September 2000 and several smaller businesses acquired during the years presented.
- (3) Includes results of Zetec from August 2002 and several smaller businesses acquired during the years presented.

***Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002***

Net sales for the nine months ended September 30, 2003 were \$487.6 million as compared to \$455.4 million in the prior year period, a 7.1% increase. The increase reflects \$45.7 million of sales attributed to calendar 2002 acquisitions and \$18.2 million arising from the translation of foreign currency denominated sales. These gains were partially offset by \$26.2 million lower net sales to Gazprom and \$6.0 million of lower sales of telecommunications capital equipment.

Net sales in our Instrumentation segment for the nine months ended September 30, 2003 increased 1.4% as compared to the nine months ended September 30, 2002 as the favorable benefits of the calendar 2002 acquisition of Qualitek and currency translation impacts more than offset lower sales of telecommunications capital equipment. Gross margins of 58.4% for the nine months ended September 30, 2003 improved 1% as compared to 57.4% in the equivalent prior year period. The segment's SG&A expenses as a percentage of net sales increased to 42.3% as compared to 40.4% in the prior year period. This increase was principally the result of \$2.2 million of restructuring expenses from various consolidation and cost reduction actions, and adverse volume leverage from lower telecommunications equipment sales. As a result of the above, operating profits as a percentage of net sales declined to 16.1% for the nine months ended September 30, 2003 from 17.0% for the nine months ended September 30, 2002.

In our Industrial Technology segment, net sales for the nine months ended September 30, 2003 were up 0.6% from the prior year period. Gross margins were consistent with the prior year but SG&A expenses as a percentage of net sales increased by 1.4% primarily as a result of restructuring costs associated with the start-up of facilities in Mexico and China. Operating profit margins were 21.8% for the nine months ended September 30, 2003 as compared to 23.2% for the nine months ended September 30, 2002 reflecting approximately \$0.7 million of restructuring expenses during the nine months ended September 30, 2003.

Net sales in our Energy Systems and Controls segment increased by 14.8% during the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002 as the additional sales contributed by Zetec and strength in the sales of control equipment to our core oil and gas customers more than offset the reduced sales to Gazprom. Gross margins decreased from 61.1% to 52.5% as a result of adverse leverage from lower sales to Gazprom and lower margins at Zetec pending the completion of all integration activities. SG&A expense as a percentage of net sales for the nine months ended September 30, 2003 was 33.9% as compared to 36.9% in the prior year period, primarily due to certain cost reduction initiatives, and as a result operating profit margins reduced from 24.2% in the prior year period to 18.6% reflecting the reductions in gross margins.

Our Scientific and Industrial Imaging segment reported a 14.8% increase in net sales for the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002. This increase was attributable principally to calendar 2002 acquisitions and higher sales to electron microscope



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customers. Gross margins were 53.6% for the nine months ended September 30, 2003 as compared to 52.1% for the nine months ended September 30, 2002, largely from favorable mix and favorable margins on sales of U.S.-manufactured products into Europe and Japan. SG&A expenses as a percentage of sales decreased to 37.0% during the nine months ended September 30, 2003 from 37.4% during the nine months ended September 30, 2002, even though we incurred development costs for new motion imaging products and restructuring costs associated with reducing excess manufacturing capacity. The increased gross margins flowed through to operating profit resulting in an increase to 16.6% for the nine months ended September 30, 2003 from 14.7% for the nine months ended September 30, 2002.

Corporate expenses for the nine months ended September 30, 2003 were slightly higher with the equivalent prior year period at 2.1% as compared to 1.8% of net sales.

Interest expense decreased \$1.1 million for the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002. Average borrowing levels were slightly higher than prior year levels, due to acquisitions, but were offset by lower effective interest rates.

Other income was \$2.0 million lower for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002 as a result of realized foreign exchange losses in the current year as compared to realized foreign exchange gains in calendar 2002, lower semiconductor equipment royalty income due to market conditions and lower interest income from the Gazprom vendor financing as the facility was paid down.

Income taxes were 30% of pretax earnings for the nine months ended September 30, 2003 as compared to 31% for the nine months ended September 30, 2002 for the reasons noted in our discussion of critical accounting policies.

***Two Months Ended December 31, 2002 Compared to Two Months Ended December 31, 2001***

Net sales for the two month period ended December 31, 2002 were \$83.9 million as compared to \$86.9 million in the prior year period. This decrease was primarily attributable to lower sales to Gazprom and the absence of motion imaging sales in the Imaging segment, partially offset by the contributions from our fiscal 2002 acquisitions.

In our Instrumentation segment, net sales decreased by 7.2% as compared to the prior year period primarily as a result of surplus used equipment flooding the weak telecommunications capital equipment markets for our Logitech unit and lower capital spending in the semi-conductor market. Elsewhere softness in oil and gas refinery capital spending offset the benefits of the Qualitek acquisition. Gross margins moved from 61.7% in the prior year period to 57.7% during the two months ended December 31, 2002 largely from the adverse leverage at our Logitech unit and semi-conductor businesses. SG&A expenses as a percentage of sales were 2.4% higher at 41.8% due to lower sales volume explained above and higher medical insurance expenditures. Overall the segment reported operating profit margins of 15.9% as compared to 22.3% in the prior year period.

In our Industrial Technology segment, net sales were comparable to the same period in 2001. Gross margins decreased to 43.9% during the two months ended December 31, 2002 from 45.0% in the prior year; however, SG&A expenses as a percentage of sales were 1.1% lower at 29.5% offsetting the reduction in gross margin allowing the operating profit margin to remain constant at 14.4%. The lower SG&A expense level is primarily the result of headcount reductions.

Net sales in our Energy Systems and Controls segment increased by 19.5% during the two months ended December 31, 2002 as sales contributed by Zetec and higher control systems sales to oil and gas customers more than offset the lower sales to Gazprom. Gross margins decreased from 40.7% to 38.7% as a result of the adverse sales leverage from the deferred Gazprom sales and the seasonal low sales at Zetec with reduced power generation inspection activity during the peak heating season. This adverse leverage also resulted in an increase in SG&A expenses as a percentage of sales from 48.0% in the prior year period to 59.9% in the two months ended December 31, 2002. As a result, operating losses increased from 7.3%

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in the prior year period to 21.2%. Management does not anticipate that the confluence of these events giving rise to such operating margins will recur in the future.

Our Scientific and Industrial Imaging segment net sales decreased by 12.0% due primarily to the absence of motion imaging product sales (explained in the overview above) which was partially offset by net sales contributed by the contributions from the QImaging and Definitive Imaging acquisitions. Gross margins decreased from 51.3% in 2002 to 50.6% due to the increased manufacturing costs in the two months ended December 31, 2002 for TEM imaging equipment. SG&A expenses as a percentage of sales increased to 45.0% in the two months ended December 31, 2002 from 35.6% in the prior year period as a result of additional costs associated with the development of the new motion imaging products and additional costs associated with foreign sales subsidiaries. Overall, the segment reported operating profits margins of 5.6% as compared to 15.7% with the bulk of the decline attributable to the repositioning of our motion imaging business.

Corporate expenses decreased by \$1.0 million and reduced as a percentage of sales from 2.9% to 1.9% due primarily to reduced variable compensation costs.

Interest expense held constant at \$2.9 million for the two month period ended December 31, 2002 compared to the two month period ended December 31, 2001, as lower effective interest rates offset increased borrowing levels.

Other income was \$0.2 million in the two month period ended December 31, 2002 as compared to \$0.7 million in the equivalent prior year period from reduced realized foreign exchange gains.

Income taxes were 30.0% of pretax earnings in the two months ended December 31, 2002 as compared to 35.0% in the equivalent prior year period for the reasons noted in our discussion of critical accounting policies.

During the year ended October 31, 2002, we completed a transition review for goodwill impairment under SFAS 142 as of November 1, 2001. This review initially compared the fair value of each previously acquired reporting unit to its carrying value. If an impairment was indicated, the amount was then determined by comparing the implied fair value of goodwill to its carrying amount. This impairment, which was reported as a change in accounting principle, was a \$25,970 after-tax non-cash charge and was related to the Redlake, Petrotech and Dynamco units.

At December 31, 2002, the functional currencies of our European subsidiaries were stronger against the U.S. dollar compared to currency exchange rates at October 31, 2002 and December 31, 2001. This strengthening resulted in a gain of \$6.8 million in the foreign exchange component of comprehensive earnings for the two month period ended December 31, 2002. Approximately \$5.4 million of the total adjustment related to goodwill and is not expected to directly affect our expected future cash flows. Operating results in the two month period also benefited from the weakening of the U.S. dollar, primarily against the Euro. The difference between the operating results for these companies for the two month period ending December 31, 2002, translated into U.S. dollars at average currency exchange rates experienced during the two month period and these operating results translated into U.S. dollars at average currency exchange rates experienced during the comparable two month period in 2001 was not material. If the impact of selling European sourced product in the U.S. is also considered, the impact of currency movements was negligible.

Net orders, booked for continuing operations, were \$95.3 million for the period, 8% higher than the same period of 2001 net order intake of \$88.0 million. This increase was due to the additional net orders booked of \$10.6 million from our fiscal 2002 acquisitions, which somewhat offset by delays in blanket order releases and other industrial market softness for our Industrial Technology segment. Overall, our order backlog at December 31, 2002 increased by \$6.6 million as compared to December 31, 2001. This increase was due to new acquisitions having \$6.9 million in backlog at December 31, 2002, partially offset by softness in the Industrial Technology segment.

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	Order Backlog as of December 31,		Net Orders Booked for the Two Months Ended December 31,	
	2001	2002	2001	2002
	(in thousands)			
Instrumentation	\$ 22,286	\$ 18,873	\$28,244	\$29,433
Industrial Technology	31,183	25,574	26,604	22,811
Energy Systems and Controls	18,426	25,902	6,824	14,254
Scientific and Industrial Imaging	38,874	46,999	26,371	28,780
	<u>\$110,769</u>	<u>\$117,348</u>	<u>\$88,043</u>	<u>\$95,278</u>

**Year Ended October 31, 2002 Compared to Year Ended October 31, 2001**

Net sales for the year ended October 31, 2002 were \$617.5 million as compared to sales of \$563.0 million for the year ended October 31, 2001, an increase of 9.7%. \$87.8 million of the sales increase was attributable to acquisitions during the year ended October 31, 2002 (Zetec, QImaging, Duncan Technologies, Definitive Imaging and AI Qualitek) and the full-year impact of acquisitions made during the year ended October 31, 2001 (Struers, Logitech, Media Cybernetics and Dynamco). Excluding this impact net sales declined by 2.7% (to \$529.7 million) primarily attributable to declines in the semiconductor market and the downturn in oil and gas exploration and certain industrial markets. The impact of these difficult market conditions was somewhat mitigated by a 15% increase in sales to Gazprom and an 8% increase in sales in our fluid properties testing businesses as their products help customers respond to stricter environmental controls regarding sulfur content in petroleum products.

In our Instrumentation segment, net sales increased by \$50.1 million or 40% for the year ended October 31, 2002 over the prior year. The increase was primarily attributable to a year-on-year sales increase of \$64.6 million from acquisitions (AI Qualitek acquired during the year ended October 31, 2002 and the full-year impact of our acquisitions made during the year ended October 31, 2001 (Struers and Logitech)). Excluding this impact of acquisitions, net sales declined 0.6% (to \$110.9 million) as a result of severely depressed business conditions in semiconductor markets.

Net sales for our Industrial Technology segment declined by \$6.7 million or 3.9% for the year ended October 31, 2002 from the prior year, primarily from weakness in industrial pump and oil and gas exploration markets. The full-year impact of the fiscal 2001 acquisition of Dynamco slightly mitigated this decrease.

In our Energy Systems and Controls segment, net sales increased by \$19.7 million or 18.4% with \$13.1 million of the increase being attributable to our acquisition of Zetec during the year ended October 31, 2002. Excluding the impact of Zetec, net sales increased 6.1% (to \$113.6 million) due to gains in sales of oil and gas control system applications, including those sold to Gazprom.

Our Scientific and Industrial Imaging segment reported a decrease in net sales for the year ended October 31, 2002 as compared to the year ended October 31, 2001 of \$8.6 million or 5.4%. The decrease resulted principally from lower motion product sales due to the pending release of a new generation of products that we shipped during the first six months of the year ending December 31, 2003. Our acquisitions during the year ended October 31, 2002 (QImaging, Definitive Imaging and Duncan Technologies) and the full-year increase of an acquisition completed during the year ended October 31, 2001 (Media Cybernetics) mitigated the decline by \$8.8 million. Excluding the impact of these acquisitions net sales declined by 11.1% (to \$139.2 million).

Our overall gross profit percentage was 54.1% for the year ended October 31, 2002 and the same for the year ended October 31, 2001. Instrumentation segment gross margins were roughly flat for the year ended October 31, 2002 at 58.6% as compared to 58.4% for the year ended October 31, 2001. Industrial Technology gross margins decreased to 46.2% for the year ended October 31, 2002 as compared to 46.8% for the year ended October 31, 2001 as a result of adverse volume leverage in our industrial pumps



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businesses. Our Energy Systems and Controls segment reported margins of 59.8% for the year ended October 31, 2002 as compared to 62.8% for the year ended October 31, 2001, attributable to lower gross margins at Zetec as compared to the segment average. Our Scientific and Industrial Imaging segments gross margins were 52.3% for the year ended October 31, 2002 as compared to 52.8% for the year ended October 31, 2001 as margins declined for motion imaging equipment with the significant reduction in sales.

Excluding the effects from the accounting changes related to goodwill and the related amortization charges expensed for the year ended October 31, 2001 of \$15.3 million, selling, general and administrative, or SG&A, expenses increased to 35.2% of net sales for the year ended October 31, 2002 from 33.5% of net sales for the year ended October 31, 2001. This increase is attributable to higher SG&A expense levels at newly acquired businesses. SG&A expenses for companies included in all of the years ending October 31, 2002 and 2001 declined 2% for the year ended October 31, 2002 despite significantly increased R&D and other engineering expenses in our Scientific and Industrial Imaging segment, most notably Redlake MASD. There was also an increase in corporate SG&A due primarily to an increase in medical insurance costs and salaries and related employee relocation costs. As a percentage of net sales, SG&A expenses also increased for the year ended October 31, 2002 compared to the year ended October 31, 2001 for each of our four business segments by between 1% and 2%.

Interest expense increased \$2.6 million, or 16%, for the year ended October 31, 2002 compared to the year ended October 31, 2001. Average borrowing levels were approximately 36% higher during the year ended October 31, 2002 compared to the prior year due to acquisitions and effective interest rates were approximately 14% lower during the year ended October 31, 2002 compared to the year ended October 31, 2001.

A euro debt foreign exchange loss of \$4.1 million arose from euro-denominated debt that was carried in the U.S. and the strengthening of the euro against the U.S. dollar during the three months ended July 31, 2002. This debt matured near July 31, 2002 and was replaced with U.S. dollar denominated debt.

Income taxes were 31% of pretax earnings in the year ended October 31, 2002 compared to 35% in the year ended October 31, 2001. Two of the key factors related to the reduced rate were the change in accounting for goodwill amortization and our expected utilization of all available foreign income tax credits associated with European tax structures.

During the year ended October 31, 2002, we completed a transition review for goodwill impairment under SFAS 142 as of November 1, 2001. This review initially compared the fair value of each previously acquired reporting unit to its carrying value. If an impairment was indicated, the amount was then determined by comparing the implied fair value of goodwill to its carrying amount. This impairment was reported as a change in accounting principle, was a non-cash charge and was related to the Redlake, Petrotech and Dynamco units.

At October 31, 2002, the functional currencies of our European subsidiaries were stronger against the U.S. dollar compared to currency exchange rates at October 31, 2001. This strengthening resulted in a gain of \$13.7 million in the foreign exchange component of comprehensive earnings for the year ended October 31, 2002. Approximately \$11 million of this adjustment related to goodwill and is not expected to directly affect our expected future cash flows. Operating results for the year ended October 31, 2002 also benefited slightly from the stronger non-U.S. currencies. The benefits were less than 2% of operating earnings. Foreign exchange differences related to our other non-U.S. subsidiaries were immaterial to financial information for the year ended October 31, 2002.

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The following table summarizes our net sales order information for the years ended October 31 (dollar amounts in thousands):

	<u>2001</u>	<u>2002</u>	<u>Change</u>
Instrumentation	\$ 118,481	\$ 168,350	42 %
Industrial Technology	171,550	161,632	(6)%
Energy Systems and Controls	119,137	123,038	3 %
Scientific and Industrial Imaging	157,096	153,349	(2)%
<b>Total</b>	<b>\$ 566,264</b>	<b>\$ 606,369</b>	<b>7 %</b>

Instrumentation segment net orders improved due largely to 2001 and 2002 acquisitions and higher orders for oil and gas desulphurization applications, offset somewhat by lower orders for semiconductor capital equipment markets. Industrial Technology segment net orders declined on weak industrial and oil and gas exploration markets. Energy Systems and Controls net orders rose because of higher demand for our turbomachinery control systems, as well as the 2002 acquisition of Zetec, with the year-to-year comparison adversely affected by a \$20 million supplemental order from Gazprom in 2001. Scientific and Industrial Imaging net orders fell as the benefit from 2002 and 2001 acquisitions was more than offset by weak semiconductor markets and lower motion product activity.

The following table summarizes sales order backlog information at October 31 (dollar amounts in thousands):

	<u>2001</u>	<u>2002</u>	<u>Change</u>
Instrumentation	\$ 25,155	\$ 17,751	(29)%
Industrial Technology	26,608	24,122	(9)%
Energy Systems and Controls	21,928	23,985	9 %
Scientific and Industrial Imaging	38,100	40,732	7 %
<b>Total</b>	<b>\$ 111,791</b>	<b>\$ 106,590</b>	<b>(5)%</b>

A significant impact on the decreased sales order backlog at October 31, 2002 compared to October 31, 2001 was the \$11.5 million residual one-time supplemental Gazprom order which is included in the prior year backlog for Energy Systems and Controls. Excluding this order, total backlog increased 6% from \$100.3 million to \$106.6 million. Declines in Instrumentation and Industrial Technology were attributable to weak semiconductor and oil exploration markets, respectively.

***Year Ended October 31, 2001 Compared to Year Ended October 31, 2000***

Net sales for the year ended October 31, 2001 were \$563.0 million, a \$93.0 million or 19.8% increase compared to the year ended October 31, 2000 net sales of \$470.0 million. Acquisitions made during the year ended October 31, 2001 and the full year contribution from the year ended October 31, 2000 acquisitions contributed \$66.3 million of the increase in net sales. Excluding the impact of acquisitions, net sales increased by \$26.7 million, or 6.8%, with \$15.6 million of the increase attributable to higher net sales to our largest customer, Gazprom. Part of this increase arose from a special vendor financing program instituted to fund sales levels from a \$20 million order shipped partially in fiscal 2001 and partially in fiscal 2002.

Our Instrumentation segment reported net sales of \$125.4 million, a \$13.6 million or 12.1% increase over the year ended October 31, 2000 net sales of \$111.8 million. Acquisitions made during the year ended October 31, 2001 (Struers and Logitech) and the full year impact of the year ended October 31, 2000 acquisitions (Antek and Cybor) contributed \$25.6 million of this increase. Excluding the impact of acquisitions, net sales were 12.0% lower in the year ended October 31, 2001 than in the year ended October 31, 2000 (\$88.3 million in the year ended October 31, 2001 from \$100.3 million in the year ended October 31, 2000) as a result of the depressed business conditions in semiconductor



markets that

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impacted our integrated dispense systems sales and weak automobile markets that impacted demand for our industrial leak test products.

In our Industrial Technology segment net sales of \$170.8 million in the year ended October 31, 2001 were \$39.6 million or 30.1% higher than net sales of \$131.2 million in the year ended October 31, 2000. Acquisitions during the year ended October 31, 2001 (Dynamco) and the full year contribution from acquisitions in the year ended October 31, 2000 (Abel Pump, Flow Data and Hansen Technologies) provided \$35.7 million of this increase. Excluding the effect of acquisitions, net sales increased by \$3.9 million or 3.3% (from \$116.2 million to \$120.1 million). The segment saw gains in most areas except certain industrial pump markets.

Our Energy Systems and Controls segment reported net sales of \$107.0 million in the year ended October 31, 2001, a \$20.5 million or 23.6% increase over net sales in the year ended October 31, 2000 of \$86.6 million. Increased sales to Gazprom were the principal cause of this increase.

Net sales of our Scientific and Industrial Imaging segment increased to \$159.7 million in the year ended October 31, 2001, a \$19.4 million or 13.8% increase over net sales in the year ended October 31, 2000 of \$140.4 million. Acquisitions made during the year ended October 31, 2001 (Media Cybernetics) and the full year impact of acquisitions in the year ended October 31, 2000 (Redlake, MASD and Oxford EM) contributed \$1.3 million to this increase. Excluding the impact of acquisitions, net sales increased 20.3% from \$89.1 million to \$107.2 million as a result of strong demand in research markets, particularly for our Transmission Electron Microscopy products.

Our overall gross profit percentage increased to 54.1% in the year ended October 31, 2001 from 53.7% in the year ended October 31, 2000. Many of our businesses reported improved margins during the year, most significantly from those businesses with improved leverage from additional sales. Our Instrumentation segment reported an increase in gross profit margins from 56.1% in the year ended October 31, 2000 to 58.4% in the year ended October 31, 2001 as a result of incremental sales at Struers and Logitech that were at relatively high margins. Industrial Technology segment gross profit margins declined from 47.7% in the year ended October 31, 2000 to 46.8% in the year ended October 31, 2001. This decrease was caused mostly by increased sales from our lower gross margin refrigeration valves business that was acquired in September 2000. The Energy Systems and Controls segment gross profit margins increased from 61.7% to 62.8% primarily as a result of increased business levels with Gazprom. Scientific and Industrial Imaging gross profit margins increased from 52.5% in the year ended October 31, 2000 to 52.8% in the year ended October 31, 2001 primarily as a result of favorable leverage related to increased sales into certain research markets.

SG&A expenses, excluding goodwill amortization and corporate administrative expenses were 31.8% of net sales in the year ended October 31, 2001 as compared to 30.9% of net sales in the year ended October 31, 2000. The increase arose solely from increases in the Instrumentation segment which more than offset improvements in cost structures in the other three segments. The increases in SG&A expenses as a percentage of net sales for the Instrumentation segment increased from 30.9% in the year ended October 31, 2000 to 37.7% in the year ended October 31, 2001 as a result of the quick and deep cyclical decline in the segment's semiconductor-related business, higher SG&A expense levels at the acquisitions in the year ended October 31, 2001 (Struers and Logitech) and additional research and development expenditures.

Interest expense was \$15.9 million in the year ended October 31, 2001 compared to \$13.5 million in the year ended October 31, 2000. Interest expense was higher in the year ended October 31, 2001 mostly due to the borrowings associated with the acquisitions that occurred since the beginning of the year ended October 31, 2000. All of these acquisitions, representing total costs of over \$330 million during these two fiscal years, were paid for with cash provided by our then-existing credit facilities. Short-term interest rates started to decline dramatically early in calendar 2001. The effective interest rate was approximately 6.5% during the year ended October 31, 2001 compared to approximately 6.9% during the year ended October 31, 2000.

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The provision for income taxes was 35.4% of pretax earnings in the year ended October 31, 2001 compared to 35.1% in the year ended October 31, 2000. This change was not considered significant.

The other components of comprehensive earnings in the year ended October 31, 2001 were currency translation adjustments resulting from net assets denominated in currencies other than the U.S. dollar. These net assets were primarily denominated in euros, British pounds, Danish krone or Japanese yen. During the year ended October 31, 2001, the U.S. dollar weakened against the euro, was relatively stable against the pound and strengthened against the yen and krone (after the acquisition of Danish assets in September 2001). During the year ended October 31, 2001, our consolidated net assets increased \$1.2 million due to foreign currency translation adjustments.

The following table summarizes net sales order information for the years ended October 31 (dollar amounts in thousands).

	<u>2000</u>	<u>2001</u>	<u>Change</u>
Instrumentation	\$ 117,986	\$ 118,481	0%
Industrial Technology	137,712	171,550	25%
Energy Systems and Controls	83,274	119,137	43%
Scientific and Industrial Imaging	154,178	157,096	2%
<b>Total</b>	<b>\$493,150</b>	<b>\$566,264</b>	<b>15%</b>

Net order gains in the Instrumentation segment from 2001 and 2000 acquisitions were offset by the sudden, severe downturn in the semiconductor capital equipment markets. Acquisitions in 2001 and 2000 benefited the Industrial Technology segment, which also experienced a decline in orders for directional drilling relating to fiber-optic cable placements in North America. Strong demand for turbomachinery controls, including a large increase in orders from Gazprom, coupled with a small 2000 acquisition, drove the increase in net orders in the Energy Systems and Controls segment. In the Scientific and Industrial Imaging segment, a strong increase in demand for electron microscopy products and solutions was mostly countered by a slowdown in motion imaging.

The following table summarizes our sales order backlog information at October 31 (dollar amounts in thousands).

	<u>2000</u>	<u>2001</u>	<u>Change</u>
Instrumentation	\$ 16,875	\$ 25,155	49 %
Industrial Technology	27,589	26,608	(4)%
Energy Systems and Controls	9,796	21,928	124 %
Scientific and Industrial Imaging	44,359	38,100	(14)%
<b>Total</b>	<b>\$98,619</b>	<b>\$ 111,791</b>	<b>13 %</b>

**Financial Condition, Liquidity and Capital Resources*****Historic for Roper***

Historically, our operating requirements have been funded by our existing credit facility and cash flows generated from existing businesses.

Net cash provided by operating activities was \$57.8 million during the nine months ended September 30, 2003 as compared to \$65.5 million during the nine months ended September 30, 2002, a 11.8% decrease. This decrease is principally attributable to lower reductions in working capital in the current year, particularly in accounts receivable and inventory. Less cash was used in investing activities during the nine months ended September 30, 2003, as the nine months ended September 30, 2002 included the completion of a number of significant

business acquisitions. Cash used by financing activities during the nine months ended September 30, 2003 was comprised of the payment of dividends and debt

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reductions created from our other net positive cash flows. Cash provided by financing activities during the nine months ended September 30, 2002 was primarily borrowings under revolving credit agreements for business acquisitions.

Net cash provided by operating activities was \$7.4 million during the two months ended December 31, 2002 as compared to \$1.0 million during the two months ended December 31, 2001. This increase is principally attributable to a \$5 million collection from Gazprom under a vendor financing program and other working capital reductions, partially offsetting reduced earnings. Cash used in investing activities were lower during the two months ended December 31, 2002 compared to the prior year period. In the two months ended December 31, 2001, we made a final payment due under the purchase agreement for acquisition of Struers and Logitech in September 2001. Cash flows from financing activities during each of the periods were mostly the borrowing activities associated with the business acquisitions and the debt reductions from our other net positive cash flows.

Net cash provided by operating activities was \$86.8 million during the year ended October 31, 2002, \$102.4 million during the year ended October 31, 2001 and \$67.8 million during the year ended October 31, 2000. Most of this decrease during the year ended October 31, 2002 compared to the year ended October 31, 2001 was attributed to the one-time supplemental order for Gazprom, partially offset by improved cash generation from assets. Cash flows from investing activities during each of the years ended October 31, 2002, 2001 and 2000 were mostly business acquisition costs. Cash flows from financing activities during each of these years were mostly the borrowing activities associated with the business acquisitions and the debt reductions from our other net positive cash flows. Financing activities in the year ended October 31, 2000 also included refinancing our then-existing \$200 million credit agreement with our current \$275 million credit facility and the issuance of \$125 million of senior notes.

We repaid \$45.8 million of debt over the nine months ended September 30, 2003 as compared with net borrowings of \$14.7 million in the prior year period. This difference was primarily due to business acquisitions in the calendar 2002 period.

Net working capital (total current assets, excluding cash, less total current liabilities, excluding debt) was \$129.2 million at September 30, 2003 compared to \$126.7 million at October 31, 2002, reflecting increases in receivables and inventories on some major projects at Compressor Controls and Cornell Pump. Total debt was \$288.5 million at September 30, 2003 compared to \$332.1 million at October 31, 2002. Our leverage improved as shown in the following table:

	<u>At October 31, 2002</u>	<u>At September 30, 2003</u>
	(dollars in thousands)	
Total debt	\$ 332,105	\$ 288,487
Cash	(12,422)	(14,510)
Net debt	<u>319,683</u>	<u>273,977</u>
Equity	<u>376,012</u>	<u>441,728</u>
Total net capital	<u>\$ 695,695</u>	<u>\$ 715,705</u>
Net debt/total net capital	46.0%	38.3%

Net working capital (total current assets, excluding cash, less total current liabilities, excluding debt) was \$123.6 million at December 31, 2002 compared to \$126.7 million at October 31, 2002. Net working capital was reduced by \$3.1 million during the period due to \$5 million received from Gazprom on the prior year supplemental sale, offset by increased inventories from deferred Gazprom and oil and gas and TEM digital imaging equipment shipments. Total debt was \$329.6 million at December 31, 2002 (46% of total capital) compared to \$332.1 million at October 31, 2002 (47% of total capital).

Net working capital was \$126.7 million at October 31, 2002 compared to \$122.6 million at October 31, 2001. We acquired approximately \$10 million of net current assets through business acquisitions during the year ended October 31, 2002. We also financed a \$20 million one-time supplemental order for Gazprom. During the year ended October 31, 2002, we generated approximately

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\$18 million of cash from working capital reductions due to improved management of our accounts receivable, inventories and payables. Total debt was \$332.1 million at October 31, 2002 (47% of total capital) compared to \$326.8 million at October 31, 2001 (50% of total capital). Our increased debt at October 31, 2002 compared to October 31, 2001 was due to the borrowings incurred to fund fiscal 2002 business acquisitions in excess of cash generated by existing operations.

Our principal \$275 million credit facility with a group of banks provides most of our daily external financing requirements, consisting of revolving loans, swing line loans and letters of credit. At September 30, 2003, we had outstanding U.S. dollar denominated borrowings of \$122.2 million, the equivalent of \$40.1 million of Euro denominated borrowings and \$5.7 million of outstanding letters of credit. Total unused availability under this facility was \$76 million at September 30, 2003. We expect that our available additional borrowing capacity combined with the cash flows expected to be generated from existing business will be sufficient to fund normal operating requirements and to assist in the financing of some additional acquisitions. This facility matures May 2005. We also have 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. In total, these smaller facilities do not represent a significant source of credit for us.

Our outstanding indebtedness at September 30, 2003 also included \$125 million of senior notes maturing in May 2007 and May 2010 which do not require sinking fund payments. The notes are pre-payable by paying the holders thereof the discounted present value of all remaining scheduled payments using a discount rate equal to the sum of 50 basis points plus the yield of the U.S. Treasury Notes corresponding to the then remaining average life of the notes being prepaid.

We will repay our existing credit facility and redeem our outstanding senior notes in connection with the Transactions. See Use of Proceeds.

At September 30, 2003, 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.

Capital expenditures of \$8.1 million and \$4.5 million were incurred during the nine months ended September 30, 2003 and 2002, respectively. We expect future capital expenditures to be less than 2% of sales.

Capital expenditures of \$0.6 million and \$2.0 million were incurred during the two months ended December 31, 2002 and December 31, 2001, respectively.

Capital expenditures of \$7.7 million, \$7.4 million and \$14.9 million were incurred during the years ended October 31, 2002, 2001 and 2000, respectively.

In November 2003, our board of directors increased the quarterly cash dividend paid on our outstanding common stock to \$0.09625 per share from \$0.0875 per share, an increase of 10%. This represents the eleventh consecutive year in which the quarterly dividend has been increased since our 1992 initial public offering. Our board of directors declared a dividend that we will pay on January 30, 2004. Payment of any additional dividends requires further action by our board of directors.

***Pro Forma for Roper***

Following the Transactions, our operating requirements will be funded by cash flows provided by our existing businesses, by NTGH's businesses and by financing provided under our new senior subordinated convertible notes and our new senior secured credit facility. Management believes that these funds will be sufficient to meet our working capital needs for the foreseeable future. At September 30, 2003, after giving pro forma effect to the Transactions, we would have approximately \$148.3 million available for borrowings under our new revolving credit facility.

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**New Senior Secured Credit Facility**

Concurrently with the closing of this offering, we intend to enter into a new senior secured credit facility with JPMorgan Chase Bank, as administrative agent, Merrill Lynch Capital Corporation, as documentation agent, Wachovia Bank, National Association, as syndication agent and certain other lenders. The terms of our new senior secured credit facility are still being negotiated and are subject to change. We expect the new facility to consist of:

a five year \$450 million term loan, which will include a euro term loan sub-facility for the euro equivalent of \$60 million to be made available to one of our foreign subsidiaries; and

a three year \$175 million revolving loan, which will include availability of up to \$20 million for letters of credit and \$20 million for swingline loans and of which \$50 million will be available under a multicurrency subfacility in dollars and certain other currencies. We will use borrowings under the term loans to finance the NTGH acquisition and the cash portion of the DAP Technologies acquisition, repay our existing credit facility and pay fees and expenses related to the Transactions. We will use availability under our revolving loans to repay existing indebtedness and for general corporate purposes. See Use of Proceeds. In addition, so long as no event of default is in existence under our new senior secured credit facility, we may request a further incremental term loan in an amount not to exceed \$200 million. None of our then existing lenders will be required to participate in the incremental term loan. For purposes of this description, references to term loan do not include the incremental term loan.

*Mandatory Prepayments.* Subject to customary exceptions and limitations, the facility will require us to prepay our term loan and, in certain cases, reduce our commitments under our revolving loan, with the net cash proceeds of certain asset sales by us or any of our subsidiaries, from the issuance or incurrence of certain debt, from certain casualty and condemnation events, and, commencing with the fiscal years ending December 31, 2004, up to 75% of our excess cash flows, unless we meet a consolidated senior leverage ratio test.

*Term Loan Amortization.* We are required to make principal payments on the term loans (other than any incremental term loan) in 20 consecutive quarterly installments each in an amount equal to:

1.25% of the term loan commitments, for each quarter commencing on March 31, 2004 through and including December 31, 2005;

2.50% of the term loan commitments, for each quarter commencing on March 31, 2006 through and including December 31, 2007; and

17.50% of the term loan commitments, for each quarter commencing on March 31, 2008 through and including the fifth anniversary of the closing date.

The new facility will contain various affirmative and negative covenants which will, among other things, limit our ability to incur new debt, prepay subordinated debt, make certain investments and acquisitions, sell assets and grant liens, make restricted payments (including the payment of dividends on our common stock) and capital expenditures. The covenants will include:

*Indebtedness.* Neither we nor any of our subsidiaries will be permitted to create, issue, incur assume, become liable in respect of or permit any indebtedness, except for, among other things, (1) the notes and any overallotment option, (2) indebtedness with respect to certain receivables transactions in an aggregate amount not to exceed \$100 million, (3) subordinated debt, (4) guarantee obligations of any subsidiary guarantor in respect of such subordinated debt subject to certain restrictions and (5) other indebtedness (not constituting subordinated debt); provided that, among other things, at the time of incurrence of any indebtedness pursuant to clause (3), (4) and (5) above, after giving effect to such indebtedness, the aggregate amount of all indebtedness incurred pursuant to clause (5) shall not exceed the greater of (x) 5% of our consolidated total assets and (y) \$75 million, and at the time of incurrence of any indebtedness pursuant to clauses 3, 4 and 5 of this paragraph, after giving effect to such indebtedness

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(such indebtedness determined without duplication), the aggregate outstanding principal amount of all indebtedness incurred shall not exceed the greater of (x) 15% of our consolidated total assets and (y) \$250 million.

*Acquisitions.* Neither we nor any of our subsidiaries will be permitted to consummate any acquisitions, except for, among others, acquisitions of all or substantially all of the capital stock or assets of, or of a business, unit or division of, any entity; provided that:

we shall be in compliance, after giving effect to the acquisition, with the covenants contained in the facility;

no default under the credit facility shall have occurred and be continuing, or would occur after giving effect to the acquisition;

in the case of a stock acquisition, the board of directors (or comparable governing body) of the target entity shall approve such acquisition; and

in the case of an acquisition of an entity organized under the laws of a jurisdiction other than the U.S. (or any assets located in any such jurisdiction), the consideration paid for such acquisition, together with the consideration paid for all other foreign acquisitions in the then-current fiscal year, shall not exceed 40% of our consolidated net worth for such fiscal year prior to giving effect to such acquisition.

*Restricted Payments.* Neither we nor any of our subsidiaries will be permitted to declare or pay any cash dividend on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any capital stock of us or any of our subsidiaries, or make any other distribution in respect thereof, except for, among other things (so long as no default or event of default under the facility shall have occurred and be continuing), we may pay dividends on our common stock in an aggregate amount in any fiscal year not to exceed 25% of our consolidated net income of such fiscal year.

*Capital Expenditures.* Neither we nor any of our subsidiaries will be permitted to make or commit to make capital expenditures during any fiscal year in excess of 15% of our consolidated EBITDA for the immediately preceding fiscal year.

*Line of Business.* Under the facility, we are prohibited from entering into any business that is not engaged principally in any of the design, manufacture or distribution of industrial products, solutions or services and businesses reasonably related thereto; provided that, we or any of our subsidiaries may engage in any business that does not otherwise satisfy the requirements set forth in the previous clause if such business, together with all of our other businesses, does not constitute a material portion of our businesses taken as a whole.

We will also be subject to financial covenants, which will require us to limit our consolidated total leverage ratio and consolidated senior leverage ratio and to maintain a consolidated interest coverage ratio as follows:

*Consolidated Total Leverage Ratio.* We may not permit the consolidated total leverage ratio as at the last day of any period of our four consecutive fiscal quarters ending with any fiscal quarter set forth below to exceed the ratio set forth below opposite such fiscal quarter:

Fiscal Quarter Ending		Consolidated Total Leverage Ratio
March 31, 2004	December 31, 2004	4.25 to 1.0
March 31, 2005	December 31, 2005	4.00 to 1.0
March 31, 2006	December 31, 2006	3.75 to 1.0
March 31, 2007	December 31, 2007	3.50 to 1.0
March 31, 2008 and thereafter		3.25 to 1.0



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*Consolidated Senior Leverage Ratio.* We may not permit the consolidated senior leverage ratio as at the last day of any period of our four consecutive fiscal quarters ending with any fiscal quarter set forth below to exceed the ratio set forth below opposite such fiscal quarter:

Fiscal Quarter Ending		Consolidated Senior Leverage Ratio
March 31, 2004	December 31, 2004	3.25 to 1.0
March 31, 2005	December 31, 2005	3.00 to 1.0
March 31, 2006	December 31, 2006	2.75 to 1.0
March 31, 2007	December 31, 2007	2.50 to 1.0
March 31, 2008 and thereafter		2.25 to 1.0

*Consolidated Interest Coverage Ratio.* We may not permit the consolidated interest coverage ratio for any period of our four consecutive fiscal quarters (or, if less, the number of full fiscal quarters subsequent to the date we close our new credit facility) to be less than 5.0 to 1.0.

Our new senior secured credit facility will also contain customary events of default, including a cross-default to certain other debt, breaches of representations and warranties, change of control and breaches of covenants.

Concurrent Notes Offering

We are offering senior subordinated convertible notes with initial gross proceeds of \$150 million concurrently with this offering, by means of a separate prospectus supplement. We will use the net proceeds from the notes offering to redeem our outstanding senior notes. See Description of Certain Indebtedness.

Future Repayment Commitments

As a result of the Transactions, during 2008 \$315 million of the term loan will mature (assuming no voluntary or mandatory prepayments or incremental term loan) and, under the notes, holders will have the right to put the full amount of the notes to us for cash payment. We may not pay the purchase price for this redemption in shares of our common stock.

**Contractual Cash Obligations and Other Commercial Commitments and Contingencies**

The following table quantifies our contractual cash obligations and commercial commitments at October 31, 2002. This information does not give effect to the refinancing that we are contemplating as part of the Transactions.

Contractual Cash Obligations	Total	Payments Due in Fiscal					Thereafter
		2003	2004	2005	2006	2007	
(dollars in thousands)							
Long-term debt	\$332,105	\$20,515	\$ 135	\$186,455	\$	\$40,000	\$85,000
Operating leases	38,000	8,600	6,600	4,800	3,400	2,700	11,900
Total	\$370,105	\$29,115	\$6,735	\$191,255	\$3,400	\$42,700	\$96,900
Other Commercial Commitments	Total Amount Committed	Amounts Expiring in Fiscal					Thereafter
		2003	2004	2005	2006	2007	

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Standby letters of credit	\$3,075	\$3,075	\$	\$	\$	\$	\$
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At September 30, 2003, 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.

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**Recently Issued Accounting Standards**

We adopted Statement of Financial Accounting Standard, or SFAS, No. 143 Accounting for Asset Retirement Obligations as of November 1, 2002. There was no material impact to us related to this new statement.

We adopted the Financial Accounting Standards Board, or FASB, Interpretation No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others as of January 1, 2003. This Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. We have no new guarantees after December 31, 2002 requiring the measurement provisions of this Interpretation.

The FASB issued Interpretation No. 46 Consolidation of Variable Interest Entities, or VIEs, that is an Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements. This Interpretation addresses the consolidation requirements of business enterprises which have VIEs. FIN 46 applies immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period ending after December 15, 2003 to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. We are in the process of assessing the implications of this new statement.

The FASB issued SFAS 148 Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123 which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends certain disclosure requirements of SFAS 123. Currently, we have chosen not to adopt the accounting provisions of SFAS 123; however, as permitted by SFAS 12e, we continue to apply intrinsic value accounting for our stock option plans under Accounting Principles Board Opinion No. 25, or APB 25, Accounting for Stock Issued to Employees.

The FASB deferred issuance of SFAS 150 Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both, on October 29, 2003, that clarifies liability or equity classification for different financial instruments including mandatorily redeemable shares, put options and forward purchase contracts, and obligations that can be settled with shares. We are assessing the impact of this new statement to our financial statements.

**NTGH**

**Overview**

On October 21, 2003, we entered into a stock purchase agreement to acquire NTGH, a market leader in the water management market, for a cash purchase price of approximately \$475 million, which is net of cash acquired, and includes debt to be repaid.

NTGH did not conduct business until November 1, 2001, when it acquired a division of Schlumberger Limited, or Schlumberger, that was engaged in the production and sale of AMR equipment and software and water meters principally sold into North American water utility markets. For financial reporting purposes the results of operations for the Schlumberger division are reported separately from the results of operations of NTGH subsequent to the November 1, 2001 acquisition. For purposes of this discussion, the results of operations for the acquired Schlumberger division for the ten months ended October 31, 2001, or the predecessor period, have been combined with NTGH's results of operations for the two month period ended December 31, 2001. As part of the acquisition, NTGH acquired options to purchase the common stock of DAP Technologies under certain conditions and simultaneously acquired 33.3% of the common stock of DAP Technologies for \$5.9 million. On January 31, 2002, NTGH exercised its option to acquire an additional 33.3% of DAP Technologies for \$6.1 million bringing its ownership in DAP Technologies to 66.7%. On December 6, 2002, NTGH acquired 100% of the outstanding stock of DB Microware, Inc. for \$7 million in cash and a \$3 million note payable due December 31, 2007 or upon

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change of control of NTGH. The note will be paid in full immediately prior to the NTGH acquisition. DB Microware is engaged in the development and sale of software for meter reading and service route and work order management.

During April 2003, NTGH completed a recapitalization transaction, which included a new term loan B of \$190 million, the issuance of \$70 million of new senior subordinated notes and the issuance of \$30 million of preferred stock. The proceeds funded the repurchase of \$121 million of Class A and Class D stock, the repayment of \$171 million existing term loan A and term loan B borrowings, the repurchase of options from management and employees and the payment of fees and expenses.

For a discussion of critical accounting policies affecting NTGH see footnote 3 to NTGH's interim consolidated financial statements on page F-55 of this prospectus supplement and footnote 2 to NTGH's annual consolidated financial statements on page F-68 of this prospectus supplement.

**Results of Operations*****Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002***

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.

	<b>Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2003</b>
Net sales	\$ 138,681	\$ 147,473
Gross profit	42.3%	43.2%
Selling, general and administrative	12.8%	14.8%
Research and engineering	2.7%	2.4%
Amortization	7.9%	8.2%
Operating income	18.8%	17.8%

Net sales for the nine months ended September 30, 2003 were \$147.5 million as compared to \$138.7 million in the prior year period, an increase of 6.3%. The increase was primarily attributable to higher U.S. sales due to increased penetration of residential AMR markets and associated residential meter sales. In addition, the current year results include the sales of \$1.7 million from the acquisition of NTGH's software division, DB Microware, on December 6, 2002.

Gross margins increased almost a full percentage point for the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002, from 43.2% to 42.3%. The increase was due to improving margins in NTGH's rugged portable computing division, slightly offset by decreased margins in U.S. water meters from the promotional sales of AMR products. In addition, DB Microware, contributed sales at a higher average margin than NTGH's metering business.

Selling, general and administrative expenses increased to 14.8% of sales in the nine months ended September 30, 2003, as compared to 12.8% in the prior year period. This increase was the result of higher selling costs at both Neptune and DAP Technologies divisions as open sales positions in the prior year were fully staffed. The inclusion of DB Microware in the current year period increases the SG&A percentage since this software division has a relatively higher SG&A structure than NTGH's metering or rugged computing divisions and was not included in the results for the prior period. In addition, the current year period includes approximately \$0.8 million of non-cash compensation expenses for stock-based compensation related to the April 1, 2003 recapitalization of NTGH.

Research and engineering costs were \$3.5 million, or 2.4% of sales, for the nine months ended September 30, 2003 as compared to \$3.8 million, or 2.7% of sales, for the nine months ended September 30, 2002. This was within the normal expected range for NTGH's business.

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Amortization expenses were \$12.2 million, or 8.2% of sales, for the nine months ended September 30, 2003, as compared to \$11.0 million, or 7.9% of sales, in the prior year period. The increase

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was attributable to the amortization of intangible assets related to the acquisition of DB Microware in December 2002. Operating income increased only slightly to \$26.2 million for the nine months ended September 30, 2003 as compared to \$26.1 million for the nine months ended September 30, 2002. This represents a 1.0% decrease as a percentage of sales from 18.8% in the prior year period to 17.8% in the current year. Gross margins were up over the prior year but this was more than offset by increased selling, general and administrative expenses as discussed above.

Net orders booked for the nine months ended September 30, 2003 were \$155.5 million, which was 1.4% lower than the \$157.7 million booked in the prior year period. The relatively lower demand for DAP Technologies products was substantially offset by the higher orders for AMR products. NTGH's order backlog at September 30, 2003 was \$37.1 million which is 25.8% higher than the \$29.5 million balance at September 30, 2002. This increase is primarily due to higher demand for AMR products.

***Year Ended December 31, 2002 Compared to Year Ended December 31, 2001***

NTGH did not conduct business until November 1, 2001 when it acquired a division of Schlumberger that was engaged in the production and sale of AMR equipment and software and water meters principally sold into North American water utility markets. For financial reporting purposes the results of operations for the Schlumberger division are reported separately from the results of operations of NTGH subsequent to the November 1, 2001 acquisition. For purposes of this discussion, the results of operations for the acquired Schlumberger division for the ten months ended October 31, 2001, or the predecessor period, have been combined with NTGH's results for operations for the two month period ended December 31, 2001. Accordingly, the 2001 information included herein may not reflect the operating results of NTGH had NTGH been a separate, stand-alone entity during the predecessor period.

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.

	Year Ended December 31,	
	2001	2002
Net sales	\$ 158,449	\$ 189,544
Gross profit	38.0%	42.4%
Selling, general and administrative	15.3%	13.6%
Research and engineering	2.8%	2.6%
Amortization	3.1%	8.0%
Operating income	16.8%	18.2%

Net sales for the year ended December 31, 2002 were \$189.5 million, which represents a 19.6% increase over the \$158.4 million of sales for the year ended December 31, 2001. Sales increases were experienced in both the U.S. and Canada, reflecting the acceptance and market penetration of residential AMR products. The increase also reflects sales from the DAP Technologies division from January 31, 2002, when the company purchased an additional 33.3% interest in this company, raising NTGH's ownership interest to 66.6%. DAP Technologies' sales included in the current year results were \$17.1 million and represent 55.0% of the sales increase from the prior year.

Gross margins increased significantly for the year ended December 31, 2002, to 42.4% from 38.0% for the year ended December 31, 2001. A large part of the increase was due to a \$3.2 million inventory step-up charge included in the prior year cost of sales arising out of purchase accounting for the acquisition of NTGH from Schlumberger. Cost of sales for the year ended December 31, 2002 includes approximately \$0.4 million of inventory step-up charges related to purchase accounting for the acquisition. Absent these charges, the gross margins would have been 42.6% and 40.0% for the years ended December 31, 2002 and December 31, 2001, respectively. The inclusion of DAP Technologies in the current year period also contributed to the higher gross margins due to DAP Technologies' higher gross margin products as compared to the other portions of the NTGH business.

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Selling, general and administrative expenses for the year ended December 31, 2002 were 13.6% of sales as compared to 15.3% of sales for the year ended December 31, 2001. The primary reason for the decrease as a percentage of sales was a decrease in the expense structure for NTGH as a stand alone business as compared to the corporate charges that were being incurred under the former ownership structure.

Research and engineering costs for the year ended December 31, 2002 were 2.6% of sales as compared to 2.8% in the prior year period. NTGH considers this to be a normal cost range for this category of expenses. The increased dollar expenditures are the result of the DAP Technologies acquisition at the end of January 2002.

Amortization expenses were \$15.1 million or 8.0% of sales for the year ended December 31, 2002 compared to \$4.9 million or 3.1% of sales in the prior year. The increase was primarily due to the inclusion of 12 months amortization of intangible assets and other costs associated with the November 1, 2001 Schlumberger division acquisition in 2002, compared to only two months amortization in 2001. Amortization expense for the year ended December 31, 2002 also includes the amortization of intangibles related to the DAP Technologies purchase in January 2002.

Operating income increased to 18.2% of sales for the year ended December 31, 2002 as compared to 16.8% for the year ended December 31, 2001. The increased gross profit margins and reduced selling, general and administrative structure were offset by increased amortization expenses but still produced a stronger operating profit performance than in the prior year period.

Net orders booked for the year ended December 31, 2002 were \$200.6 million as compared to \$159.5 million for the year ended December 31, 2001. The increase in net orders was due to strong demand for AMR products and software and inclusion of \$18.2 million of DAP Technologies net orders in the current year.

NTGH's order backlog at December 31, 2002 was \$28.4 million compared to \$14.9 million at December 31, 2001. Approximately \$3.5 million of this increase was due to the DB Microwave and DAP Technologies acquisitions. Excluding this element of the backlog, organic growth in the orders backlog was \$10.0 million which was primarily due to securing significant AMR equipment and software orders.

## **Liquidity and Capital Resources**

Net cash provided by operating activities was \$30.6 million during the nine months ended September 30, 2003 as compared to \$35.6 million in the prior year period. This \$5.0 million, or 14%, reduction was primarily attributable to a \$5.1 million increase in interest expense following the recapitalization of NTGH in April 2003. Cash increased by \$7.1 million in the first nine months of 2003. Debt increased by \$86.8 million to \$287.3 million as of September 30, 2003, from \$200.5 million as of December 31, 2002. The increase in net debt of \$89 million arose out of the April recapitalization of NTGH.

Net working capital (total current assets, excluding cash, less total current liabilities, excluding debt) was \$22.7 million at September 30, 2003 compared to \$21.9 million at December 31, 2002. An increase in inventory balances of \$3.0 million, an increase in other current assets of \$1.0 million and an increase in current deferred tax assets of \$1.1 million were partially offset by a \$3.6 million decrease in accounts receivable and a \$0.7 million increase in accrued liabilities. The reduction in receivables reflects an approximate 10% improvement in collections. The increase in inventory reflects in part several orders that were to ship in early October.

NTGH completed a refinancing transaction during April 2003 as described in the Overview section above. As a result of this transaction, NTGH's debt increased significantly.

NTGH has a \$30 million revolving credit facility with UBS, which along with cash on hand, provides for its daily external financing requirements. There were no amounts outstanding under the facility at September 30, 2003. \$7.3 million under the facility is reserved for letters of credit. Outstanding borrowings under the revolving credit facility bear interest at a rate of 3.75%. NTGH was in compliance with all debt covenants related to its credit facility throughout the nine months ended September 30, 2003.

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NTGH's existing indebtedness will be repaid in full in connection with the NTGH acquisition and the related Transactions.

At September 30, 2003, NTGH 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.

NTGH's business requires ongoing capital investments to maintain existing levels of operation, introduce new products and implement productivity improvements. In the first nine months of 2003, capital expenditures totaled \$4.3 million, compared with \$4.5 million in the first nine months of 2002. These expenditures, representing amounts approximating 3% of sales, have included various automation projects at the Tallassee production facilities which may not recur in the future.



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**BUSINESS**

**Overview**

***Our Business***

We design, manufacture and distribute engineered products and solutions for selected segments of a broad range of global markets. Our principal markets include oil and gas, scientific and industrial research, medical, semiconductor, refrigeration, automotive, water and wastewater, power generation and general industrial.

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

We believe that our financial results reflect the high value we provide to our customers, our continuous improvement initiatives, our end market and geographic diversification and our ability to acquire and integrate businesses successfully. From fiscal 1992, the year of our initial public offering, through our fiscal year ended October 31, 2002, our net sales have grown at a compound annual growth rate of 24% and earnings from continuing operations before change in accounting principle per share have grown at a compound annual growth rate of 27%. In fiscal 2002, we generated net sales of \$617 million, adjusted EBITDA of \$130 million, or 21% of net sales, cash flows from operating activities of \$87 million, earnings from continuing operations before change in accounting principle of \$66 million and net earnings of \$40 million. During the nine months ended September 30, 2003, we generated net sales of \$488 million, adjusted EBITDA of \$96 million, or 20% of net sales, cash flows from operating activities of \$58 million, earnings from continuing operations of \$46 million and net earnings of \$43 million and during the nine months ended September 30, 2002, we generated net sales of \$455 million, adjusted EBITDA of \$90 million, or 20% of net sales, cash flows from operating activities of \$66 million and earnings from continuing operations and net earnings of \$45 million.

***Our Strengths***

***Strategic***

*Leadership in Niche Markets.* We have developed and maintained a leading position in many of our markets. We believe our market positions are attributable to the technical sophistication of our products, the applications expertise used to create our advanced products and systems and our service capabilities.

*Diversified End Markets and Geographic Reach.* Over the past decade, we have strategically expanded the number of end markets we serve to increase revenue and business stability and expand our opportunities for growth. During that same period, we grew our global presence to the degree that sales to customers outside the U.S. accounted for \$361 million for fiscal 2002, up from \$23 million in fiscal 1992.

*Disciplined Acquisition Process.* Acquisitions are an important part of our growth strategy. Over the past decade, we have followed a disciplined acquisition process to complement our existing businesses and to migrate into higher growth areas. From fiscal 1992 through fiscal 2002, we completed 33 acquisitions for an aggregate investment of over \$700 million.

*Experienced Management Team.* Our company combines disciplined corporate leadership with entrepreneurial business unit management to create stockholder value. We support the growth of our business units by providing strategic direction, assisting in the development of strategic initiatives, encouraging best practices among our business unit management teams, developing our managers' skills through focused forums, setting appropriate compensation policies and incentives and providing financial support. We believe that our recent organizational change to four market-based segments, led by a

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strengthened executive team, will allow us to better capture synergistic benefits among our business units and accelerate organic growth.

### ***Financial***

*Significant and Consistent Growth.* A decade of disciplined execution of our operating and acquisition strategies has led to sustained growth in our net sales, net earnings and cash flow. From fiscal 1992 through fiscal 2002, our net sales and earnings from continuing operations before change in accounting principle per share have grown at compound annual growth rates of 24% and 27%, respectively. As a result of our strong operations management and emphasis on working capital improvement, our free cash flow (cash flows from operating activities minus capital expenditures) has exceeded net earnings every year since 1998. We consistently reinvest in research and development to maintain technological leadership in our markets.

*Strong and Sustainable Margins.* We have been able to obtain favorable pricing and attractive gross margins throughout the business cycle due to the high level of engineered content of our customer offerings and our market leadership positions. In each fiscal year since 1993, we have achieved gross margins in excess of 50% and our margins are well above those of most comparable industrial companies.

*Attractive Cash Flow Characteristics.* Our favorable margins and selective use of capital have allowed us to produce strong cash flows. All of our business units are actively focused on reducing capital intensity and improving contributions to working capital. From fiscal 1992 through fiscal 2002, we grew adjusted EBITDA by a compound annual growth rate of 25%. For fiscal 2002, we achieved adjusted EBITDA margins of 21% and generated \$87 million of cash flows from operating activities and free cash flow of \$79 million.

### ***Our Business Strategy***

We create stockholder value through the disciplined execution of our strategy:

*Engineered Content for Diverse Niche Markets.* Our operating units grow their businesses through new product development and development of new applications for existing products to satisfy customer needs. In addition, our operating units continue to grow our customer base by expanding our distribution.

*Strong Operations Management.* We continuously seek to improve our operations to increase our margins and cash flow. Our business units employ initiatives such as process reengineering, lean manufacturing techniques and global sourcing to increase productivity and reduce costs. In fiscal 2002, we generated approximately \$18 million of cash from working capital reductions and achieved gross margins of 54%.

*Strategic Reinvestment of Cash Flow.* We invest our strong cash flow in the development of new technologies and products, distribution channel management and operational improvements to drive organic growth and market expansion. We have increased our research and development spending by a compound annual growth rate of 39% since 1992, to \$30 million in fiscal 2002, which represented 5% of our fiscal 2002 net sales. We also strategically invest our cash flow in a disciplined manner in acquisitions meeting our stated criteria:

engineered, high value-added products and solutions;

high gross margins;

rapid cash return;

opportunity for enhanced growth; and

new strategic solutions and products.

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***The NTGH Acquisition***

On October 21, 2003, we entered into a stock purchase agreement to acquire NTGH, a leader in the water management market, for a cash purchase price of approximately \$475 million, which is net of cash acquired and includes debt to be repaid. The closing of this offering is conditioned on the closing of the NTGH acquisition. In connection with our acquisition of NTGH, we intend to enter into an agreement to purchase the remaining one-third interest in DAP Technologies, a Canadian company that manufactures fully-rugged handheld computers, that NTGH does not own for total consideration of approximately \$9.2 million.

***NTGH***

NTGH operates in four lines of business:

meter products serving the water management market under the Neptune brand name;

automatic meter reading products and systems serving the water management market under the Neptune brand name;

fully-rugged handheld computers serving both utility and non-utility customers under the DAP Technologies brand name; and

software for route optimization, mapping and work order management under the DB Microware brand name.

Collectively, these technologies are brought together to provide a complete solution for measuring, metering and reading water consumption, primarily for North American residential markets. For over 110 years, many of the over 50,000 utilities and water systems throughout North America have used NTGH's water management systems and products to more efficiently and accurately measure water usage by consumers.

*Meter Products.* NTGH's meters currently account for approximately 35% of the installed base of approximately 70 million residential water meters in the U.S. In the commercial and industrial segments, NTGH offers fully integrated meters and metering systems for both potable and fire service use in high volume and high performance applications. Approximately 97% of NTGH's unit sales are for residential applications, while the remaining 3% are for commercial and industrial applications.

*Automatic Meter Reading Products and Systems.* NTGH's automatic meter reading, or AMR, systems allow for remote monitoring, measurement and reading of water usage. This feature reduces the labor costs required under manual methods, improves customer service through increased accuracy and faster identification of leaks, lowers environmental risks for meter-reading workers and enables utilities to bill customers more frequently and accurately. Since entering the radio frequency, or RF, segment of the AMR market in 1999, NTGH had increased its share of the AMR market to 16% and more than doubled its total AMR sales through 2002.

*Fully-Rugged Handheld Computers.* NTGH's DAP Technologies business unit is a growing business that manufactures fully-rugged handheld computers that serve utility and non-utility markets.

*Software.* NTGH's DB Microware business unit provides automation software for meter reading and service order management.

NTGH had net sales of \$190 million for 2002 and \$147 million for the nine months ended September 30, 2003, and employs approximately 800 people. NTGH's sales from AMR and water meters were roughly equivalent and represented the substantial majority of its net sales during 2002 and the nine months ended September 30, 2003, with the remainder of sales coming from fully-rugged handheld computers and automation software.

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### ***Strategic Benefits of the NTGH Acquisition***

We expect to realize a number of strategic benefits as a result of the NTGH acquisition, including the following:

*Furthering our Market Leadership in Niche Markets.* NTGH is a market leader in North American residential water meters and AMR technologies, and also serves the global fully-rugged handheld computer market, which among other applications, includes applications for water utilities. NTGH offers a complete range of products from meters to the most innovative solutions available using RF capabilities, handheld computers and meter reading software.

*Establishing a Strong Platform in the Attractive Water Management Market.* The North American water management market is growing as utilities demand more accurate and reliable water management solutions to meet water conservation and operational efficiency goals. We believe that the North American residential water meter and AMR markets currently represent a combined \$550 million annual market, with meters experiencing steady growth and AMR growing at an approximate 28% compound annual growth rate since 1999. The growth of the AMR market is an example of technological innovation being embraced by water utilities seeking to achieve improved operational efficiencies, service levels, billing cycles and conservation. We believe the migration of utilities from standard water meters to water management systems increases the market opportunity for NTGH. In addition, we believe NTGH's large installed base, strong relationships with many of the over 50,000 utilities and water systems in its current markets and its broad product offerings, including fully-rugged handheld computers and software, provide it with a strong growth platform.

*Positioning our Portfolio in Attractive Markets.* The NTGH acquisition positions our portfolio in attractive end markets with a stable and diversified customer base. In addition, we believe that the NTGH acquisition will provide us with a more stable mix of geographic end markets. Giving effect to the NTGH acquisition, on a combined basis in fiscal 2002, our largest net sales and market concentration would have been 25% in the water and wastewater markets, and net sales into North America would have represented 58% of total net sales. We believe that our combined end markets and geographic territories provide stability and attractive growth opportunities.

*Enhancing Cash Flow Characteristics and Growth Profile.* NTGH's strong adjusted EBITDA margins combined with its low working capital and capital expenditure requirements have provided significant cash flow. In 2002, NTGH generated \$190 million in net sales, 20% higher than in 2001, and \$54 million of adjusted EBITDA, representing a 28% margin. For the nine months ended September 30, 2003, NTGH generated \$147 million in net sales, 6% higher than the nine months ended September 30, 2002, and \$39 million of adjusted EBITDA, representing a 27% margin. Through internal product development and strategic investments, NTGH has become a leading provider of complete water management solutions. A key element of NTGH's growth strategy has been to migrate its customers to more efficient, higher value products. We believe this movement of customers to higher technology water management solutions combined with our market-focused philosophy, should improve our margins, cash flow and growth.

### **Our Business Segments and NTGH Integration**

In early 2003, we realigned our operations into four market-focused segments to capture value-creating opportunities around common customers, market orientation, sales channels and common cost opportunities. The four segments are: Instrumentation, Industrial Technology, Energy Systems and Controls, and Scientific and Industrial Imaging. We intend to integrate NTGH's lines of business into our existing segments.

#### ***Instrumentation***

Our Instrumentation segment offers equipment and consumables for materials analysis; fluid properties testing; industrial leak testing; precision chemical dispensing and spectroscopy and specialty

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lenses for scientific, medical and semiconductor applications. These products and solutions are provided through three U.S.-based and two European-based operating units. During the nine months ended September 30, 2003, this segment had net sales of \$130.4 million, representing 26.8% of our total net sales.

*Materials Analysis Equipment and Consumables.* We manufacture and sell semiconductor equipment and supply various types of equipment and consumables necessary to extract and shape certain materials for production and to prepare materials samples for testing and analysis. These products are used mostly within the academic, government research, electronics, biological and material science end-user markets.

*Fluid Properties Testing Equipment.* We manufacture and sell automated and manual test equipment to determine certain physical and elemental properties, such as sulfur and nitrogen content, flash point, viscosity, freeze point and distillation, of liquids and gasses for the petroleum and other industries.

*Industrial Leak Testing Equipment.* We manufacture and sell products and systems to test for leaks and confirm the integrity of assemblies and sub-assemblies in automotive, medical, industrial and consumer products applications.

*Semiconductor Production Equipment.* We manufacture microprocessor-based integrated dispense systems that are used principally in the semiconductor industry to dispense chemicals in a precise and repeatable fashion during the wafer fabrication process.

The following table sets forth information regarding each class of products within the instrumentation segment that accounted for at least 10% of our total net sales in any of the periods presented (in thousands):

	<b>Year Ended October 31,</b>	
	<b>2001</b>	<b>2002</b>
Materials analysis equipment and consumables	\$ 13,805	\$ 75,640
Fluid properties testing equipment	\$ 63,152	\$ 68,180

The following chart shows the breakdown of the instrumentation segment's sales by end market for the year ended October 31, 2002:

*Backlog.* Our Instrumentation companies have lead times of up to several months on many of their product sales, although standard products are typically shipped within four weeks of receipt of order. Blanket purchase orders are placed by certain end-users, with continuing requirements for fulfillment over specified periods of time. This segment's backlog of firm unfilled orders, including blanket purchase orders, totaled \$15.2 million at September 30, 2003 compared to \$17.7 million at September 30, 2002. The decrease was attributed to successful efforts to reduce delivery times at Struers and Logitech along with weaker market conditions, particularly in the automotive, electronics and semiconductor end markets.

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*Distribution and Sales.* Distribution and sales are achieved through a combination of manufacturers' representatives, agents, distributors and direct sales offices in both the U.S. and various other countries.

*Customers.* Each of the operating units in the Instrumentation segment sells to a variety of customers worldwide, with certain major customers in the automotive and medical diagnostics industries having operations globally. Some of the operating units have sales to one or a few customers that represent a significant portion of their respective sales, and we expect the relative importance of such a concentrated customer base for these operating units to continue. However, none of this segment's customers accounted for as much as 10% of its net sales during the nine months ended September 30, 2003.

***Industrial Technology***

Our Industrial Technology segment produces industrial pumps, flow measurement and metering equipment and industrial valves and controls. These products and solutions are provided through six U.S.-based and two European-based operating units. During the nine months ended September 30, 2003, this segment had net sales of \$126.8 million, representing 26.0% of our total net sales.

*Industrial Pumps.* We design, manufacture and distribute a wide variety of pumps. These pumps vary significantly in complexity and in pumping method employed, which allows for the movement and application of a diverse range of liquids and solids including low and high viscosity liquids, high solids content slurries and chemicals. Our pumps are used in large and diverse sets of end markets such as oil and gas, agricultural, water and wastewater, medical, chemical and general industrial.

*Industrial Valves and Controls.* We manufacture a variety of valves, sensors, switches and control products used on engines, compressors, turbines and other powered equipment for the oil and gas, pipeline, power generation, refrigeration, marine engine and general industrial markets. Most of these products are designed for use in hazardous environments.

*Flow Measurement Equipment.* We manufacture turbine and positive displacement flow meters, emissions measurement equipment and flow meter calibration products for aerospace, automotive, power generation and other industrial applications.

The following table sets forth information regarding each class of products within the Industrial Technology segment that accounted for at least 10% of our total net sales in any of the periods presented (in thousands):

	<b>Year Ended October 31,</b>	
	<b>2001</b>	<b>2002</b>
Industrial pumps	\$90,315	\$83,484
Industrial valves and controls	\$64,693	\$63,721

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The following chart shows the breakdown of the industrial technology segment's sales by end market during the year ended October 31, 2002:

*Backlog.* The Industrial Technology operating units' sales also reflect a combination of standard products and specifically engineered, application-specific products. Standard products are typically shipped within two weeks of receipt of order. Application-specific products typically ship within six to 12 weeks following receipt of order, although larger project orders and blanket purchase orders for certain OEMs may extend shipment for longer periods. This segment's backlog of firm unfilled orders, including blanket purchase orders, totaled \$25.9 million at September 30, 2003 compared to \$26.6 million at September 30, 2003.

*Distribution and Sales.* Distribution and sales occur through direct sales personnel, manufacturers' representatives and distributors.

*Customers.* Some of the Industrial Technology segment's operating units have sales to one or a few customers that represent a significant portion of that operating unit's sales and the relative importance of such a concentrated customer base for these operating units is expected to continue. However, no customer was responsible for as much as 10% of this segment's net sales during the nine months ended September 30, 2003.

***Energy Systems and Controls***

Our Energy Systems and Controls segment produces control systems, machinery vibration and other non-destructive inspection and measurement products and solutions, which are provided through three U.S.-based operating units. During the nine months ended September 30, 2003, this segment had net sales of \$105.3 million, representing 21.6% of our total net sales.

*Control Systems.* We manufacture control systems and panels and provide related engineering and commissioning services for turbomachinery applications in the oil and gas, pipeline and power generation markets.

*Non-destructive Inspection and Measurement Instrumentation.* We manufacture non-destructive inspection and measurement solutions including measurement probes, robotics, and machinery vibration sensors, switches and transmitters. These solutions are applied in power generation, aerospace and broader industrial markets. Many of these products are designed for use in hazardous environments.

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The following table sets forth information regarding each class of products within the energy systems and controls segment that accounted for at least 10% of our total net sales in any of the periods presented below (in thousands):

	Year Ended October 31,	
	2001	2002
Control systems	\$90,600	\$97,889

The following chart shows the breakdown of sales by end market for the energy systems and controls segment during the year ended October 31, 2002:

*Backlog.* The majority of this segment's business consists of larger engineered projects with lead times of three to nine months. As such, backlog typically fluctuates significantly depending upon the timing of large project awards. Standard products generally ship within two weeks of receipt of order. This segment's backlog of firm unfilled orders totaled \$26.3 million at September 30, 2003 compared to \$34.3 million at September 30, 2002.

*Distribution and Sales.* Distribution and sales occur through direct sales offices, manufacturers' representatives and industrial machinery distributors.

*Customers.* Each of the Energy Systems and Controls segment's business units sell to a variety of customers worldwide. OAO Gazprom, a Russian enterprise that is the world's largest gas provider, continued to be the largest single customer in this segment for the nine months ended September 30, 2003, accounting for approximately 16.6% of its sales, compared to 47.7% during the nine months ended September 30, 2002. Gazprom has indicated its interest to continue purchases of control systems through 2007. The continuation of this business with Gazprom is subject to numerous risks, many of which are beyond our control, including, but not limited to, increased competition, availability of acceptable financing and customer delays in commissioning and start-up of installations.

**Scientific and Industrial Imaging**

Our Scientific and Industrial Imaging segment offers high performance digital imaging products and software. These products and solutions are provided through four U.S.-based and one Canadian-based operating units. During the nine months ended September 30, 2003, this segment had net sales of \$125.0 million, representing 25.7% of our total net sales.

*Digital Imaging Products and Software.* We manufacture and sell extremely sensitive, high-performance charge-coupled device cameras, detectors and related software for a variety of scientific and industrial uses, which require high resolution and/or high speed digital video, including transmission electron microscopy and spectroscopy applications. We principally sell these products for use within academic, government research, semiconductor, automotive, ballistic and biological and material science end-user markets. They are frequently incorporated into OEM products.



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The following table sets forth information regarding each class of products within the scientific and industrial imaging segment that accounted for at least 10% of our total net sales in any of the periods presented (in thousands):

	Year Ended October 31,	
	2001	2002
Digital imaging products and software	\$ 143,375	\$ 134,859

The following chart shows the breakdown of the Scientific and Industrial Imaging segment's sales by end market for the year ended October 31, 2002:

*Backlog.* Our Scientific and Industrial Imaging segment companies have lead times of up to several months on many of their product sales, although standard products are often shipped within two weeks of receipt of order. Blanket purchase orders are placed by certain original equipment manufacturers, or OEMs, and end-users, with continuing requirements for fulfillment over specified periods of time. The segment's backlog of firm unfilled orders, including blanket purchase orders, totaled \$34.7 million at September 30, 2003 compared to \$42.9 million at September 30, 2002.

*Distribution and Sales.* Distribution and sales occur through direct sales personnel, manufacturers' representatives and distributors.

*Customers.* One of the Scientific and Industrial Imaging segment's operating units has sales to a few customers that represent a significant portion of that operating unit's sales and the relative importance of such a concentrated customer base for this operating unit is expected to continue. However, no customer was responsible for as much as 10% of this segment's net sales during the nine months ended September 30, 2003.

**NTGH**

*Backlog.* NTGH's backlog of firm unfilled orders to be filled within 12 months, including blanket purchase orders, totaled \$37.1 million at September 30, 2003, compared to \$29.5 million at September 30, 2002. NTGH also has a backlog of firm unfilled orders that go beyond 12 months; these amounts are in addition to the reported backlog.

*Distribution and Sales.* NTGH sells to a variety of customers through multiple sales and distribution channels. Neptune products are sold to the water utility market via direct sales and independent distributors in North America. DAP Technologies products are sold primarily in North America and Europe via direct sales, OEMs and value added retailers, or VARs, into a variety of market segments. DB Microware software is sold primarily in North America via direct sales and to OEMs and VARs.

*Customers.* NTGH products are sold primarily to water utilities in the United States, Canada and Mexico, of which there are over 50,000, and to distributors serving those markets. In addition to water utilities, NTGH's DAP Technologies and DB Microware products and software are sold into other utility

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and industrial markets, largely in North America and Europe. None of NTGH's customers accounted for more than 9% of its net sales during the nine months ended September 30, 2003.

We believe that NTGH has created a high degree of customer loyalty as a result of its approach to customer care, based on four fundamentals:

*System Integrity.* NTGH systems must offer the best value for a wide variety of applications and allow for upgrades to new technologies.

*Data Integrity.* Data must be accurate and reliable from the point of collection to the point of assimilation, analysis and billing.

*Measurement Integrity.* Products must meet the highest standard of accuracy and reliability.

*Supplier Integrity.* NTGH stands behind its products and systems with the highest level of customer support. As an example of its commitment to support, NTGH is certified by the Software Support Professionals' Association.

## **Materials and Suppliers**

We believe that most materials and supplies used by us and NTGH are readily available from numerous sources and suppliers throughout the world. However, some of our and NTGH's raw materials are currently provided by single suppliers. Some high-performance components for digital imaging products can be in short supply and/or suppliers have occasional difficulty manufacturing such components to our specifications. We regularly investigate and identify alternative sources where possible, and we believe that these conditions equally affect our competitors. Thus far, supply shortages have not had a significant adverse effect on Roper's sales although delays in shipments have occurred following such supply interruptions. In the past, NTGH has incurred lost orders or shipment delays of DAP Technologies products due to the inability of its VARs to design and install application-specific software on a timely basis.

## **Environmental Matters and Other Governmental Regulation**

Our operations and properties and those of NTGH are subject to increasingly stringent laws and regulations relating to environmental protection, including laws and regulations governing air emissions, water discharges, waste management and workplace safety. These laws and regulations can result in the imposition of substantial fines and sanctions for violations and could require the installation of costly pollution control equipment or operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. We and NTGH must conform our operations and properties to these laws and adapt to regulatory requirements in all countries as these requirements change. It is our policy and the policy of NTGH to comply with all applicable regulatory requirements.

We and NTGH use and generate hazardous substances and waste in our operations and, as a result, could be subject to potentially material liabilities relating to the investigation and clean-up of contaminated properties and to claims alleging personal injury. We and NTGH have experienced, and expect to continue to experience, costs relating to compliance with environmental laws and regulations. In connection with our acquisitions, we may assume significant environmental liabilities, some of which we may not be aware of at the time of acquisition. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could increase our environmental compliance costs or subject us to new or increased liabilities.

## **Competition**

Generally, our products and solutions face significant competition, usually from a limited number of competitors. Although we believe that we are a leader in most of our markets, no single company competes with us over a significant number of product lines. Competitors might be large or small in size,

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often depending on the life cycle and maturity of the technology employed. We compete primarily on product quality, performance, innovation, price, applications expertise and customer service capabilities.

While we believe NTGH is a market leader in the residential water management market, there are significant competitors in each of its segments, including Invensys PLC/The Jordan Company, L.P., Itron, Inc., and Badger Meter, Inc. These competitors can be expected to offer a variety of technologies and communications approaches, as well as meter reading, installation and other services to utilities and other industry participants. NTGH expects competition in the AMR market to increase as current competitors and new market entrants introduce competitive products. NTGH competes primarily on product quality and performance, applications expertise, technological innovation, distribution channel access and price.

## **Patents and Trademarks**

In addition to trade secrets, unpatented know-how, and other intellectual property rights, we own the rights under a number of patents, trademarks and copyrights relating to certain of our products and businesses. We also employ various methods, including confidentiality and non-disclosure agreements with employees, to protect our trade secrets and know-how. While we believe that none of our operating units are substantially dependent on any single patent, trademark, copyright, or other item of intellectual property or group of patents, trademarks or copyrights, the product development and market activities of Compressor Controls, Gatan, Integrated Designs, Redlake MASD and Roper Scientific, in particular, have been planned and conducted in conjunction with important and continuing patent strategies. A significant portion of Compressor Controls sales for the nine months ended September 30, 2003 incorporated innovations protected by patent rights which will begin to expire in 2004. Integrated Designs was granted a U.S. patent in 1994 related to methods and apparatus claims embodied in its integrated dispense systems that accounted for the majority of its sales for the nine months ended September 30, 2003. This U.S. patent will expire in 2011. While we have not significantly licensed patents, trademarks, trade secrets and similar proprietary rights to and from third parties in the past, we may do so in the future.

NTGH also owns rights under a number of patents, copyrights and trademarks relating to certain of its products. NTGH also employs various methods, including confidentiality and non-disclosure agreements with employees, to protect its trade secrets and know-how. While we believe that NTGH is not substantially dependent on any single, or group of, patents, copyrights, trademarks or intellectual property, its product development and market activities are conducted in conjunction with important and continuing patents and process knowledge. NTGH was assigned a patent on September 2003 that will expire on January 16, 2019 relating to the transmission of meter usage data that is integral to its product offering in the AMR line of business. NTGH licenses technology relating to its E-Coder AMR equipment. In addition to this license, NTGH has licensed proprietary rights to and from third parties in the past, and may do so in the future.

## **Employees**

As of September 30, 2003, we had approximately 2,900 total employees, of whom approximately 1,900 were located in the United States. Fewer than 40 of our employees are subject to a collective bargaining agreement. We have not experienced any work stoppages and consider our relations with employees to be good.

As of September 30, 2003, NTGH had approximately 800 employees, of whom approximately 566 were located in the United States. Fewer than 40 of its Canadian employees that work for DAP Technologies are subject to a collective bargaining agreement. NTGH has not experienced any work stoppages and considers its relations with employees to be good.

## **Properties**

In early January 2003, we relocated our corporate office from Bogart, Georgia where we leased approximately 10,000 square feet of office space to the Atlanta area where we lease approximately 13,800

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square feet of office space. We have established sales and service locations around the world to support our operations. The following table sets forth our principal properties as of September 30, 2003.

Location	Property	Square Footage		Industry segment
		Owned	Leased	
Phoenix, AZ	Office/Mfg.		45,900	Industrial Technology
Tucson, AZ	Office/Mfg.		37,300	Scientific and Industrial Imaging
Burnaby, Canada	Office/Mfg.		8,200	Scientific and Industrial Imaging
Pleasanton, CA	Office		19,400	Scientific and Industrial Imaging
Richmond, CA	Office/Mfg.	67,400		Industrial Technology
Rodovre, Denmark	Office/Mfg.		114,000	Instrumentation
Verson, France	Office/Mfg.		22,500	Instrumentation
Commerce, GA	Office/Mfg.	203,800		Industrial Technology
Büchen, Germany	Office/Mfg.	191,500		Industrial Technology
Lauda, Germany	Office/Mfg.	37,900		Instrumentation
Des Moines, IA	Office/Mfg.		88,000	Energy Systems and Controls
Burr Ridge, IL	Office/Mfg.	55,000		Industrial Technology
Acton, MA	Office/Mfg.		28,700	Instrumentation
Silver Spring, MD	Office		11,800	Scientific and Industrial Imaging
Trenton, NJ	Office/Mfg.	40,000		Scientific and Industrial Imaging
Syosset, NY	Office/Mfg.		27,500	Industrial Technology
Portland, OR	Office/Mfg.		128,000	Industrial Technology
Warrendale, PA	Mfg.		76,300	Scientific and Industrial Imaging
Carrollton, TX	Office		22,000	Instrumentation
Houston, TX	Office/Mfg.	16,200		Energy Systems and Controls
Houston, TX	Office/Mfg.		35,000	Instrumentation
Houston, TX	Office/Mfg.		27,500	Instrumentation
Bury St. Edmunds, U.K.	Office/Mfg.	90,000		Industrial Technology
Cambridge, U.K.	Office/Mfg.		14,000	Instrumentation
Glasgow, U.K.	Office/Mfg.	27,700		Instrumentation
Oxford, U.K.	Office/Mfg.		5,500	Scientific and Industrial Imaging
Issaquah, WA	Office/Mfg.		86,400	Energy Systems and Controls
Malu, China	Office/Mfg.		16,600	Industrial Technology

NTGH operates in the following principal properties:

Location	Property	Square Footage	
		Owned	Leased
Tallasee, AL	Office/Mfg.	300,000	
Quebec City, Canada	Office/Mfg.		26,400
Mississauga, Canada	Office		46,100

We consider each of the above facilities to be in good operating condition and adequate for its present use and believe that it has sufficient plant capacity to meet its current and anticipated operating requirements.

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**Legal Proceedings**

We and NTGH are defendants in various lawsuits involving product liability, employment practices and other matters, none of which we believe will have a material adverse effect on our consolidated financial position or results of operations. The majority of such claims are subject to insurance coverage.

We and/or one of our subsidiaries are named as defendants, along with many other companies, in asbestos-related personal injury or wrongful death actions. The allegations in these actions are vague, general and speculative, and the actions are in their early stages. Given the state of these claims it is not possible to determine the potential liability, if any.

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The following table sets forth certain information concerning our executive officers and directors as of November 31, 2003. Our board of directors elects our executive officers, and they serve at the discretion of our board.

Name	Position and Offices with Roper	Age
Brian D. Jellison	Chairman of the Board of Directors, President and Chief Executive Officer	58
Nigel W. Crocker	Vice President	49
Shanler D. Cronk	Vice President, General Counsel and Secretary	55
Martin S. Headley	Vice President and Chief Financial Officer	47
James A. Mannebach	Vice President	43
C. Thomas O Grady	Vice President, Mergers and Acquisitions	52
Timothy J. Winfrey	Vice President	43
Benjamin W. Wood	Vice President	43
W. Lawrence Banks	Director	65
Donald G. Calder	Director	66
David W. Devonshire	Director	58
John F. Fort III	Director	62
Derrick N. Key	Director	56
Wilbur J. Prezzano	Director	62
Georg Graf Schall-Riaucour	Director	62
Eriberto R. Scocimara	Director	68
Christopher Wright	Director	46

Brian D. Jellison has served as our President and Chief Executive Officer since November 6, 2001 when he first joined Roper, succeeding Mr. Key in those offices. From January 1998 to July 2001, Mr. Jellison was corporate executive vice president of Ingersoll-Rand Company, or IR. During this period, in addition to serving as executive vice president, Mr. Jellison held the following positions: president of the industrial sector, president of the infrastructure development sector, and president of IR Europe. From 1994 to 1998, he was a corporate vice president and head of IR's architectural hardware business. From 1985 until 1994, he held several IR product line, division and group senior executive positions, with lead responsibility for the financial performance and supervision of a wide variety of global businesses. During his career at IR, Mr. Jellison assumed the principal responsibility for completing and integrating a variety of public and private new business acquisitions. He is a director of Champion Enterprises, Inc. and serves on its board and as chairman of its board audit and financial resources committee.

Nigel W. Crocker has been our Vice President, Analytical Instrumentation since November 1996. From September 1995 until November 1996, he served as president of AMOT's U.S. unit and from October 1991 until November 1996 he served as managing director of AMOT's U.K. unit. Mr. Crocker served as managing director of Jiskoot Autocontrol Ltd. U.K., a control engineering company, from January 1990 until August 1991.

Shanler D. Cronk has been our Vice President and General Counsel since September 1993, prior to which he served as our corporate counsel since January 1992, and was appointed our Secretary in November 1996. From June 1991 to January 1992, he served as chief counsel to Nevada Goldfields, Inc., prior to which he was engaged in corporate and securities private law practice.

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Martin S. Headley has been our Vice President and Chief Financial Officer since July 1996. From July 1993 to June 1996, Mr. Headley served as chief financial officer of the U.S. operations of McKechnie Group, plc, a manufacturer of components and assemblies for a variety of industries. From June 1990 to July 1993, he served as controller-international operations for AM Multigraphics, a manufacturer and distributor of printing and reproduction equipment and supplies. Prior to June 1990, Mr. Headley, a certified Public Accountant (U.S.) and a Chartered Accountant (England and Wales), was engaged in a public accounting practice with Arthur Andersen & Co., conducting audit and consulting assignments from a number of American and European locations.

C. Thomas O Grady has been our Vice President, Mergers and Acquisitions since April 2001. From April 1997 until April 2001, Mr. O Grady served as corporate director of acquisitions for FMC Corporation and was responsible for heading the development and establishment of a variety of joint ventures and other corporate partnerships and for completing several new business acquisitions and financings for FMC's machinery, chemical and airline services businesses on four continents. From December 1996 to March 1997, he was president of the affiliated FMC Development Corporation, which developed and launched a new financial services unit to support capital projects and other business opportunities in emerging markets, mainly Russia, Eastern Europe, Asia and Mexico. From June 1996 to November 1996, Mr. O Grady was director of manufacturing for FMC's energy and transportation group and from March 1993 until June 1996, was controller of that business unit.

James A. Mannebach has been our Vice President since January 20, 2003, following a 15-year management career at Emerson Electric Co., or Emerson. From April 2002 until joining us, he served as vice president, financial administration in which position he was responsible for the design and implementation of Emerson's enterprise-wide, global shared services, prior to which from August 2000 he served as president of Emerson's process flow business group comprising the Micro Motion, Brooks Instruments, and Rosemount flow division business units. From August 1998 to July 2000, he was president of the Micro Motion unit, prior to which from July 1997 he served as chief financial officer of Emerson's Fisher-Rosemount unit. From April 1988 until May 1997, he served several of Emerson's businesses in a variety of financial planning and analysis managerial positions.

Timothy J. Winfrey has been our Vice President since June 2002. From October 2001 until June 2002, he was president of Ingersoll-Rand Company's commercial and retail air solutions business, prior to which from May 1999 he was vice president and general manager of IR's reciprocating compressor division. From June 1996 until April 1999, Mr. Winfrey was first, director of corporate development and then general manager of the joint ventures and services business of Owens Corning, prior to which from July 1995 he was first, manager, strategic planning and then associate director, corporate development of the Eaton Corporation. Mr. Winfrey held various project management positions at British Petroleum from August 1990 until December 1994.

Benjamin W. Wood was appointed as one of our Vice Presidents in May 2003. Prior to joining us, he served for four years at IR in strategic planning, financial analysis, and business development roles before becoming vice president of marketing for the infrastructure sector in 2000. Mr. Wood's earlier experiences include 11 years in Asia in entrepreneurial and corporate roles for technology and software companies, including managing director of Datamatic.

W. Lawrence Banks has been a director since December 1991. He served as a director of Robert Fleming & Co., Limited, a British merchant banking firm, from 1974, and as its deputy chairman from April 1990, until March 1998 when he retired from that firm. Prior to his retirement he also served as chairman of its U.S. subsidiary Robert Fleming, Inc., a U.S. investment banking company.

Donald G. Calder has been a director since December 1981, our Vice President from December 1981 until May 1996 and our Treasurer from December 1991 to May 1993. Mr. Calder is president and director of G. L. Ohrstrom & Co., Inc., a privately held U.S. company, and was a partner of its predecessor, G. L. Ohrstrom & Co., from 1970 to October 1996. Mr. Calder is also a part-time employee of Roper. He is a director of Carlisle Companies Incorporated, Central Securities Corp., Brown-Forman Corp. and several privately owned companies.

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David W. Devonshire has been a director since November 20, 2002. Since April 2002, he has served as executive vice president and chief financial officer of Motorola, Inc. From January 1998 to March 2002, he served as executive vice president and chief financial officer of Ingersoll-Rand Company, prior to which from July 1993 he served as senior vice president and chief financial officer of Owens Corning. Mr. Devonshire is a director of several privately held companies.

John F. Fort III has been a director since December 1995. Since March 2003, he has served as an advisor director of Tyco International Ltd. Prior thereto, he was a director and was formerly its chairman (from December 1982 through January 1993) and chief executive officer (from December 1982 through July 1992) prior to his retirement in January 1993.

Derrick N. Key has been a director since December 1991. Mr. Key served as our Chairman from November 1994 through November 20, 2003. He was our Chief Executive Officer from December 1991 to November 2001 and was our President from February 1989 to November 2001. Mr. Key was a Vice President of Roper from June 1982 until February 1989, and president of Roper Pump Company, a Roper subsidiary, from November 1985 until November 1991. Mr. Key is currently a part-time employee of Roper. Since September 2002, Mr. Key has served as vice-chairman of the board of directors of G.L. Ohrstrom & Co., Inc. and is a director of several privately owned companies.

Wilbur J. Prezzano has been a director since September 1997. Following completion of a 32-year career at Eastman Kodak Company where he served in various executive capacities, Mr. Prezzano retired in January 1997 as its board vice-chairman and as chairman and president of its greater China region businesses. Mr. Prezzano served as a director of Eastman Kodak Company from May 1992 until his retirement. Mr. Prezzano is a director of TD Waterhouse Bank, N.A. and Lance, Inc.

Georg Graf Schall-Riauour has been a director since January 1995. He has been general director of Wittelsbacher Ausgleichsfonds, a German foundation, since May 1994, prior to which since 1971 he was senior partner of the Munich, Germany law firm of Stever & Beiten. Mr. Schall-Riauour is a director of several privately held U.S. companies.

Eriberto R. Scocimara has been a director since December 1991, and was earlier a Director from December 1981 to December 1984. Mr. Scocimara has been president and chief executive officer of the Hungarian-American Enterprise Fund, a privately-managed investment company, since April 1994, and he has been the president of Scocimara & Company, Inc., an investment management company, since 1984. Mr. Scocimara is a director of Carlisle Companies Incorporated, Quaker Fabric Corporation, Euronet Services, Inc. and several privately held companies.

Christopher Wright has been a director since December 1991. Mr. Wright is a director of Merifin Capital, Inc., an affiliate of a private European investment firm. From May 2000 through June 2003, Mr. Wright was chief executive officer of Dresdner Kleinwort Capital, or DKC, the private equity arm of Dresdner Bank, or AG, Frankfurt, and from July 1998 through June 2003, he was a managing director of its affiliate, Dresdner Kleinwort Wasserstein. Since 1986, he has served on the boards of several privately owned companies and venture capital funds and is a director of Genaissance Pharmaceuticals, Inc. and In Document Systems plc. Mr. Wright is also a director of TCBY Enterprises, Inc. and an advisory director of Campbell Lutyens & Co. Ltd., a private U.K. investment bank.



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The following table sets forth certain information regarding the ownership of our common stock as of November 30, 2003 for:

each stockholder known by us to own beneficially more than 5% of our outstanding shares of common stock,

each director,

our chief executive officer and each of our four other most highly compensated executive officers, and

all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage of ownership held by that person, shares of common stock subject to options held by that person that are currently exercisable or will become exercisable within 60 days after December 1, 2003 are deemed outstanding, while these shares are not deemed outstanding for computing percentage ownership of any other person. Unless otherwise indicated in the footnotes below, the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

**Beneficial Ownership of Common Stock**

Name of Beneficial Owner *	Number	Percent Before the Offering(1)	Percent After the Offering(1)
T. Rowe Price Associates, Inc.(2)	3,820,150	12.0%	10.7%
T. Rowe Price Mid-Cap Growth Fund, Inc.(3)	2,000,000	6.3%	5.6%
Neuberger Berman, LLC(4)	1,807,666	5.7%	5.1%
Beck, Mack & Oliver LLC(5)	1,656,861	5.2%	4.6%
W. Lawrence Banks(6)	30,000	**	**
David W. Devonshire	2,000	**	**
Donald G. Calder(6)(7)	370,049	1.2%	1.0%
John F. Fort III(6)(8)	27,500	**	**
Brian D. Jellison(6)	156,667	**	**
Derrick N. Key(6)	719,635	2.3%	2.0%
Wilbur J. Prezzano(6)	30,000	**	**
Georg Graf Schall-Riaucour(6)(9)	437,000	1.4%	1.2%
Eriberto R. Scocimara(6)(10)	69,894	**	**
Christopher Wright(6)	50,000	**	**
Nigel W. Crocker(11)	67,278	**	**
Martin S. Headley(11)	68,200	**	**
C. Thomas O Grady(11)	19,564	**	**
All directors and executive officers as a group (17 persons)(12)	2,246,954	7.0%	6.2%

\* Each share beneficially owned continuously since November 3, 1999 is entitled to five votes per share. Therefore, the voting power of the persons listed above may significantly exceed the number of shares shown as beneficially owned either now or in the future. See Description of Common Stock in the accompanying prospectus.

\*\* Less than 1%.

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- (1) As of November 30, 2003, there were 31,815,905 shares of our common stock outstanding. As of November 30, 2003 after giving effect to this offering, there would be 35,770,905 shares of our common stock outstanding.
- (2) The beneficial owner's business address is 100 E. Pratt Street, Baltimore, Maryland 21202; has no voting power with respect to 3,138,600 shares. Such shares include all shares beneficially owned by T. Rowe Price Mid-Cap Growth Fund, Inc.
- (3) The beneficial owner's business address is 100 E. Pratt Street, Baltimore, Maryland 21202; has no disposition power with respect to all shares. All such shares also are included in the number of shares beneficially owned by T. Rowe Price Associates, Inc.
- (4) The beneficial owner's business address is 605 Third Avenue, New York, NY 10158-3698; has shared voting power with respect to 1,281,700 shares and no voting power with respect to 455,852 shares; has shared disposition power with respect to 1,806,134 shares and no disposition power with respect to the balance of the shares. Newberger Berman Management, Inc. is also deemed to beneficially own these shares.
- (5) The beneficial owner's business address is 330 Madison Avenue, 31st Floor, New York, New York 10017-5001; has no voting power and shared disposition power with respect to all shares.
- (6) Includes 28,000 shares (Mr. Banks), 20,000 shares (Mr. Calder), 23,200 shares (Mr. Fort), 156,667 shares (Mr. Jellison), 179,222 shares (Mr. Key), 28,000 shares (Mr. Prezzano), 20,000 shares (Mr. Schall-Riauour), 24,000 shares (Mr. Scocimara), and 28,000 shares (Mr. Wright), subject to options exercisable within 60 days of December 1, 2003.
- (7) Includes (a) 12,600 shares owned by a family foundation of which Mr. Calder is president and a director, (b) 169,844 shares owned by Mr. Calder's spouse and (c) 14,400 shares held by a trust with respect to which Mr. Calder is a co-trustee and shares voting and disposition powers. Mr. Calder disclaims any beneficial ownership interest in any shares owned by his spouse.
- (8) Includes 1,100 shares owned by Mr. Fort's spouse as to which he disclaims any beneficial ownership.
- (9) Includes 399,000 shares owned by Wittelsbacher Ausgleichsfonds, a German foundation, of which Mr. Schall-Riauour is General Director, and as such, is authorized to vote and dispose of such shares. Mr. Schall-Riauour disclaims beneficial ownership of all such shares.
- (10) Includes 24,000 shares owned by Mr. Scocimara's spouse as to all of which he disclaims any beneficial ownership.
- (11) Includes 58,334 shares (Mr. Crocker), 64,000 shares (Mr. Headley), and 19,000 shares (Mr. O'Grady) subject to options exercisable within 60 days of December 1, 2003.
- (12) Includes 751,632 shares subject to options exercisable within 60 days of December 1, 2003. Roper believes that approximately 950,652 of the shares held by its directors are entitled to five votes per share and that approximately 92,980 of the shares held by its executive officers are entitled to five votes per share.

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**DESCRIPTION OF CERTAIN INDEBTEDNESS**

**New Senior Secured Credit Facility**

Concurrently with the closing of this offering, we intend to enter into a new senior secured credit facility with JPMorgan Chase Bank, as administrative agent, Merrill Lynch Capital Corporation, as documentation agent, Wachovia Bank, National Association, as syndication agent and certain other lenders. The terms of our new senior secured credit facility are still being negotiated and are subject to change. We expect the new facility to consist of:

a five year \$450 million term loan, which will include a euro term loan sub-facility for the euro equivalent of \$60 million to be made available to one of our foreign subsidiaries; and

a three year \$175 million revolving loan, which will include availability of up to \$20 million for letters of credit and \$20 million for swingline loans and of which \$50 million will be available under a multicurrency subfacility in dollars and certain other currencies. We will use borrowings under the term loans to finance the NTGH acquisition and the cash portion of the DAP Technologies acquisition, repay our existing credit facility and pay fees and expenses related to the Transactions. We will use availability under our revolving loans to repay existing indebtedness and for general corporate purposes. See Use of Proceeds. In addition, so long as no event of default is in existence under our new senior secured credit facility, we may request a further incremental term loan in an amount not to exceed \$200 million. None of our then existing lenders will be required to participate in the incremental term loan. For purposes of this description, references to term loan do not include the incremental term loan.

We and certain of our foreign subsidiaries will be borrowers under our new senior secured credit facility. The facility will be guaranteed by all our present and future domestic subsidiaries (other than domestic subsidiaries that remain subsidiaries of our foreign subsidiaries) and will be secured by a first priority lien on substantially all of our assets and the assets of our direct and indirect domestic subsidiaries including, without limitation, all of our and their respective cash, cash equivalents, accounts receivable, contract rights (including under partnership agreements, management agreements, operating agreements, affiliation agreements and similar agreements), inventory, intellectual property, trade names, equipment and proceeds, but excluding real property interests, and by a pledge of substantially all of the capital stock or other equity interests we and they hold in our respective domestic subsidiaries and at least 65% of the capital stock or other equity interests of certain of our foreign subsidiaries.

We expect that amounts outstanding under the term loan and the revolving loans will bear interest, at our option, at a rate based on either:

the higher of (1) the federal funds rate plus 0.50% and (2) the publicly announced prime lending rate of JPMorgan Chase Bank from time to time, in either case plus a per annum spread which adjusts six months after closing and ranges from 0.50% to 1.0% depending on our consolidated total leverage ratio; provided, however, that during the first six month period immediately following the closing of such facility the spread will be fixed at 1.0%; or

the eurocurrency rate plus a per annum spread which adjusts six months after closing and ranges from 1.50% to 2.0% depending on our consolidated total leverage ratio; provided, however, that during the first six month period immediately following the closing of such facility the spread will be fixed at 2.0%.

Outstanding letters of credit issued under the facility will be charged a quarterly fee (based on a per annum spread which adjusts six months after closing and ranges from 1.50% to 2.0% depending on our consolidated total leverage ratio; provided, however, that during the first six month period immediately following the closing of such facility the spread will be fixed at 2.0%) in addition to a fronting fee of 0.125% per annum on the outstanding amount of all such letters of credit.

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Additionally, we expect to pay a quarterly commitment fee on the unused portion of the revolving loans of 0.50% per annum for a period of six months following the closing of the facility. Subsequently, the commitment fee will be based on a spread ranging from 0.375% to 0.50% depending on our consolidated total leverage ratio. Our foreign subsidiary borrower shall also pay to each lender under the new facility that provides a euro term loan a quarterly fronting fee equal to 0.125% per annum on the dollar equivalent of such euro term loan made by such lender.

The closing of the facility will be subject to certain conditions precedent, including the closing of this offering.

*Mandatory Prepayments.* Subject to customary exceptions and limitations, the facility will require us to prepay our term loan and, in certain cases, reduce our commitments under our revolving loan, with the net cash proceeds of certain asset sales by us or any of our subsidiaries, from the issuance or incurrence of certain debt, from certain casualty and condemnation events, and, commencing with the fiscal years ending December 31, 2004, up to 75% of our excess cash flows, unless we meet a consolidated senior leverage ratio test.

*Term Loan Amortization.* We are required to make principal payments on the term loans (other than any incremental term loan) in 20 consecutive quarterly installments each in an amount equal to:

1.25% of the term loan commitments, for each quarter commencing on March 31, 2004 through and including December 31, 2005;

2.50% of the term loan commitments, for each quarter commencing on March 31, 2006 through and including December 31, 2007;  
and

17.50% of the term loan commitments, for each quarter commencing on March 31, 2008 through and including the fifth anniversary of the closing date.

The new facility will contain various affirmative and negative covenants which will, among other things, limit our ability to incur new debt, prepay subordinated debt, make certain investments and acquisitions, sell assets and grant liens, make restricted payments (including the payment of dividends on our common stock) and capital expenditures. The covenants will include:

*Indebtedness.* Neither we nor any of our subsidiaries will be permitted to create, issue, incur assume, become liable in respect of or permit any indebtedness, except for, among other things, (1) the notes and any overallotment option, (2) indebtedness with respect to certain receivables transactions in an aggregate amount not to exceed \$100 million, (3) subordinated debt, (4) guarantee obligations of any subsidiary guarantor in respect of such subordinated debt subject to certain restrictions and (5) other indebtedness (not constituting subordinated debt); provided that, among other things, at the time of incurrence of any indebtedness pursuant to clause (3), (4) and (5) above, after giving effect to such indebtedness, the aggregate amount of all indebtedness incurred pursuant to clause (5) shall not exceed the greater of (x) 5% of our consolidated total assets and (y) \$75 million, and at the time of incurrence of any indebtedness pursuant to clauses 3, 4 and 5 of this paragraph, after giving effect to such indebtedness (such indebtedness determined without duplication), the aggregate outstanding principal amount of all indebtedness incurred shall not exceed the greater of (x) 15% of our consolidated total assets and (y) \$250 million.

*Acquisitions.* Neither we nor any of our subsidiaries will be permitted to consummate any acquisitions, except for, among others, acquisitions of all or substantially all of the capital stock or assets of, or of a business, unit or division of, any entity; provided that:

we shall be in compliance, after giving effect to the acquisition, with the covenants contained in the facility;

no default under the credit facility shall have occurred and be continuing, or would occur after giving effect to the acquisition;

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in the case of a stock acquisition, the board of directors (or comparable governing body) of the target entity shall approve such acquisition; and

in the case of an acquisition of an entity organized under the laws of a jurisdiction other than the U.S. (or any assets located in any such jurisdiction), the consideration paid for such acquisition, together with the consideration paid for all other foreign acquisitions in the then-current fiscal year, shall not exceed 40% of our consolidated net worth for such fiscal year prior to giving effect to such acquisition.

*Restricted Payments.* Neither we nor any of our subsidiaries will be permitted to declare or pay any cash dividend on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any capital stock of us or any of our subsidiaries, or make any other distribution in respect thereof, except for, among other things (so long as no default or event of default under the facility shall have occurred and be continuing), we may pay dividends on our common stock in an aggregate amount in any fiscal year not to exceed 25% of our consolidated net income of such fiscal year.

*Capital Expenditures.* Neither we nor any of our subsidiaries will be permitted to make or commit to make capital expenditures during any fiscal year in excess of 15% of our consolidated EBITDA for the immediately preceding fiscal year.

*Line of Business.* Under the facility, we are prohibited from entering into any business that is not engaged principally in any of the design, manufacture or distribution of industrial products, solutions or services and businesses reasonably related thereto; provided that, we or any of our subsidiaries may engage in any business that does not otherwise satisfy the requirements set forth in the previous clause if such business, together with all of our other businesses, does not constitute a material portion of our businesses taken as a whole.

We will also be subject to financial covenants, which will require us to limit our consolidated total leverage ratio and consolidated senior leverage ratio and to maintain a consolidated interest coverage ratio as follows:

*Consolidated Total Leverage Ratio.* We may not permit the consolidated total leverage ratio as at the last day of any period of our four consecutive fiscal quarters ending with any fiscal quarter set forth below to exceed the ratio set forth below opposite such fiscal quarter:

Fiscal Quarter Ending	Consolidated Total Leverage Ratio
March 31, 2004    December 31, 2004	4.25 to 1.0
March 31, 2005    December 31, 2005	4.00 to 1.0
March 31, 2006    December 31, 2006	3.75 to 1.0
March 31, 2007    December 31, 2007	3.50 to 1.0
March 31, 2008 and thereafter	3.25 to 1.0

*Consolidated Senior Leverage Ratio.* We may not permit the consolidated senior leverage ratio as at the last day of any period of our four consecutive fiscal quarters ending with any fiscal quarter set forth below to exceed the ratio set forth below opposite such fiscal quarter:

Fiscal Quarter Ending	Consolidated Senior Leverage Ratio
March 31, 2004    December 31, 2004	3.25 to 1.0
March 31, 2005    December 31, 2005	3.00 to 1.0
March 31, 2006    December 31, 2006	2.75 to 1.0
March 31, 2007    December 31, 2007	2.50 to 1.0
March 31, 2008 and thereafter	2.25 to 1.0

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*Consolidated Interest Coverage Ratio.* We may not permit the consolidated interest coverage ratio for any period of our four consecutive fiscal quarters (or, if less, the number of full fiscal quarters subsequent to the date we close our new credit facility) to be less than 5.0 to 1.0.

Our new senior secured credit facility will also contain customary events of default, including a cross-default to certain other debt, breaches of representations and warranties, change of control and breaches of covenants.

## **Concurrent Notes Offering**

Concurrently with this offering of common stock, we are offering, by means of a separate prospectus supplement, our senior subordinated convertible notes for initial gross proceeds of \$150 million. We will use the net proceeds from the notes offering to redeem our outstanding senior notes. The notes offering is not conditioned upon this offering or the completion of the NTGH acquisition.

We are offering the notes at an issue price at a discount to the principal amount due at maturity. We estimate that the aggregate principal amount due at maturity will be approximately \$ , or \$ per note. Interest on the notes will be payable semiannually, beginning June , 2004, until December , 2008. After that date, we will not pay cash interest on the notes prior to maturity unless contingent cash interest becomes payable. Instead, on , 2033, the maturity date of the notes, a holder will receive \$1,000 per note. The notes will be our unsecured senior subordinated obligations and will rank junior to our existing and future senior indebtedness and will rank equally with our existing and future senior subordinated indebtedness. In addition, the notes will effectively rank junior to all of our secured indebtedness as to the assets securing such indebtedness as well as all indebtedness and other liabilities, including trade payables, of our subsidiaries.

At any time after March 31, 2004, holders of notes may surrender the notes for conversion into shares of our common stock, if, as of the last day of the preceding fiscal quarter, the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding fiscal quarter is more than 120% of the accreted conversion price per share of common stock on the last day of such preceding fiscal quarter. If the foregoing condition is satisfied for any one quarter, then the notes will be convertible at any time at the option of the holder, through maturity. The accreted conversion price per share as of any day will equal the sum of the issue price of the note plus the accrued original issue discount to that day, if any, divided by the then applicable conversion rate.

Holders may surrender notes for conversion during the five business day period after any five consecutive trading-day period in which the trading price per note for each day of that period was less than 98% of the product of the closing sale price of our common stock and the conversion rate on each such day; provided that if on the day prior to any conversion pursuant to the trading price condition the closing sale price of our common stock is greater than the accreted conversion price but less than or equal to 120% of the accreted conversion price, then holders will receive upon conversion, in lieu of common stock based on the conversion rate, cash and/or common stock with a value equal to the issue price plus accrued original issue discount plus accrued cash interest, if any, and accrued contingent cash interest, if any, as of the conversion date.

Notes or portions of notes in integral multiples of \$1,000 principal amount at maturity called for redemption may be surrendered for conversion until the close of business on the second business day prior to the redemption date. In addition, if we make a significant distribution to our stockholders or if we are a party to certain consolidations, mergers or binding share exchanges, notes may be surrendered for conversion. The ability to surrender notes for conversion will expire at the close of business on December , 2033.

If we elect to pay holders cash for their notes, the payment will be based on the average sale price of our common stock for the five consecutive trading days immediately following either: (1) the date of our notice of our election to deliver cash, which we must give within two business days after receiving a

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conversion notice, unless we have earlier given notice of redemption; or (2) the conversion date, if we have given notice of redemption specifying that we intend to deliver cash upon conversion thereafter. The conversion rate may be adjusted for certain reasons, but will not be adjusted for accrued original issue discount, accrued cash interest or any contingent cash interest. Upon conversion a holder will not receive any cash payment representing any accrued original issue discount, accrued cash interest or contingent cash interest. Instead, accrued original issue discount, accrued cash interest or contingent cash interest will be deemed paid by the shares of common stock (or cash in lieu thereof) received by the holder on conversion.

We will pay contingent cash interest to the holders of the notes during any six month period commencing after December , 2008 if the average trading price of a note for a five trading day measurement period preceding the applicable six month period equals 120% or more of the sum of the issue price, accrued original issue discount and accrued cash interest, if any, for such note. The contingent cash interest payable per note in respect of any six month period will equal the annual rate of 0.25%.

Holders may require us to purchase all or a portion of their notes on December , 2008 at a price of \$ per note plus accrued cash interest, if any, including contingent cash interest, if any, on December , 2013 at a price of \$ per note plus accrued cash interest, if any, including contingent cash interest, if any, on December , 2018 at a price of \$ per note plus accrued cash interest, if any, including contingent cash interest, if any, on December , 2023 at a price of \$ per note plus accrued cash interest, if any, including contingent cash interest, if any, and on December , 2028, at a price of \$ per note plus accrued cash interest, if any, including contingent cash interest, if any. We may only pay the purchase price of such notes in cash and not in common stock.

Upon a change in control of our company, the holders may require us to purchase for cash all or a portion of their notes at a price equal to the sum of the issue price plus accrued original issue discount and accrued cash interest, if any, including contingent cash interest, if any, to the date of purchase.

We may redeem for cash all or a portion of the notes for cash at any time on or after December , 2008 at redemption prices equal to the sum of the issue price plus accrued original issue discount and accrued cash interest, if any, including contingent cash interest, if any, on such notes to the applicable redemption date.

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**SHARES ELIGIBLE FOR FUTURE SALE**

Upon completion of this offering, as of September 30, 2003 we would have had 35,746,030 shares of common stock outstanding. All shares of our common stock outstanding after this offering will be freely tradeable without restriction or further registration under the Securities Act unless held by one of our affiliates, as that term is defined in Rule 144 under the Securities Act. Unless otherwise registered under the Securities Act, sales of shares of our common stock by affiliates will be subject to the volume limitations and other restrictions set forth in Rule 144 and Rule 145.

We have reserved for issuance shares of our common stock issuable upon conversion of the senior subordinated convertible notes being offered concurrently with this offering. These shares, if and when issued, will be registered and freely tradeable, subject to resale restrictions upon affiliates under Rule 144.

In addition, the 34,000 shares that we are issuing in connection with the DAP Technologies acquisition are unregistered and will be subject to the resale limitations of Rule 145 under the Securities Act.

**Lock-Up Agreements**

We and our directors and executive officers have agreed, with certain exceptions including, with respect to most of our directors and executive officers, the ability to do cashless exercises of options and to fund taxes payable upon such exercises, and with respect to us, subject to restrictions, allowing us to issue common stock in connection with business combinations and strategic or other significant investments, including the 34,000 shares we intend to issue as part of the consideration for the acquisition of the remaining one-third interest of DAP Technologies, not to sell or otherwise dispose of any shares of our common stock for a period of 90 days after the date of this prospectus supplement, without the prior written consent of Merrill Lynch, on behalf of the underwriters.

**Rule 144**

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated), including an affiliate, who beneficially owns restricted securities may not sell those securities until they have been beneficially owned for at least one year. Thereafter, the person would be entitled to sell within any three month period a number of shares that does not exceed the greater of:

1% of the number of shares of our common stock then outstanding; or

the average weekly trading volume of our common stock on the NYSE during the four calendar weeks preceding the filing with the SEC of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are subject to certain other requirements regarding the manner of sale, notice and availability of current public information about us.

Under Rule 144(k), a person who is not, and has not been at any time, one of our affiliates during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years (including the holding period of any prior owner except an affiliate) is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

**Rule 145**

A stockholder that receives shares of our common stock in the DAP Technologies acquisition may resell those shares in accordance with Rule 145. Under Rule 145, the stockholder may sell in any three month period a number of shares that does not exceed the volume limitation of Rule 144 that is described above, subject to requirements relating to the manner of sale and notice and availability of



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current information about us. If the stockholder is not one of our affiliates, the shares may be sold without regard to the volume limitation once the stockholder has owned the shares for one year, subject only to the requirements relating to public information about us.

**Registration of Shares Under Stock Option Plans**

We have filed registration statements on Form S-8 covering all of the shares of common stock issuable or reserved for issuance under our stock plans. When issued, these shares will be freely tradeable in the public market, subject to Rule 144 volume limitations applicable to affiliates and, in some cases, the expiration of the lock-up agreements discussed above.

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**MATERIAL UNITED STATES FEDERAL TAX CONSEQUENCES**

The following is a summary of the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a non-U.S. holder (as defined below) as of the date hereof. Except where noted, this summary deals only with a non-U.S. holder that holds our common stock as a capital asset.

For purposes of this summary, a non-U.S. holder means a beneficial owner of our common stock that is not any of the following for U.S. federal income tax purposes: (1) a citizen or resident of the U.S., (2) a corporation created or organized in or under the laws of the U.S., any state thereof, or the District of Columbia, (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (4) a trust if (a) its administration is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all of its substantial decisions, or (b) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended, or the Code, and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income or estate tax consequences different from those summarized below. This summary does not represent a detailed description of the U.S. federal income or estate tax consequences to you in light of your particular circumstances. In addition, it does not represent a description of the U.S. federal income or estate tax consequences to you if you are subject to special treatment under the U.S. federal income tax laws (including if you are a U.S. expatriate, controlled foreign corporation, passive foreign investment company or foreign personal holding company). We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

If an entity classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding our common stock or a partner in such a partnership, you should consult your tax advisors.

**If you are considering the purchase of our common stock, you should consult your own tax advisers concerning the particular U.S. federal tax consequences to you of the ownership and disposition of the common stock, as well as the consequences to you arising under the laws of any other taxing jurisdiction, including any state, local or foreign income tax consequences.**

**Dividends**

Dividends paid to a non-U.S. holder of our common stock generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by a non-U.S. holder within the U.S. and, where an income tax treaty applies, are attributable to a U.S. permanent establishment of the non-U.S. holder, are not subject to this withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable individual or corporate rates. Certain certification and disclosure requirements must be complied with in order for effectively connected income to be exempt from this withholding tax. Any such effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A non-U.S. holder of our common stock who wishes to claim the benefit of an applicable treaty rate (and avoid backup withholding as discussed below) for dividends, will be required to (1) complete Internal Revenue Service, or IRS, Form W-8BEN (or successor form) and certify under penalty of perjury, that such holder is not a U.S. person or (2) if the common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable Treasury regulations. Special

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certification and other requirements apply to certain non-U.S. holders that are entities rather than individuals.

A non-U.S. holder of our common stock eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

### **Gain on Disposition of Common Stock**

A non-U.S. holder generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of our common stock unless (1) the gain is effectively connected with a trade or business of the non-U.S. holder in the U.S. (in which case, for a non-U.S. holder that is a foreign corporation, the branch profits tax described above may also apply), and, where an income tax treaty applies, is attributable to a U.S. permanent establishment of the non-U.S. holder, (2) in the case of a non-U.S. holder who is an individual and holds the common stock as a capital asset, such holder is present in the U.S. for 183 or more days in the taxable year of the sale or other disposition and certain other conditions are met, or (3) we are or have been a U.S. real property holding corporation for U.S. federal income tax purposes.

We believe we currently are not, and we do not anticipate becoming, a U.S. real property holding corporation for U.S. federal income tax purposes. If we are or become a U.S. real property holding corporation, then if our common stock is regularly traded on an established securities market, only a non-U.S. holder who directly or indirectly holds or held (at any time during the shorter of the five year period preceding the date of disposition or the holder's holding period) more than five percent of the common stock will be subject to U.S. federal income tax on the disposition of the common stock.

### **Federal Estate Tax**

Common stock held by an individual non-U.S. holder at the time of death will be included in such holder's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

### **Information Reporting and Backup Withholding**

We must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to such holder and the tax withheld (if any) with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and any withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty. In addition, dividends paid to a non-U.S. holder generally will be subject to backup withholding unless applicable certification requirements are met.

Payment of the proceeds of a sale of our common stock within the U.S. or conducted through certain U.S. related financial intermediaries is subject to both backup withholding and information reporting unless the beneficial owner certifies under penalties of perjury that it is not a U.S. person (and the payor does not have actual knowledge or reason to know that the beneficial owner is a U.S. person) or the holder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

**Table of Contents****UNDERWRITING**

Subject to the terms and conditions described in an underwriting agreement between us and the representatives of the underwriters named below, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of shares listed opposite their names below.

<b>Underwriter</b>	<b>Number of Shares</b>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
J.P. Morgan Securities Inc.	
Wachovia Capital Markets, LLC	
Robert W. Baird & Co. Incorporated	
JMP Securities LLC	
McDonald Investments Inc., a KeyCorp Company	
SunTrust Capital Markets, Inc.	
	—
Total	—

The underwriters have agreed to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel, or modify offers to the public and to reject orders in whole or in part.

**Commissions and Discounts**

The representatives have advised us that the underwriters propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of \$ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$ per share to other dealers. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	<b>Per Share</b>	<b>Without Option</b>	<b>With Option</b>
Public offering price	\$	\$	\$
Underwriting discount	\$	\$	\$
Proceeds, before expenses, to us	\$	\$	\$

The expenses of the offering, not including the underwriting discount, are estimated at \$ and are payable by us.



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### **Overallotment Option**

We have granted an option to the underwriters to purchase up to 593,250 additional shares at the public offering price on the cover page of this prospectus supplement, less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus supplement solely to cover any overallotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

### **No Sales of Similar Securities**

We and our executive officers and directors have agreed, with exceptions including, with respect to most of our directors and executive officers, the ability to do cashless exercises of options and to fund taxes payable upon such exercises, and with respect to us, subject to restrictions, allowing us to issue common stock in connection with business combinations and strategic or other significant investments, including the 34,000 shares we intend to issue as part of the consideration for the remaining interest of DAP Technologies, not to sell or transfer any common stock for 90 days after the date of this prospectus supplement without first obtaining the written consent of Merrill Lynch. Specifically, we and these other individuals have agreed not to directly or indirectly

offer, pledge, sell or contract to sell any common stock,

sell any option or contract to purchase any common stock,

purchase any option or contract to sell any common stock,

grant any option, right or warrant for the sale of any common stock,

lend or otherwise dispose of or transfer any common stock,

request or demand that we file a registration statement related to the common stock, or

enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

### **New York Stock Exchange Listing**

The shares are listed on the New York Stock Exchange under the symbol ROP.

### **Price Stabilization, Short Positions**

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the common stock in connection with the offering, i.e., if they sell more shares than are listed on the cover of this prospectus supplement, the representatives may reduce that short position by purchasing shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the overallotment option described above. Purchases of our common stock to stabilize its price or to reduce a short position may cause the price of our common stock to be higher than it might be in the absence of such purchases.



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Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

### **Other Relationships**

Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc. and Wachovia Capital Markets, LLC acted as our exclusive financial advisor in connection with certain financing transactions and received customary fees and expenses for their services. In connection with the Transactions, we will enter into a new \$625 million senior secured credit facility with affiliates of Merrill Lynch, J.P. Morgan Securities, Wachovia Capital Markets and certain other lenders. Additionally, some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions. Because more than ten percent of the net proceeds of the offering may be paid to members or affiliates of members of the National Association of Securities Dealers, Inc., or the NASD, participating in the offering, the offering will be conducted in accordance with NASD Conduct Rule 2710(c)(8).

## **LEGAL MATTERS**

King & Spalding LLP will pass on certain legal matters for us, including the validity of the common stock offered by this prospectus supplement. Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), New York, New York, will pass on specified legal matters for the underwriters.

## **EXPERTS**

The consolidated financial statements of Roper Industries, Inc. as of October 31, 2002 and 2001 and for each of the three years in the period ended October 31, 2002 included in and incorporated by reference in this prospectus supplement and the accompanying prospectus have been included and incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Neptune Technology Group Holdings, Inc. as of December 31, 2002 and 2001 and for the year ended December 31, 2002, the period from November 1, 2001 to December 31, 2001, the period from January 1, 2001 to October 31, 2001 and the year ended December 31, 2000 included and incorporated by reference in this prospectus supplement and the accompanying prospectus have been included and incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.



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Table of Contents**ROPER INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

	Nine Months Ended September 30,	
	2003	2002
	(unaudited) (in thousands, except per share data)	
Net sales	\$487,562	\$455,375
Cost of sales	230,504	210,448
Gross profit	257,058	244,927
Selling, general and administrative expenses	178,262	163,785
Income from operations	78,796	81,142
Interest expense	12,653	13,703
Euro debt currency exchange loss		4,093
Other income (expense)	(195)	1,795
Earnings from continuing operations before income taxes	65,948	65,141
Income taxes	19,784	20,196
Earnings from continuing operations	46,164	44,945
Loss from discontinued operations, net of tax	(2,822)	(330)
Net earnings	\$ 43,342	\$ 44,615
Net earnings per share:		
Basic:		
Earnings from continuing operations	\$ 1.47	\$ 1.44
Loss from discontinued operations	(0.09)	(0.01)
Net Earnings	\$ 1.38	\$ 1.43
Diluted:		
Earnings from continuing operations	\$ 1.45	\$ 1.41
Loss from discontinued operations	(0.09)	(0.01)
Net Earnings	\$ 1.36	\$ 1.40
Weighted average common shares outstanding:		
Basic	31,482	31,257
Diluted	31,844	31,854
Dividends declared per common share	\$ 0.2625	\$ 0.2475

See accompanying notes to condensed consolidated financial statements.

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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>September 30, 2003</b>	<b>October 31, 2002</b>
(unaudited) (in thousands)		
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 14,510	\$ 12,422
Accounts receivable, net	120,344	138,290
Inventories	95,233	88,313
Other current assets	5,238	5,224
Assets held for sale		4,578
Total current assets	235,325	248,827
Property, plant and equipment, net	51,908	51,089
Goodwill	482,465	459,233
Other intangible assets, net	36,852	37,032
Other noncurrent assets	29,127	32,792
Total assets	\$ 835,677	\$ 828,973
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
Accounts payable	\$ 33,791	\$ 35,253
Accrued liabilities	54,732	65,153
Liabilities related to assets held for sale		1,698
Income taxes payable	3,093	7,618
Current portion of long-term debt	1,017	20,515
Total current liabilities	92,633	130,237
Long-term debt	287,470	311,590
Other liabilities	13,846	11,134
Total liabilities	393,949	452,961
Common stock	328	326
Additional paid-in capital	94,925	89,153
Unearned compensation on restricted stock	(123)	
Retained earnings	338,159	304,995
Accumulated other comprehensive earnings	32,645	5,940
Treasury stock	(24,206)	(24,402)
Total stockholders' equity	441,728	376,012
Total liabilities and stockholders' equity	\$ 835,677	\$ 828,973

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ROPER INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended September 30,	
	2003	2002
	(unaudited) (in thousands)	
Cash flows from operating activities:		
Net earnings	\$ 43,342	\$ 44,615
Depreciation	8,556	8,350
Amortization	3,550	2,516
Other, net	2,322	10,029
	<u>57,770</u>	<u>65,510</u>
Cash provided by operating activities		
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(1,654)	(70,452)
Capital expenditures	(8,084)	(4,502)
Other, net	(1,969)	(4,809)
	<u>(11,707)</u>	<u>(79,763)</u>
Cash used in investing activities		
Cash flows from financing activities:		
Debt borrowings	21,780	50,061
Debt payments	(67,580)	(35,325)
Dividends	(8,284)	(7,749)
Proceeds from sales of common stock, net	5,340	5,484
	<u>(48,744)</u>	<u>12,471</u>
Cash (used in)/provided by financing activities		
Effect of foreign currency exchange rate changes on cash	1,921	1,198
	<u>(760)</u>	<u>(584)</u>
Net decrease in cash and cash equivalents		
Cash and cash equivalents, beginning of period	15,270	19,471
	<u>15,270</u>	<u>19,471</u>
Cash and cash equivalents, end of period		
	<u>\$ 14,510</u>	<u>\$ 18,887</u>

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY AND COMPREHENSIVE EARNINGS**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Unearned Compensation On Restricted Stock Earnings</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Earnings</u>	<u>Treasury Stock</u>	<u>Total</u>
				(unaudited) (in thousands)			
Balances at October 31, 2002	\$ 326	\$ 89,153	\$	\$ 304,995	\$ 5,940	\$ (24,402)	\$ 376,012
Net earnings				853			853
Stock option transactions		111					111
Currency translation adjustments					6,752		6,752
Dividends declared				(2,747)			(2,747)
Balances at December 31, 2002	\$ 326	\$ 89,264	\$	\$ 303,101	\$ 12,692	\$ (24,402)	\$ 380,981
Net earnings				43,342			43,342
Stock option transactions	2	5,073					5,075
Treasury stock sold		113				196	309
Currency translation adjustments					19,953		19,953
Restricted Stock Grants		475	(123)				352
Dividends declared				(8,284)			(8,284)
Balances at September 30, 2003	\$ 328	\$ 94,925	\$ (123)	\$ 338,159	\$ 32,645	\$ (24,206)	\$ 441,728

See accompanying notes to condensed consolidated financial statements

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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2003**

**1. Basis of Presentation**

The accompanying condensed consolidated financial statements for the nine-month periods ended September 30, 2003 and 2002 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 present fairly the financial position, results of operations and cash flows of Roper Industries, Inc. ( Roper ) and its subsidiaries for all periods presented.

On August 20, 2003 the Board of Directors of the Company approved a change in the date of the Company's year end from October 31 to December 31. The Company filed a transition period report on Form 10-Q for November and December 2002, and has its first calendar interim reporting period ending September 30, 2003 related to its new calendar year.

Certain reclassifications have been made to previously reported information to conform to the current presentation.

Roper's 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 nine-month period ended September 30, 2003 are not necessarily indicative of the results to be expected for the full calendar 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 2002 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission.

**2. Earnings Per Share**

Basic earnings per share are calculated by dividing net earnings (there were no adjustments necessary to determine earnings available to common shares) by the weighted average number of common shares outstanding during the period. Diluted earnings per share included the dilutive effect of common stock equivalents outstanding during the period. Common stock equivalents consisted of stock options.

**3. Comprehensive Earnings**

Comprehensive earnings include net earnings and all other non-owner sources of changes in net assets. Comprehensive earnings (in thousands) for the nine months ended September 30, 2003 and 2002 were \$63,295 and \$59,820, respectively. The differences between net earnings and comprehensive earnings were currency translation adjustments. Income taxes have not been provided on currency translation adjustments.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2003****4. Inventories**

	September 30, 2003	October 31, 2002
	(in thousands)	
Raw materials and supplies	\$ 68,115	\$ 63,247
Work in process	13,026	11,656
Finished products	38,456	34,383
Other inventory reserves	(23,123)	(19,820)
LIFO reserve	(1,241)	(1,153)
	<u>\$ 95,233</u>	<u>\$ 88,313</u>

**5. Goodwill**

	Instrumentation	Industrial Technology	Energy Systems & Controls	Scientific & Industrial Imaging	Total
	(in thousands)				
Balances at October 31, 2002	\$ 198,085	\$ 76,703	\$ 78,916	\$ 105,529	\$ 459,233
Currency translation adjustments	4,364	717	195	155	5,431
Balances at December 31, 2002	<u>\$ 202,449</u>	<u>\$ 77,420</u>	<u>\$ 79,111</u>	<u>\$ 105,684</u>	<u>\$ 464,664</u>
Purchase accounting adjustments	2		1,473	342	1,817
Currency translation adjustments	11,613	2,138	522	1,711	15,984
Balances at September 30, 2003	<u>\$ 214,064</u>	<u>\$ 79,558</u>	<u>\$ 81,106</u>	<u>\$ 107,737</u>	<u>\$ 482,465</u>

**6. Other intangible assets, net**

	Cost	Accumulated Amort.	Net Book Value
	(in thousands)		
Assets subject to amortization:			



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Existing customer base	\$ 17,202	\$ (3,592)	\$ 13,610
Unpatented technology	7,739	(2,527)	5,212
Patents and other protective rights	7,273	(4,111)	3,162
Trade secrets	3,010	(583)	2,427
Sales order backlog	453	(453)	
Assets not subject to amortization:			
Trade names	12,441		12,441
	<u>          </u>	<u>          </u>	<u>          </u>
Balances at September 30, 2003	\$48,118	\$(11,266)	\$36,852
	<u>          </u>	<u>          </u>	<u>          </u>

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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2003**

Amortization expense of other intangible assets was \$3,550 and \$2,516 during the nine months ended September 30, 2003 and 2002, respectively.

**7. Contingencies**

Roper, in the ordinary course of business, is the subject of, or a party to, various pending or threatened legal actions, including those pertaining to product liability and employment practices. Based upon Roper's past experience with the defense and resolution of its product liability and employment practice claims and the limits of the primary, excess, and umbrella liability insurance available with respect to pending claims, management believes that adequate provisions have been made to cover any potential liability not covered by such insurance and that the ultimate liability, if any, arising from these actions should not have a material adverse effect on the consolidated financial position, results of operations or cash flows of Roper.

There has been a significant increase in certain U.S. states in asbestos-related litigation claims against numerous industrial companies. Roper or its subsidiaries have been named as defendants in some such cases. To date, no significant costs have been incurred by Roper in connection with these claims. Roper 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 currently possible to determine the potential liability, if any, that may be incurred by Roper.

**8. Industry Segments**

Subsequent to our previous fiscal year ended October 31, 2002, Roper realigned its operations into four market-focused segments to capture value-creating opportunities around common customers, market orientation, sales channels and common cost opportunities. The four segments are: Instrumentation; Industrial Technology; Energy Systems and Controls; and Scientific and Industrial Imaging. All segment information has been restated to reflect these new categories.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2003**

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

	Nine Months Ended September 30,		
	2003	2002	Change
<b>Net sales:</b>			
Instrumentation	\$ 130,445	\$ 128,697	1.4%
Industrial Technology	126,816	126,120	0.6
Energy Systems & Controls	105,260	91,669	14.8
Scientific & Industrial Imaging	125,041	108,889	14.8
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 487,562	\$ 455,375	7.1%
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Gross profit:</b>			
Instrumentation	\$ 76,223	\$ 73,919	3.1%
Industrial Technology	58,576	58,295	0.5
Energy Systems & Controls	55,253	56,021	(1.4)
Scientific & Industrial Imaging	67,006	56,692	18.2
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 257,058	\$ 244,927	5.0%
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating profit*:</b>			
Instrumentation	\$ 21,042	\$ 21,896	(3.9)%
Industrial Technology	27,586	29,287	(5.8)
Energy Systems & Controls	19,591	22,151	(11.6)
Scientific & Industrial Imaging	20,796	16,020	29.8
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 89,015	\$ 89,354	(0.4)%
	<u>          </u>	<u>          </u>	<u>          </u>

\* Operating profit is before unallocated corporate general and administrative expenses. Such expenses were \$10,219 and \$8,212 for the nine months ended September 30, 2003 and 2002, respectively.

**9. Discontinued Operations**

In connection with the realignment of our businesses during the transitional period ended December 31, 2002, the company formalized its decision to offer for sale the Petrotech operation. Petrotech was subsequently sold on August 31, 2003. Accordingly, related operating results reported as discontinued operations are outlined as follows (amounts in thousands):

	Nine Months Ended September 30,	
	2003	2002
Net sales	\$ 4,304	\$ 6,815

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Loss before income taxes	(2,671)	(510)
Income tax benefit/(expense)	(151)	180
	<u>          </u>	<u>          </u>
Loss on discontinued operations	\$ (2,822)	\$ (330)
	<u>          </u>	<u>          </u>

The loss on sale of Petrotech including tax expense was approximately \$1.1 million.

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2003**

In addition, related assets and liabilities of Petrotech are recorded in the captions Assets held for sale and Liabilities related to assets held for sale, respectively, in the Condensed Consolidated Balance Sheet at October 31, 2002. The assets held for sale are outlined as follows:

	<u>September 30, 2003</u>	<u>October 31, 2002</u>
Current assets	\$	\$3,373
Property, plant and equipment, net		250
Goodwill, net		955
	—	—
Assets held for sale	\$	\$4,578
	—	—

Liabilities related to assets held for sale are comprised of accounts payables and other accrued liabilities.

The Petrotech operation was previously reported in the Company's Energy Systems and Controls segment. The accompanying financial statements have been restated to conform to discontinued operations treatment for all historical periods presented.

**10. Recently Released Accounting Pronouncements**

The Company adopted SFAS 143 Accounting for Asset Retirement Obligations as of November 1, 2002. There was no material impact to the company related to this new statement.

The Company adopted FASB Interpretation No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others as of January 1, 2003. This Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has no new guarantees after December 31, 2002 requiring the measurement provisions of this Interpretation.

The FASB issued Interpretation No. 46 Consolidation of Variable Interest Entities (VIEs) that is an Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements. This Interpretation addresses the consolidation requirements of business enterprises which have variable interest entities. FIN 46 applies immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period ending after December 15, 2003 to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. Roper is in the process of assessing the implications of this new statement for the company.

The FASB issued SFAS 148 Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123 which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends certain disclosure requirements of Statement 123. Currently, Roper has chosen not to adopt the accounting provisions of SFAS 123; however, as permitted by SFAS 123, the Company continues to apply intrinsic value accounting for its stock option plans under Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. Roper's pro forma net earnings and pro forma earnings per share based upon the fair value at the grant dates for awards under the company's plans are disclosed below.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2003**

If the company had elected to recognize compensation expense based upon the fair value at the grant dates for awards under these plans, the company's net income and income per share would have been approximately as presented below.

	<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>
Net earnings, as reported (in thousands)	\$43,342	\$44,615
Deduct: Total additional stock based compensation cost, net of tax	3,338	2,783
Net earnings Pro forma (in thousands)	\$40,004	\$41,832
Net Earnings per share, as reported:		
Basic	\$ 1.38	\$ 1.43
Diluted	1.36	1.42
Net Earnings per share, Pro forma:		
Basic	\$ 1.27	\$ 1.34
Diluted	1.26	1.31

The FASB deferred issuance of SFAS 150 Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both, on October 29, 2003, that clarifies liability or equity classification for different financial instruments including mandatorily redeemable shares, put options and forward purchase contracts, and obligations that can be settled with shares. The Company is assessing the impact of this new statement to its financial statements.

**11. Restricted Stock**

In March 2003, restricted stock awards for a total of 14,000 shares and a deferred stock award for 2,000 shares were awarded to the Company's non-management directors under the Company's equity compensation plans in which these directors participate. The restrictions on 50% of the restricted stock awards to a director will lapse upon his continuous service for six months following the grant, and the restrictions on the remaining 50% upon his continuous service for one year following the grant. Similarly, 50% of the deferred stock award will vest upon continuous service for six months and the remaining 50% will vest upon one year of continuous service. Directors who received restricted stock will have voting rights and receive dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. The deferred stock award shares will be issued without restrictions upon the completion of the applicable continuous service periods. A director who terminates his service before the applicable restricted or continuous service periods run will forfeit the right to receive the corresponding shares.

The intrinsic value of the shares awarded by the restricted stock and deferred stock awards on the date of grant is amortized ratably over the vesting period. Unearned compensation on the March 2003 grant of the awards of \$475,000 was recorded based on the market value of the shares on the date of grant and is generally being amortized over one year. The unamortized balance of unearned compensation on the awards is included as a separate component of stockholders' equity.

Compensation expense of \$352,000 was recorded during the nine months ended September 30, 2003 for the awards.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2003****12. Restructuring Activities**

In conjunction with segment realignment described in Note 8, Roper has commenced certain restructuring activities designed to reduce excess manufacturing capacity, move certain operations to lower-cost locations and transform activities to have lower fixed costs associated with those activities. Costs incurred to date have been as follows (amounts in thousands):

	<b>Three Month Periods Ended</b>		
	<b>March 31, 2003</b>	<b>June 30, 2003</b>	<b>September 30, 2003</b>
Included in cost of sales	\$ 300	\$ 100	\$ 0
Included in selling, general and administrative expenses	608	3,149	1,028
<b>Total</b>	<b>\$ 908</b>	<b>\$ 3,249</b>	<b>\$ 1,028</b>

Roper expects these activities to continue at least through the end of the current calendar year.

**13. Subsequent Event**

On October 21, 2003, the Company entered into a stock purchase agreement pursuant to which it agreed to acquire all of the outstanding capital stock of Neptune Technology Group Holdings Inc. ( Neptune ) from the selling shareholders named in the agreement for a cash purchase price of approximately \$475 million, which is net of cash acquired, and includes debt assumed. Consummation of the acquisition is subject to customary closing conditions, including the receipt of regulatory approvals. The acquisition is expected to close in the first fiscal quarter of 2004.

In connection with the Neptune acquisition, the Company entered into a definitive commitment letter with Merrill Lynch Capital Corporation, JPMorgan Chase Bank, Wachovia Bank, National Association, and Wachovia Capital Investments, Inc. for a new \$625 million senior secured credit facility consisting of five-year \$450 million term loans and a three-year, \$175 million revolving credit facility. In addition, the Company plans to issue approximately \$150 to \$200 million of convertible subordinated notes and approximately \$150 to \$200 million of common stock to the public for cash in registered or private offerings, depending on prevailing market conditions. Merrill Lynch, JPMorgan, and Wachovia have also agreed pursuant to the commitment letter to provide, subject to certain conditions, up to \$300 million of acquisition bridge financing if necessary. Roper would use the new credit facility and the proceeds from the other financing transactions to fund the Neptune acquisition, retire its existing senior notes and repay all amounts outstanding under the Company's existing credit facility. Roper expects to incur debt extinguishment costs of approximately \$13 to \$17 million, net of taxes, in connection with the early retirement of its existing senior notes due in 2007 and 2010.

Consummation of the new credit facility, and, if necessary, the bridge financing, are conditioned upon the completion of the acquisition and are subject to the negotiation and execution of definitive loan documentation and customary closing conditions. Roper expects that consummation of the other financings for the acquisition will be conditioned upon the closing of the acquisition. The actual components of the financing plan and the terms of the financings are subject to certain conditions in the commitment letter and prevailing market conditions at the time of the closing and may, as a result, be different from described above.

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## ROPER INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Two Months Ended December 31,	
	2002	2001
	(unaudited) (in thousands, except per share data)	
Net sales	\$83,885	\$ 86,904
Cost of sales	42,320	41,570
Gross profit	41,565	45,334
Selling, general and administrative expenses	36,997	34,817
Income from operations	4,568	10,517
Interest expense	2,978	2,970
Other income	179	717
Earnings from continuing operations before income taxes and change in accounting principle	1,769	8,264
Income taxes	529	2,895
Earnings from continuing operations before change in accounting principle	1,240	5,369
Loss from discontinued operations, net of tax benefit of \$211 and \$171, respectively	387	317
Earnings before change in accounting principle	853	5,052
Goodwill impairment, net of taxes of \$11,130		25,970
Net earnings/(loss)	\$ 853	\$(20,918)
Net earnings per common share:		
Basic:		
Earnings from continuing operations before change in accounting principle	\$ 0.04	\$ 0.17
Loss from discontinued operations	(0.01)	(0.01)
Goodwill adjustment effective November 1, 2001		(0.84)
Net Earnings/(Loss)	\$ 0.03	\$ (0.68)
Diluted:		
Earnings from continuing operations before change in accounting principle	\$ 0.04	\$ 0.17
Loss from discontinued operations	(0.01)	(0.01)
Goodwill adjustment effective November 1, 2001		(0.82)
Net Earnings/(Loss)	\$ 0.03	\$ (0.66)

Weighted average common shares outstanding:



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Basic	31,356	30,916
Diluted	31,854	31,742
Dividends declared per common share	\$0.0875	\$ 0.0825

See accompanying notes to condensed consolidated financial statements.

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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>December 31, 2002</b>	<b>October 31, 2002</b>
<b>(unaudited)</b>		
<b>(in thousands)</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,270	\$ 12,422
Accounts receivable, net	117,984	138,290
Inventories	92,681	88,313
Other current assets	4,451	5,224
Assets held for sale	5,113	4,578
	<hr/>	<hr/>
Total current assets	235,499	248,827
Property, plant and equipment, net	50,410	51,089
Goodwill	464,664	459,233
Other intangible assets, net	37,253	37,032
Other noncurrent assets	33,979	32,792
	<hr/>	<hr/>
Total assets	<b>\$821,805</b>	<b>\$828,973</b>
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Accounts payable	\$ 28,380	\$ 35,253
Accrued liabilities	60,924	65,153
Liabilities related to assets held for sale	2,477	1,698
Income taxes payable	7,563	7,618
Current portion of long-term debt	20,917	20,515
	<hr/>	<hr/>
Total current liabilities	120,261	130,237
Long-term debt	308,684	311,590
Other noncurrent liabilities	11,879	11,134
	<hr/>	<hr/>
Total liabilities	438,077	452,961
	<hr/>	<hr/>
Common stock	326	326
Additional paid-in capital	89,264	89,153
Retained earnings	303,101	304,995
Accumulated other comprehensive earnings	12,692	5,940
Treasury stock	(24,402)	(24,402)
	<hr/>	<hr/>
Total stockholders' equity	380,981	376,012
	<hr/>	<hr/>
Total liabilities and stockholders' equity	<b>\$821,805</b>	<b>\$828,973</b>
	<hr/>	<hr/>

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ROPER INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Two Months Ended December 31,	
	2002	2001
	(unaudited) (in thousands)	
Cash flows from operating activities:		
Net earnings/(loss)	\$ 853	\$(20,918)
Depreciation	1,943	2,530
Amortization	677	894
Goodwill transitional impairment, net of tax		25,970
Other, net	3,908	(7,464)
	<u>7,381</u>	<u>1,012</u>
Cash provided by operating activities		
Cash flows from investing activities:		
Acquisitions of business, net of cash acquired		(6,642)
Capital expenditures	(658)	(2,016)
Other, net	(396)	(535)
	<u>(1,054)</u>	<u>(9,193)</u>
Cash used in investing activities		
Cash flows from financing activities:		
Debt borrowings		12,743
Debt payments	(4,185)	(3,667)
Other, net	114	2,555
	<u>(4,071)</u>	<u>11,631</u>
Cash (used) provided in financing activities		
Effect of foreign currency exchange rate changes on cash	592	(398)
Net increase in cash and cash equivalents	2,848	3,052
Cash and cash equivalents, beginning of period	12,422	16,419
Cash and cash equivalents, end of period	<u>\$ 15,270</u>	<u>\$ 19,471</u>

See accompanying notes to condensed consolidated financial statements.



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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2002**

**1. Basis of Presentation**

On August 20, 2003 the Board of Directors of Roper Industries, Inc. ( Roper ) voted to change the fiscal year end from October 31 to December 31, effective as of January 1, 2003. As a result of this change in fiscal year, Roper s current fiscal year 2003 will be the twelve month period beginning January 1, 2003 and ending on December 31, 2003. Accordingly, the unaudited consolidated condensed financial statements are presented for the transition period from November 1, 2002 to December 31, 2002.

The accompanying condensed consolidated financial statements for the two-month periods ended December 31, 2002 and 2001 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 present fairly the financial position, results of operations and cash flows of Roper Industries, Inc. and its subsidiaries for all periods presented.

During the period ended December 31, 2002, Roper realigned its operations into four market-focused segments to capture value-creating opportunities around common customers, market orientation, sales channels and common cost opportunities. The four new segments are: Instrumentation; Industrial Technology; Energy Systems and Controls; and Scientific and Industrial Imaging. All segment information has been restated to reflect these new categories.

Certain reclassifications have been made to previously reported information to conform to the current presentation.

Roper s 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 two months ended December 31, 2002 are not necessarily indicative of the results to be expected in the future. It is recommended that these unaudited condensed consolidated financial statements be read in conjunction with Roper s consolidated financial statements and the notes thereto included in its 2002 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission.

**2. Earnings Per Share**

Basic earnings per share are calculated by dividing net earnings (there were no adjustments necessary to determine earnings available to common shares) by the weighted average number of common shares outstanding during the period. Diluted earnings per share included the dilutive effect of common stock equivalents outstanding during the period. Common stock equivalents consisted of stock options.

**3. Comprehensive Earnings**

Comprehensive earnings includes net earnings and all other non-owner sources of changes in a company s net assets. Comprehensive earnings during the two months ended December 31, 2002 and 2001, was \$7,605 and \$(23,452), respectively. The differences between net earnings and comprehensive earnings were currency translation adjustments. Income taxes have not been provided on currency translation adjustments.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002****4. Inventories**

	<b>December 31, 2002</b>	<b>October 31, 2002</b>
	(in thousands)	
Raw materials and supplies	\$ 63,343	\$ 63,247
Work in process	13,159	11,656
Finished products	37,369	34,383
Other inventory reserves	(20,037)	(19,820)
LIFO reserve	(1,153)	(1,153)
	<u>\$ 92,681</u>	<u>\$ 88,313</u>

**5. Goodwill**

	<b>Instrumentation</b>	<b>Industrial Technology</b>	<b>Energy Systems &amp; Controls</b>	<b>Scientific &amp; Ind. Imaging</b>	<b>Total</b>
	(in thousands)				
Balances at October 31, 2002	\$ 198,085	\$ 76,703	\$ 78,916	\$ 105,529	\$ 459,233
Additions					
Currency translation adjustments	4,364	717	195	155	5,431
Reclassifications					
Balances at December 31, 2002	<u>\$ 202,449</u>	<u>\$ 77,420</u>	<u>\$ 79,111</u>	<u>\$ 105,684</u>	<u>\$ 464,664</u>

**6. Other intangible assets, net**

	<b>Cost</b>	<b>Accumulated Amort.</b>	<b>Net Book Value</b>
	(in thousands)		
Assets subject to amortization:			
Existing customer base	\$ 15,382	\$(2,031)	\$ 13,351
Unpatented technology	7,667	(1,659)	6,008
Patents and other protective rights	7,099	(3,503)	3,596
Trade secrets	3,010	(209)	2,801
Sales order backlog	442	(436)	6
Assets not subject to amortization:			
Trade names	11,491		11,491

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Balances at December 31, 2002	<u>\$45,091</u>	<u>\$(7,838)</u>	<u>\$37,253</u>
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Amortization expense of other intangible assets was \$677 and \$894 during the two months ended December 31, 2002 and 2001, respectively.

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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2002**

**7. Contingencies**

Roper, in the ordinary course of business, is the subject of, or a party to, various pending or threatened legal actions, including those pertaining to product liability and employment practices. Based upon Roper's past experience with the defense and resolution of its product liability and employment practice claims and the limits of the primary, excess, and umbrella liability insurance available with respect to pending claims, management believes that adequate provisions have been made to cover any potential liability not covered by such insurance and that the ultimate liability, if any, arising from these actions should not have a material adverse effect on the consolidated financial position, results of operations or cash flows of Roper.

There has been a significant increase in certain U.S. states in asbestos-related litigation claims against numerous industrial companies. Roper or its subsidiaries have been named as defendants in some such cases. To date no significant costs have been incurred by Roper in connection with these claims. Roper 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 currently possible to determine the potential liability, if any, that may be incurred by Roper.

**8. Industry Segments**

During the two month period ended December 31, 2002, Roper realigned its operations into four market-focused segments to capture value-creating opportunities around common customers, market orientation, sales channels and common cost opportunities. The four new segments are: Instrumentation; Industrial Technology; Energy Systems and Controls; and Scientific and Industrial Imaging. All segment information has been restated to reflect these new categories.

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002**

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

	<b>Two Months Ended December 31,</b>		<b>Percent Change</b>
	<b>2002</b>	<b>2001</b>	
<b>Net sales:</b>			
Instrumentation	\$ 28,390	\$ 30,590	(7.2)%
Industrial Technology	21,379	21,246	0.1
Energy Systems & Controls	12,353	10,341	19.5
Scientific & Industrial Imaging	21,763	24,727	(12.0)
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 83,885	\$ 86,904	(3.5)%
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Gross profit:</b>			
Instrumentation	\$ 16,394	\$ 18,879	(13.2)%
Industrial Technology	9,377	9,567	(2.0)
Energy Systems & Controls	4,777	4,209	13.5
Scientific & Industrial Imaging	11,017	12,679	(13.1)
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 41,565	\$ 45,334	(8.3)%
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating profit*:</b>			
Instrumentation	\$ 4,504	\$ 6,835	(34.1)%
Industrial Technology	3,072	3,058	0.0
Energy Systems & Controls	(2,623)	(758)	(246.0)
Scientific & Industrial Imaging	1,212	3,873	(68.7)
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 6,165	\$ 13,008	(52.6)%
	<u>          </u>	<u>          </u>	<u>          </u>

\* Operating profit is before unallocated corporate general and administrative expenses. Such expenses were \$1,597 and \$2,491 for the two months ended December 31, 2002 and 2001, respectively.

**9. Discontinued Operations**

In connection with the realignment of our businesses explained in Note 8 to the Financial Statements, the company formalized its decision to offer for sale the Petrotech operation. Accordingly, related operating results reported as discontinued operations are outlined as follows (amounts in thousands):

<b>Two Months Ended December 31,</b>	
<b>2002</b>	<b>2001</b>
<u>          </u>	<u>          </u>

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Net sales	\$347	\$1,426
Loss before income taxes	598	488
Income tax benefit	211	171
	<u>        </u>	<u>        </u>
Loss on discontinued operations	\$387	\$ 317
	<u>        </u>	<u>        </u>

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002**

In addition, related assets and liabilities of Petrotech are recorded in the captions *Assets held for sale* and *Liabilities related to assets held for sale*, respectively, in the Condensed Consolidated Balance Sheets at December 31, 2002 and October 31, 2002. The assets held for sale are outlined as follows:

	<b>December 31, 2003</b>	<b>October 31, 2002</b>
Current assets	\$3,923	\$3,373
Property, plant and equipment, net	235	250
Goodwill	955	955
	<hr/>	<hr/>
Assets held for sale	\$5,113	\$4,578
	<hr/>	<hr/>

Liabilities related to assets held for sale are comprised of accounts payables and other accrued liabilities.

The Petrotech operation was previously reported in the Company's Energy Systems and Controls segment. The accompanying financial statements have been restated to conform to discontinued operations treatment for all historical periods presented. Petrotech was sold on August 31, 2003.

**10. Recently Released Accounting Pronouncements**

The Company adopted SFAS 143 *Accounting for Asset Retirement Obligations* as of November 1, 2002. There was no material impact to the company related to this new statement.

The Company adopted FASB Interpretation No. 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* as of January 1, 2003. This Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has no new guarantees after December 31, 2002 requiring the measurement provisions of this Interpretation.

The FASB issued Interpretation No. 46 *Consolidation of Variable Interest Entities* that is an Interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. This Interpretation addresses the consolidation requirements of business enterprises which have variable interest entities. Roper adopted the statement on January 31, 2003 and the statement has had no effect on its financial condition, results of operations, or cash flows.

The FASB issued SFAS 148 *Accounting for Stock-Based Compensation: Transition and Disclosure* that amends SFAS 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends certain disclosure requirements of Statement 123. Currently, Roper has chosen not to adopt the accounting provisions of SFAS 123 and adopted the additional disclosure provisions of SFAS 148 during 2003.

The FASB issued SFAS 150 *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both* that clarifies liability or equity classification for different financial instruments including mandatorily redeemable shares, put options and forward purchase contracts, and obligations that can be settled with shares. The adoption of SFAS 150 is not expected to have a material effect on the company's financial condition, results of operations, or cash flows.



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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2002**

**11. Restructuring Activities**

In conjunction with segment realignment described in note 8, Roper has commenced certain restructuring activities designed to reduce excess manufacturing capacity, move certain operations to lower-cost locations and transform activities to have lower fixed costs associated with those activities. Costs incurred during the two months ended December 31, 2002 were immaterial. Costs incurred from January 1, 2003 through July 31, 2003 are as disclosed in footnote 12 to the Form 10Q for the quarter ending July 31, 2003.

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**REPORT OF INDEPENDENT AUDITORS**

To the Shareholders of Roper Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, stockholders' equity and comprehensive earnings and cash flows present fairly, in all material respects, the financial position of Roper Industries, Inc. and its subsidiaries at October 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, on November 1, 2001, Roper Industries, Inc. adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets .

PricewaterhouseCoopers LLP

Atlanta, Georgia  
September 25, 2003  
except for Note 18  
which the date is October 22, 2003

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Table of Contents**ROPER INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**  
**October 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
	(in thousands, except per share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,422	\$ 16,419
Accounts receivable, net	138,290	116,510
Inventories	88,313	89,543
Other current assets	5,224	5,146
Assets held for sale	4,578	12,234
	<u>          </u>	<u>          </u>
Total current assets	248,827	239,852
Property, plant and equipment, net	51,089	51,543
Goodwill	459,233	415,661
Other intangible assets, net	37,032	31,101
Other noncurrent assets	32,792	23,965
	<u>          </u>	<u>          </u>
Total assets	\$828,973	\$762,122
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Accounts payable	\$ 35,253	\$ 32,995
Accrued liabilities	65,153	59,520
Liabilities related to assets held for sale	1,698	2,738
Income taxes payable	7,618	5,617
Current portion of long-term debt	20,515	3,010
	<u>          </u>	<u>          </u>
Total current liabilities	130,237	103,880
Long-term debt	311,590	323,830
Other noncurrent liabilities	11,134	10,906
	<u>          </u>	<u>          </u>
Total liabilities	452,961	438,616
	<u>          </u>	<u>          </u>
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 1,000 shares authorized;		
none outstanding		
Common stock, \$0.01 par value per share; 80,000 shares authorized;		
32,593 shares issued and 31,363 outstanding at October 31, 2002 and		
32,131 shares issued and 30,879 outstanding at October 31, 2001	326	321
Additional paid-in capital	89,153	80,510
Retained earnings	304,995	275,259
Accumulated other comprehensive earnings	5,940	(7,757)
Treasury stock, 1,230 shares October 31, 2002 and 1,252 shares at		
October 31, 2001	(24,402)	(24,827)
	<u>          </u>	<u>          </u>
Total stockholders' equity	376,012	323,506
	<u>          </u>	<u>          </u>

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Total liabilities and stockholders equity	\$ 828,973	\$ 762,122
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See accompanying notes to consolidated financial statements.

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS**  
**Years Ended October 31, 2002, 2001 and 2000**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(dollar and share amounts in thousands, except per share data)		
Net sales	\$ 617,462	\$ 562,955	\$ 469,999
Cost of sales	283,707	258,205	217,477
Gross profit	333,755	304,750	252,522
Selling, general and administrative expenses	218,210	203,884	163,860
Income from operations	115,545	100,866	88,662
Interest expense	18,506	15,917	13,483
Euro debt currency exchange loss	4,093		
Other income	3,381	3,916	1,207
Earnings from continuing operations before income taxes and change in accounting principle	96,327	88,865	76,386
Income taxes	29,889	31,450	26,811
Earnings from continuing operations before change in accounting principle	66,438	57,415	49,575
Loss from discontinued operations, net of taxes	415	1,576	297
Goodwill impairment, net of taxes of \$11,130	(25,970)		
Net earnings	\$ 40,053	\$ 55,839	\$ 49,278
Earnings per share:			
Basic:			
Earnings before change in accounting principle	\$ 2.13	\$ 1.87	\$ 1.63
Loss from discontinued operations	(.01)	(.05)	(.01)
Goodwill adjustment effective November 1, 2001	(0.84)		
Net earnings	\$ 1.28	\$ 1.82	\$ 1.62
Diluted:			
Earnings before change in accounting principle	\$ 2.09	\$ 1.82	\$ 1.59
Loss from discontinued operations	(.01)	(.05)	(.01)
Goodwill adjustment effective November 1, 2001	(0.82)		
Net earnings	\$ 1.26	\$ 1.77	\$ 1.58
Weighted average common shares outstanding:			
Basic	31,210	30,758	30,457
Diluted	31,815	31,493	31,182

See accompanying notes to consolidated financial statements.



**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****AND COMPREHENSIVE EARNINGS  
Years Ended October 31, 2002, 2001 and 2000**

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Accumulated</u>	<u>Treasury</u>	<u>Total</u>	<u>Comprehensive</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Other</u>	<u>Stock</u>	<u>Stockholders</u>	<u>Earnings</u>
			<u>Capital</u>		<u>Comprehensive</u>		<u>Equity</u>	
					<u>Earnings</u>			
(in thousands, except per share data)								
Balances at October 31, 1999	30,282	\$ 316	\$71,084	\$ 187,911	\$ (2,172)	\$(25,171)	\$ 231,968	
Net earnings				49,278			49,278	\$ 49,278
Stock option transactions	308	3	3,949				3,952	
Currency translation adjustments					(6,741)		(6,741)	(6,741)
Cash dividends (\$0.28 per share)				(8,537)			(8,537)	
Treasury stock sold	9		84			187	271	
Balances at October 31, 2000	30,599	319	75,117	228,652	(8,913)	(24,984)	270,191	\$ 42,537
Net earnings				55,839			55,839	\$ 55,839
Stock option transactions	272	2	5,293				5,295	
Currency translation adjustments					1,156		1,156	1,156
Cash dividends (\$0.30 per share)				(9,232)			(9,232)	
Treasury stock sold	8		100			157	257	
Balances at October 31, 2001	30,879	321	80,510	275,259	(7,757)	(24,827)	323,506	\$ 56,995
Net earnings				40,053			40,053	\$ 40,053
Stock option transactions	462	5	8,096				8,101	
Incentive bonus plan transactions	11		325			210	535	
Currency translation adjustments					13,697		13,697	13,697
Cash dividends (\$0.33 per share)				(10,317)			(10,317)	
Treasury stock sold	11		222			215	437	
Balances at October 31, 2002	31,363	\$ 326	\$ 89,153	\$ 304,995	\$ 5,940	\$(24,402)	\$ 376,012	\$ 53,750

See accompanying notes to consolidated financial statements.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****Years Ended October 31, 2002, 2001 and 2000**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(in thousands)		
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 40,053	\$ 55,839	\$ 49,278
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization of property, plant and equipment	11,600	9,838	8,260
Amortization of intangible assets	3,731	16,871	13,084
Goodwill transitional impairment, net of tax	25,970		
Changes in operating assets and liabilities, net of acquired businesses:			
Accounts receivable	5,499	7,027	(13,158)
Inventories	10,557	4,466	(7,643)
Accounts payable and accrued liabilities	(4,407)	7,628	16,214
Income taxes payable	6,723	1,725	786
Note receivable - supplier financing	(11,710)	(8,451)	
Other, net	(1,258)	7,496	978
	<u>86,758</u>	<u>102,439</u>	<u>67,799</u>
<b>Cash flows from investing activities:</b>			
Acquisitions of businesses, net of cash acquired	(82,813)	(170,180)	(161,546)
Capital expenditures	(7,738)	(7,432)	(14,935)
Other, net	(1,871)	906	(1,531)
	<u>(92,422)</u>	<u>(176,706)</u>	<u>(178,012)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from notes payable and long-term debt	76,621	146,125	321,941
Principal payments on notes payable and long-term debt	(74,363)	(62,815)	(208,012)
Cash dividends to stockholders	(10,317)	(9,232)	(8,537)
Treasury stock sales	972	257	271
Proceeds from stock option exercises, net	7,867	4,531	3,952
	<u>780</u>	<u>78,866</u>	<u>109,615</u>
Effect of exchange rate changes on cash	887	239	(1,145)
Net increase (decrease) in cash and cash equivalents	(3,997)	4,838	(1,743)
Cash and cash equivalents, beginning of year	16,419	11,581	13,324
Cash and cash equivalents, end of year	<u>\$ 12,422</u>	<u>\$ 16,419</u>	<u>\$ 11,581</u>
<b>Supplemental disclosures:</b>			
<b>Cash paid for:</b>			
Interest	\$ 18,695	\$ 16,102	\$ 9,018
Income taxes, net of refunds received	\$ 22,940	\$ 28,875	\$ 25,867

	<u>          </u>	<u>          </u>	<u>          </u>
Noncash investing activities:			
Net assets of businesses acquired:			
Fair value of assets, including goodwill	\$ 92,660	\$ 184,158	\$ 177,230
Liabilities assumed	(9,847)	(13,978)	(15,684)
	<u>          </u>	<u>          </u>	<u>          </u>
Cash paid, net of cash acquired	\$ 82,813	\$ 170,180	\$ 161,546
	<u>          </u>	<u>          </u>	<u>          </u>

See accompanying notes to consolidated financial statements.

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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**October 31, 2002, 2001 and 2000**

**1. Summary of Accounting Policies**

**Basis of Presentation** These financial statements present consolidated information for Roper Industries, Inc. and its subsidiaries ( Roper or the Company ). All significant intercompany accounts and transactions have been eliminated.

**Reclassifications** Certain reclassifications of prior year information were made to conform with the current presentation.

**Nature of the Business** Roper is a diversified industrial company that designs, manufactures and distributes energy systems and controls, scientific and industrial imaging products and software, industrial technology products and instrumentation products and services. These products and services are marketed to selected segments of a broad range of markets including oil and gas, research, power generation, medical, semiconductor, refrigeration, automotive, water/wastewater and general industry.

**Discontinued Operations** During the first quarter of fiscal 2003, the Company decided to offer for sale the Petrotech operation. The accompanying financial statements have been restated to conform to discontinued operations treatment for all periods presented. See footnote 16 for additional disclosure.

**Accounts Receivable** Accounts receivable were stated net of an allowance for doubtful accounts of \$3,643,000 and \$4,072,000 at October 31, 2002 and 2001, respectively. Outstanding accounts receivable balances are reviewed periodically, and allowances are provided at such time that management believes reasonable doubt exists that such balances will be collected within a reasonable period of time.

**Cash and Cash Equivalents** Roper considers highly liquid financial instruments with remaining maturities at acquisition of three months or less to be cash equivalents. At October 31, 2002 and 2001, Roper had no cash equivalents.

**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 year. Diluted earnings per share were calculated using net earnings and the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the respective year. Common stock equivalents consisted of stock options, and the effects of common stock equivalents were determined using the treasury stock method.

As of and for the years ended October 31, 2002, 2001 and 2000, there were 345,000, 107,000 and 9,000 outstanding stock options that were not included in the determination of diluted earnings per share because doing so would have been antidilutive.

**Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Fair Value of Financial Instruments** Roper's long-term debt at October 31, 2002 included \$125 million of fixed-rate term notes. Roper has determined that current comparable interest rates at October 31, 2002 were lower than the stated rates of the term notes by approximately 2-3 percentage points. A discounted cash flow analysis of anticipated cash flows using October 31, 2002 interest rates indicated that the fair values of the term notes were greater than the face amounts of the term notes by \$15.6 million. This liability is not reflected in Roper's basic financial statements. At October 31, 2001, Roper had a similar unrecorded liability of \$11.7 million. The change compared to October 31, 2001 was caused primarily from lower interest rates at October 31, 2002 compared to October 31, 2001.

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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2002, 2001 and 2000**

Most of Roper's other borrowings at October 31, 2002 were at various interest rates that adjust relatively frequently under its \$275 million credit facility. The fair value for each of these borrowings at October 31, 2002 was estimated to be the face value of these borrowings.

In May 2000, Roper entered into a 3-year interest rate swap agreement for a notional amount of \$25 million. Under this agreement, Roper received a fixed interest rate of 7.68% and paid a variable rate of 3-month LIBOR plus a margin. In November 2000, Roper entered into another agreement that effectively terminated this swap agreement for an insignificant gain.

In February 1998 and April 1998, Roper entered into five-year interest rate swap agreements for notional amounts of \$50 million and \$25 million, respectively. In both agreements, Roper paid a fixed interest rate, and the other party paid a variable interest rate. In May 2000, Roper effectively terminated these agreements and received \$1.8 million. This gain is being amortized over the original term of the agreements.

The fair values for all of Roper's other financial instruments at October 31, 2002 approximated their carrying values.

*Foreign Currency Translation* Assets and liabilities of subsidiaries whose functional currency is not the U.S. dollar were translated at the exchange rate in effect at the balance sheet date, and revenues and expenses were translated at average exchange rates for the period in which those entities were included in Roper's financial results. Translation adjustments are reflected as a component of other comprehensive earnings.

*Impairment of Long-Lived Assets* The company determines whether there has been an impairment of long-lived assets, excluding goodwill and identifiable intangible assets that are determined to have indefinite useful economic lives, when certain indicators of impairment are present. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future gross, undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value is required. Future adverse changes in market conditions or poor operating results of underlying long-lived assets could result in losses or an inability to recover the carrying value of the long-lived assets that may not be reflected in the asset's current carrying value, thereby possibly requiring an impairment charge in the future.

*Income Taxes* Roper is a U.S.-based multinational company and the calculation of its worldwide provision for income taxes requires analysis of many factors, including income tax structures that vary from country to country and the United States' treatment of non-U.S. earnings. Roper does not treat undistributed earnings of non-U.S. subsidiaries as being permanently reinvested. United States income taxes, net of foreign income taxes, have been provided on the undistributed earnings of non-U.S. subsidiaries.

Certain assets and liabilities have different bases for financial reporting and income tax purposes. Deferred income taxes have been provided for these differences.

*Goodwill and Other Intangibles* Prior to Roper's adoption of Statement of Financial Accounting Standard 142, Goodwill and Other Intangible Assets (SFAS 142), goodwill was amortized on a straight-line basis over periods that ranged from 5 to 40 years. Roper accounts for goodwill in a purchase business combination as the excess of the cost over the fair value of net assets acquired. Business combinations can also result in other intangible assets being recognized. Amortization of intangible assets, if applicable, occurs over their estimated useful lives. SFAS 142 requires companies to cease amortizing goodwill that existed at June 30, 2001 and establishes a new two-step method for testing goodwill for

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

impairment on an annual basis (or an interim basis if an event occurs that might reduce the fair value of a reporting unit below its carrying value). Roper conducts this review for all of its reporting units during the fourth quarter of the fiscal year. The transitional impairment that resulted from Roper's adoption of this standard on November 1, 2002 has been reported as a change in accounting principle—see Note 5. No impairment resulted from the annual review performed in 2002. SFAS 142 also requires that an identifiable intangible asset that is determined to have an indefinite useful economic life not be amortized, but separately tested for impairment using a one-step fair value based approach.

*Inventories*—Inventories are valued at the lower of cost or market. Cost is determined using either the first-in, first-out method or the last-in, first-out method (LIFO). Inventories valued at LIFO cost comprised 9% and 10% of consolidated inventories at October 31, 2002 and 2001, respectively.

Any LIFO decrements recorded during any of the three years ended October 31, 2002 were immaterial to Roper's consolidated financial statements for that year.

*Other Comprehensive Earnings*—Comprehensive earnings includes net earnings and all other non-owner sources of changes in a company's net assets. The differences between net earnings and comprehensive earnings for Roper during fiscal 2002, 2001 and 2000 were currency translation adjustments. Income taxes have not been provided on currency translation adjustments.

*Property, Plant and Equipment and Depreciation and Amortization*—Property, plant and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for using principally the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20-30 years
Machinery	8-12 years
Other equipment	3-5 years

*Capitalized Software*—Effective January 1, 1999, the Company adopted Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Among other provisions, SOP 98-1 requires that entities capitalize certain internal-use software costs once certain criteria are met. Under SOP 98-1, overhead, general and administrative and training costs are not capitalized.

*Recently Released Accounting Pronouncements*—The Financial Accounting Standards Board (FASB) issued SFAS 143 Accounting for Asset Retirement Obligations that Roper is required to adopt by November 1, 2002. Roper does not have, nor do we expect it to have, any material asset retirement obligations subject to this new standard.

The FASB issued SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets that Roper is required to adopt by November 1, 2002. This new standard does not apply to goodwill. The adoption of this standard did not result in an impairment charge.

The FASB issued SFAS 145 that rescinded, amended or made technical corrections to several previously issued statements. None of these changes significantly affected Roper's accounting or financial reporting practices.

The FASB issued SFAS 146 Accounting for Costs Associated with Exit or Disposal Activities that Roper is required to adopt for applicable transactions after December 31, 2002. This standard modifies the timing of when certain costs are reported.



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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2002, 2001 and 2000**

The Company adopted FASB Interpretation No. 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* as of January 1, 2003. This Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has no new guarantees after October 31, 2002 requiring the measurement provisions of this Interpretation.

The FASB issued Interpretation No. 46 *Consolidation of Variable Interest Entities (VIEs)* that is an Interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. This Interpretation addresses the consolidation requirements of business enterprises which have variable interest entities. FIN 46 applies immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period ending after December 15, 2003 to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. Roper is in the process of assessing the implications of this new statement for the company.

The FASB issued SFAS 148 *Accounting for Stock-Based Compensation: Transition and Disclosure* that amends SFAS 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends certain disclosure requirements of Statement 123. Currently, Roper has chosen not to adopt the accounting provisions of SFAS 123 and adopted the additional disclosure provisions of SFAS 148 during 2003.

The FASB deferred issuance of SFAS 150 *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both*, on October 29, 2003, that clarifies liability or equity classification for different financial instruments including mandatorily redeemable shares, put options and forward purchase contracts, and obligations that can be settled with shares. The Company is assessing the impact of this new statement to its financial statements.

*Research and Development* Research and development costs include salaries and benefits, rents, supplies, and other costs related to various products under development. Research and development costs are expensed in the period incurred and totaled \$29.6 million, \$26.0 million and \$22.3 million for the years ended October 31, 2002, 2001 and 2000, respectively.

*Revenue Recognition* The Company recognizes revenue from the sale of product when title and risk of loss pass to the customer, which is generally when product is shipped. The Company recognizes revenue from services rendered upon customer acceptance. Revenues under certain relatively long-term and relatively large-value construction projects are recognized under the percentage-of-completion method using the ratio of costs incurred to total estimated costs as the measure of performance. During fiscal 2002, 2001, and 2000, we recognized revenues of approximately \$2.4 million, \$2.3 million and \$1.7 million, respectively using this method. Estimated losses on any projects are recognized as soon as such losses become known.

*Stock Options* Roper accounts for stock-based compensation under the provisions of Accounting Principles Board Opinion 25 *Accounting for Stock Issued to Employees*. Stock-based compensation is measured at its fair value at the grant date in accordance with an option-pricing model. SFAS 123 *Accounting for Stock-Based Compensation*, provides that the related expense may be recorded in the basic financial statements or the pro forma effect on earnings may be disclosed in the financial statements. Roper provides the pro forma disclosures.

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

Non-employee directors of Roper are eligible to receive stock options for its common stock. These stock options are accounted for the same as stock options granted to employees. Roper has never issued stock options other than those issued to employees or its non-employee directors.

**2. Business Acquisitions**

On July 31, 2002, the company acquired all the outstanding shares of Zetec, Inc. ( Zetec ). Zetec supplies non-destructive inspection solutions using eddy current technology and related consumables, primarily for use in power generating facilities and is included in the Energy Systems and Controls segment of the business. Zetec's principal facility is located near Seattle, Washington. The results of Zetec's operations have been included in the consolidated financial statements since the acquisition date.

The aggregate purchase price of the acquisition was \$57.2 million of cash and includes amounts paid to sellers, amounts incurred for due diligence and other direct external costs associated with the acquisition.

The following table (in thousands) summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation includes estimates that were not finalized at October 31, 2002. Purchase price adjustments following the closing are also customary. The adjustments that were pending at October 31, 2002 were not significant.

	<u>July 31, 2002</u>
Current assets	\$ 12,448
Other assets	4,756
Intangible assets	7,060
Goodwill	40,574
	<u>64,838</u>
Total assets acquired	64,838
Current liabilities	(7,615)
	<u>\$ 57,223</u>

Of the \$7.1 million of acquired intangible assets, \$2.1 million was assigned to trade names that are not subject to amortization. The remaining \$5.0 million of acquired intangible assets have a weighted-average useful life of approximately 6 years. The intangible assets that make up that amount include trade secrets of \$3.0 million (6 year weighted-average useful life), technology of \$1.8 million (5-year weighted-average useful life), and patents of \$0.2 million (15-year weighted-average useful life).

The \$40.6 million of goodwill is not expected to be deductible for tax purposes.

In addition, in fiscal 2002, the company acquired the following four entities for a total cost of \$18.0 million, which was paid in cash:

Acquired in August 2002, Quantitative Imaging Corporation, (QImaging), based in Vancouver, Canada provides innovative, high-performance digital cameras for scientific and industrial imaging applications, complementing Roper's digital imaging business within the Scientific and Industrial Imaging segment.

Acquired in July 2002, AiCambridge Ltd. ( Qualitek ), based in Cambridge, England, is a designer and manufacturer of leak detection equipment and systems for medical, pharmaceutical, food, packaging and automotive industries, primarily in Europe. It is reported in our Instrumentation segment.



**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

Acquired in July 2002, Duncan Technologies, based in Sacramento, California, is an innovative designer and manufacturer of high-quality digital cameras for a variety of markets including machine vision, remote sensing and traffic monitoring. It is reported in our Scientific and Industrial Imaging segment.

Acquired in September 2002, Definitive Imaging, based in Cleveland, Ohio, provides image analysis software and specialized knowledge for metallographic and science quality control. It is reported in our Scientific and Industrial Imaging segment.

Goodwill recognized in those transactions amounted to \$12.9 million and of that amount approximately \$0.8 million is expected to be fully deductible for tax purposes. The intangible assets acquired in these transactions are being amortized over a life of 4 to 7 years.

On September 5, 2001, the company acquired all the outstanding shares of Struers and Logitech. Struers develops, manufactures and markets materials analysis preparation equipment and consumables used in quality inspection, failure analysis and research of solid materials. Logitech develops, manufactures and markets high-precision material-shaping equipment used primarily in the production of advanced materials for the semiconductor and opto-electronics markets. Struers is headquartered near Copenhagen, Denmark and Logitech is headquartered near Glasgow, Scotland. Both companies also share sales and service locations in the U.S., France, Germany and Japan. The results of these operations have been included in the consolidated financial statements since the acquisition date in our Instrumentation segment.

The aggregate purchase price of the acquisition was \$150.9 million of cash and includes amounts paid to sellers, amounts incurred for due diligence and other direct external costs associated with the acquisition.

The following table (in thousands) summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

	<b>September 5, 2001</b>
Current assets	\$ 30,482
Other assets	6,127
Intangible assets	20,680
Goodwill	106,964
	<hr/>
Total assets acquired	164,253
Current liabilities	12,401
Long-term liabilities	1,002
	<hr/>
Total liabilities	13,403
	<hr/>
Net assets acquired	\$ 150,850
	<hr/>

Of the \$20.7 million of acquired intangible assets, \$4.9 million was assigned to trade names that are not subject to amortization. The remaining \$15.8 million of acquired intangible assets have a weighted-average useful life of approximately 10 years. The intangible assets that make up that amount include an existing customer base of \$15.1 million (10-year useful life), and backlog of \$0.7 million (1-year useful life).

The \$107.0 million of goodwill is not expected to be deductible for tax purposes.

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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2002, 2001 and 2000**

In addition, in fiscal 2001, the company acquired the following two entities for a total of cost of \$23.2 million, which was paid in cash:

Acquired in July 2001, Media Cybernetics, L.P. ( Media ), located in Silver Springs, Maryland, is a leading image processing software developer for scientific and industrial applications and is included in the Scientific and Industrial Imaging segment.

Acquired in May 2001, Dynamco, Inc. ( Dynamco ) manufactures high quality pneumatic valves, solenoids, relays and related products that are sold to the semiconductor, packing, HVAC and medical industries. Located in McKinney, Texas, Dynamco is included in the Industrial Technology segment.

Goodwill recognized in those transactions amounted to \$14.2 million and that amount is expected to be fully deductible for tax purposes. Goodwill was assigned to the Scientific and Industrial Imaging and Industrial Technology segments in the amounts of \$8.9 million and \$5.2 million, respectively,

In fiscal 2000, the company completed nine business acquisitions for a total cost of \$161.5 million, which was paid in cash. The following provides a summary of the significant acquisitions which represents 81% of the total aggregate purchase price paid for fiscal year 2000 acquisitions.

Acquired in September 2000, Hansen Technologies distributes manufactured and outsourced shut-off and control valves, auto-purgers and hermetic pumps for the commercial refrigeration industry. Hansen Technologies principal facility is located near Chicago, Illinois and is included in the Industrial Technology segment.

Acquired in August 2000, Antek Instruments manufactures and supplies spectrometers primarily used to detect sulfur, nitrogen and other chemical compounds in petroleum, food and beverage processing and other industries and is included in the Instrumentation segment. Antek Instruments principal facilities are located in Houston, Texas.

Acquired in May 2000, Abel Pump manufactures and supplies specialty positive displacement pumps for a variety of industrial applications, primarily involving abrasive or corrosive fluids or those with high solids content and is included in the Industrial Technology segment of the business. Abel Pump s principal facility is located near Hamburg, Germany.

Acquired in November 1999, MASD designs, manufacturers and markets high-speed digital cameras used in automotive, industrial, military and research markets. MASD also manufactures and markets high-resolution digital cameras for the machine vision and image conversion markets. MASD s principal facility is located in San Diego, California. This business was subsequently merged with a complementary business and currently operates as Redlake MASD and is included in the Scientific and Industrial Imaging segment.

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

The following unaudited pro forma summary presents Roper's consolidated results of operations as if the acquisitions that occurred during fiscal 2002 and 2001 had occurred at the beginning of fiscal 2001. Goodwill associated with acquisitions completed subsequent to June 30, 2001 has not been amortized for purposes of this pro forma presentation to be consistent with current practice. Also, actual results may have been different had the acquisitions occurred at an earlier date and this pro forma information provides no assurance as to future results. Data in the following table is in thousands, except per share data.

	Year Ended October 31,	
	2002	2001
	(unaudited)	
Net sales	\$ 664,683	\$ 694,693
Earnings before income taxes, discontinued operations and change in accounting principle	\$ 101,535	\$ 103,098
Earnings before discontinued operations and change in accounting principle	\$ 69,823	\$ 66,703
Earnings before change in accounting principle	\$ 66,023	\$ 65,127
Earnings before change in accounting principle per share:		
Basic	\$ 2.11	\$ 2.12
Diluted	\$ 2.08	\$ 2.07

**3. Inventories**

The components of inventories at October 31 were as follows (in thousands):

	2002	2001
Raw materials and supplies	\$45,836	\$47,424
Work in process	11,557	12,684
Finished products	32,073	30,758
LIFO reserve	(1,153)	(1,323)
	\$88,313	\$89,543

**4. Property, Plant and Equipment**

The components of property, plant and equipment at October 31 were as follows (in thousands):

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	<u>2002</u>	<u>2001</u>
Land	\$ 2,372	\$ 2,944
Buildings	25,639	24,955
Machinery, tooling and other equipment	92,651	82,222
	<u>120,662</u>	<u>110,121</u>
Accumulated depreciation and amortization	(69,573)	(58,578)
	<u>\$ 51,089</u>	<u>\$ 51,543</u>

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

Depreciation expense was \$11,600, \$9,838 and \$8,260 for the three years ended October 31, 2002, October 31, 2001 and October 31, 2000, respectively.

**5. Goodwill**

	Instrumentation	Industrial Technology	Energy Systems and Controls	Scientific and Industrial Imaging	Total
	(in thousands)				
Balances at October 31, 2001	\$ 175,481	\$ 79,160	\$ 38,004	\$ 123,016	\$ 415,661
Goodwill acquired	10,570	(204)	40,574	9,975	60,915
Impairment		(3,900)		(27,900)	(31,800)
Currency translation adjustments	9,012	1,397	338	199	10,946
Reclassifications and other	3,022	250		239	3,511
Balances at October 31, 2002	\$ 198,085	\$ 76,703	\$ 78,916	\$ 105,529	\$ 459,233

Goodwill acquired during the year ended October 31, 2002 included a \$7.6 million purchase price adjustment from the prior year's acquisition of the Struers and Logitech businesses.

The impairment resulted from the transitional provisions of Roper's adoption of SFAS 142. Impairment was recognized on the Redlake, Petrotech and Dynamco units. The reported change in accounting principle for this impairment was net of income taxes.

SFAS 142, which Roper adopted at the beginning of fiscal 2002, does not permit retroactive application of its method of accounting for goodwill and other intangible assets. However, SFAS 142 does provide for the following analysis comparing the current to the previous accounting practice.

	Year Ended October 31,		
	2002	2001	2000
Earnings before change in accounting principle, as reported	\$ 66,023	\$ 55,839	\$ 49,278
Add back: goodwill amortization, net of income taxes		11,696	9,539
Earnings before change in accounting principle, adjusted	\$ 66,023	\$ 67,535	\$ 58,817
Basic earnings per share:			
Earnings before change in accounting principle, as reported	\$ 2.12	\$ 1.82	\$ 1.62
Add back: goodwill amortization, net of income taxes		0.38	0.31
Earnings before change in accounting principle, adjusted	\$ 2.12	\$ 2.20	\$ 1.93



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Diluted earnings per share:

Earnings before change in accounting principle, as reported	\$ 2.08	\$ 1.77	\$ 1.58
Add back: goodwill amortization, net of income taxes		0.37	0.31
	<u>        </u>	<u>        </u>	<u>        </u>
Earnings before change in accounting principle, adjusted	\$ 2.08	\$ 2.14	\$ 1.89
	<b>        </b>	<b>        </b>	<b>        </b>

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000****6. Other intangible assets, net**

	<u>Cost</u>	<u>Accum. Amort.</u>	<u>Net Book Value</u>
	(in thousands)		
Assets subject to amortization:			
Existing customer base	\$ 14,723	\$ (1,704)	\$ 13,019
Unpatented technology	7,623	(1,459)	6,164
Patents and other protective rights	7,056	(3,371)	3,685
Trade secrets	3,010	(125)	2,885
Assets not subject to amortization:			
Trade names	11,279		11,279
Balances at October 31, 2002	<u>\$43,691</u>	<u>\$ (6,659)</u>	<u>\$ 37,032</u>

Amortization expense of other intangible assets was \$3,455, \$1,754 and \$825 during fiscal 2002, 2001 and 2000, respectively. Estimated amortization expense for the five years subsequent to fiscal 2002 is \$4,120, \$4,120, \$4,100, \$3,327 and \$2,458 for fiscal 2003, 2004, 2005, 2006 and 2007, respectively.

**7. Accrued Liabilities**

Accrued liabilities at October 31 were as follows (in thousands):

	<u>2002</u>	<u>2001</u>
Wages and other compensation	\$ 24,860	\$ 26,795
Commissions	8,419	8,223
Interest	5,515	5,705
Other	26,286	18,797
	<u>\$ 65,080</u>	<u>\$ 59,520</u>

**8. Income Taxes**

Earnings before income taxes and change in accounting principle for the years ended October 31 consisted of the following components (in thousands):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
United States	\$ 68,043	\$ 67,305	\$ 61,529
Other	28,284	21,560	14,857

\$96,327

\$88,865

\$76,386

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Components of income tax expense before any change in accounting principle for the years ended October 31 were as follows (in thousands):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Current:			
Federal	\$ 17,968	\$ 22,603	\$ 19,955
State	982	1,171	844
Foreign	9,200	6,883	5,450
Deferred expense	1,739	793	562
	<u>\$ 29,889</u>	<u>\$ 31,450</u>	<u>\$ 26,811</u>

Reconciliations between the statutory federal income tax rate and the effective income tax rate for the years ended October 31 were as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Federal statutory rate	35.0%	35.0%	35.0%
Extraterritorial Income Exclusion	(5.1)		
Exempt income of Foreign Sales Corporation		(4.3)	(3.7)
Goodwill amortization	1.9	2.6	2.3
Other, net	(0.8)	2.1	1.5
	<u>31.0%</u>	<u>35.4%</u>	<u>35.1%</u>

Components of the deferred tax assets and liabilities at October 31 were as follows (in thousands):

	<u>2002</u>	<u>2001</u>
Deferred tax assets:		
Reserves and accrued expenses	\$ 7,504	\$ 7,735
Inventories	4,447	3,617
Postretirement medical benefits	714	631
Foreign taxes		575
Amortizable intangible assets	4,499	
	<u>17,164</u>	<u>12,558</u>
Deferred tax liabilities:		
Amortizable intangible assets		2,629
Plant and equipment	1,584	1,599
Former IC-DISC recapture	462	577

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Total deferred tax liabilities	<u>2,046</u>	<u>4,805</u>
Net deferred tax asset	<u>\$ 15,118</u>	<u>\$ 7,753</u>

Roper has not recognized a valuation allowance since management has determined that it is more likely than not that the results of future operations will generate sufficient taxable income to realize all deferred tax assets.

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000****9. Long-Term Debt**

Total debt at October 31 consisted of the following (table amounts in thousands):

	<b>2002</b>	<b>2001</b>
\$275 million credit facility	\$ 186,358	\$ 178,114
7.58% Senior Secured Notes	40,000	40,000
7.68% Senior Secured Notes	85,000	85,000
Supplier financing agreement	20,377	20,377
Other	370	3,349
	<hr/>	<hr/>
Total debt	332,105	326,840
Less current portion	20,515	3,010
	<hr/>	<hr/>
Long-term debt	\$ 311,590	\$ 323,830
	<hr/>	<hr/>

The \$275 million credit facility is with a group of banks and provides for revolving loans, swing line loans and letters of credit. Interest on outstanding borrowings is influenced by the type and currency of the borrowings. Interest on outstanding borrowings under this facility is a base rate plus a margin. The margin is influenced by certain financial ratios of Roper and can range from 0.625% to 1.125%. This facility also provides that Roper will maintain certain financial ratios addressing, among other things, coverage of fixed charges, total debt under other agreements, consolidated net worth and capital expenditures. Other costs and provisions of this facility are believed to be customary. Repayment of Roper's obligations under this facility is guaranteed by its U.S. subsidiaries and the pledge of some of the stock of some of Roper's non-U.S. subsidiaries. This agreement matures on May 18, 2005.

At October 31, 2002, utilization of the credit facility included \$144.7 million of U.S. denominated borrowings, \$41.7 million of borrowings denominated in euros and \$3.3 million of outstanding letters of credit. The weighted average interest rate on these outstanding borrowings at October 31, 2002 was 3.3%.

The Senior Secured Notes are with a group of insurance companies that consist of \$40 million of term notes due May 18, 2007 and \$85 million of term notes due May 18, 2010. The guarantees, pledges and financial covenants associated with these notes are similar, but slightly less restrictive, than those in the \$275 million credit facility.

On September 28, 2001, Roper entered into a supplier financing credit agreement (the "credit agreement") with a foreign financial institution. Under the terms of the credit agreement, the maximum borrowing capacity available to Roper was \$20,377, which was fully drawn on October 1, 2001. Roper is required to repay the principal amount of the borrowing in four equal, consecutive quarterly installments beginning December 30, 2002 with a scheduled maturity date of October 1, 2003 and was paid on September 30, 2003. Under the terms of the credit agreement, on October 1, 2001, the interest rate was fixed at 5.76% through the maturity date. Interest is payable in arrears on October 1, 2002, January 1, 2003, April 1, 2003, July 1, 2003 and October 1, 2003. The restrictive covenants associated with the credit agreement are similarly restrictive to those in the \$275 million credit facility.

At October 31, 2002, the Company was in compliance with its restrictive covenants.

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Future maturities of long-term debt during each of the next five years ending October 31 and thereafter were as follows (in thousands):

2003	\$ 20,515
2004	135
2005	186,455
2006	
2007	40,000
Thereafter	85,000
	<u>          </u>
	<u>\$ 332,105</u>

**10. Retirement and Other Benefit Plans**

Roper maintains two defined contribution retirement plans under the provisions of Section 401(k) of the Internal Revenue Code covering substantially all U.S. employees not subject to collective bargaining agreements. Roper partially matches employee contributions. Its costs related to these two plans were \$4,549,000, \$4,126,000 and \$3,956,000 in fiscal 2002, 2001 and 2000, respectively.

Roper also maintains various defined benefit retirement plans covering employees of non-U.S. subsidiaries and a plan that supplements certain employees for the contribution ceiling applicable to the Section 401(k) plans. The costs and accumulated benefit obligations associated with each of these plans were not material.

Pursuant to the fiscal 1999 Petroleum Analyzer acquisition, Roper agreed to assume a defined benefit pension plan covering certain U.S. employees subject to a collective bargaining agreement. Roper obtained the necessary regulatory approvals to terminate this plan during fiscal 2002 and all plan assets were distributed during fiscal 2002.

All U.S. employees are eligible to participate in Roper's stock purchase plan whereby they may designate up to 10% of eligible earnings to purchase Roper's common stock at a 10% discount to the average closing price of its 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. During the years ended October 31, 2002, 2001 and 2000, participants of the employee stock purchase plan purchased 11,000, 8,000 and 9,000 shares, respectively, of Roper's common stock for total consideration of \$437,000, \$257,000 and \$271,000, respectively. All of these shares were purchased from Roper's treasury shares.

**11. Common Stock Transactions**

Roper's restated Certificate of Incorporation provides that each outstanding share of Roper's common stock entitles the holder thereof to five votes per share, except that holders of outstanding shares with respect to which there has been a change in beneficial ownership during the four years immediately preceding the applicable record date will be entitled to one vote per share.

Roper has a Shareholder Rights Plan whereby one Preferred Stock Purchase Right (a "Right") accompanies each outstanding share of common stock. Such Rights only become exercisable, or transferable apart from the common stock, ten business days after a person or group acquires various specified levels of beneficial ownership, with or without the Board's consent. Each Right may be exercised to acquire one one-thousandth of a newly issued share of Roper's Series A Preferred Stock, at an exercise price of \$170, subject to adjustment. Alternatively, upon the occurrence of certain specified events, the

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

Rights allow holders to purchase Roper's common stock having a market value at such time of twice the Right's exercise price. The Rights may be redeemed by Roper at a redemption price of \$0.01 per Right at any time until the tenth business day following public announcement that a 20% position has been acquired or 10 business days after commencement of a tender or exchange offer. The Rights expire on January 8, 2006.

Roper periodically enters into agreements with the management of newly-acquired companies for the issuance of Roper's common stock based on the achievement of specified goals. A similar agreement was made with a corporate executive during fiscal 1996 that matured during fiscal 2002. During fiscal 2002, 20,000 shares of common stock were issued under such agreements. At October 31, 2002, there were no such agreements outstanding.

**12. Stock Options**

Roper has two stock incentive plans (the 1991 Plan and the 2000 Plan) which authorize the issuance of shares of common stock to certain directors, key employees, and consultants of Roper as incentive and/or nonqualified stock options, stock appreciation rights or equivalent instruments. Stock options under both plans must be granted at prices not less than 100% of market value of the underlying stock at the date of grant. All stock options granted under these plans vest annually and ratably over a five-year period from the date of the grant. Stock options expire ten years from the date of grant. Options may no longer be granted under the 1991 Plan. The 2000 Plan has no expiration date for the granting of options and had the capacity to grant an additional 682,000 options or equivalent instruments at October 31, 2002.

Roper also has a stock option plan for non-employee directors (the Non-employee Director Plan). The Non-employee Director Plan provides for each non-employee director appointed or elected to the Board initial options to purchase 4,000 shares of Roper's common stock and thereafter options to purchase an additional 4,000 shares each year under terms and conditions similar to the above-mentioned stock option plans, except that following their grant, all options become fully vested at the time of the Annual Meeting of Shareholders following the grant date and are exercisable ratably over five years following the date of grant. Stock options expire ten years from the date of grant. At October 31, 2002, the Non-Employee Director Plan had the capacity to grant an additional 92,000 options.

A summary of stock option transactions under these plans and information about stock options outstanding at October 31, 2002 are shown below:

	Outstanding Options		Exercisable Options	
	Number	Average Exercise Price	Number	Average Exercise Price
October 31, 1999	2,117,000	\$ 17.67	1,226,000	\$ 14.67
Granted	365,000	33.18		
Exercised	(320,000)	13.68		
Canceled	(79,000)	25.76		
October 31, 2000	2,083,000	20.69	1,199,000	16.45
Granted	515,000	34.85		
Exercised	(292,000)	18.34		
Canceled	(75,000)	25.39		

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	Outstanding Options		Exercisable Options	
	Number	Average Exercise Price	Number	Average Exercise Price
October 31, 2001	2,231,000	24.11	1,171,000	17.91
Granted	651,000	41.11		
Exercised	(469,000)	17.12		
Canceled	(118,000)	31.89		
October 31, 2002	2,295,000	\$29.97	1,034,000	\$22.59

Exercise Price	Outstanding Options			Exercisable Options	
	Number	Average Exercise Price	Average Remaining Life (Years)	Number	Exercise Average Price
\$ 3.75 - 15.00	169,000	\$ 10.95	1.7	169,000	\$ 10.95
15.01 - 25.00	583,000	18.76	3.6	488,000	18.79
25.01 - 35.00	735,000	31.48	7.0	287,000	30.38
35.01 - 48.76	808,000	40.65	9.0	90,000	40.32
\$ 3.75 - 48.76	2,295,000	\$29.97	6.4	1,034,000	\$22.59

For pro forma disclosure purposes, the following fair values and the primary assumptions used to determine these fair values were used. All stock options granted during each of the years ended October 31, 2002, 2001 and 2000 were at exercise prices equal to the market price of Roper's common stock when granted.

	2002	2001	2000
Weighted average fair value per share (\$)	16.77	16.86	15.37
Risk-free interest rate (%)	4.00 - 5.00	5.00 - 6.00	6.75
Average expected option life (years)	7.0	7.0	7.0
Expected volatility (%)	33 - 37	31 - 45	35 - 49
Expected dividend yield (%)	0.75	0.75	1.00

Had Roper recognized compensation expense during fiscal 2002, 2001 and 2000 for the fair value of stock options granted in accordance with the provisions of SFAS 123, pro forma earnings and pro forma earnings per share would have been approximately as presented below.

	2002	2001	2000
Net earnings, as reported (in thousands)	\$40,053	\$55,839	\$49,278

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Net earnings, pro forma (in thousands)	32,589	50,859	45,385
Net earnings per share, as reported:			
Basic	1.28	1.82	1.62
Diluted	1.26	1.77	1.58
Net earnings per share, pro forma:			
Basic	1.04	1.65	1.49
Diluted	1.02	1.61	1.46

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**ROPER INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2002, 2001 and 2000**

The disclosed pro forma effects on earnings do not include the effects of stock options granted prior to fiscal 1996 (affecting fiscal 2000) since the provisions of SFAS 123 are not applicable to stock options for this purpose. The pro forma effects of applying SFAS 123 to fiscal 2002, 2001 and 2000 may not be representative of the pro forma effects in future years. Based on the vesting schedule of Roper's stock option grants, the pro forma effects on earnings are most pronounced in the early years following each grant. The timing and magnitude of any future grants is at the discretion of Roper's Board of Directors and cannot be assured.

**13. Contingencies**

Roper, in the ordinary course of business, is the subject of, or a party to, various pending or threatened legal actions, including those pertaining to 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. Based upon Roper's 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 the consolidated financial position, results of operations or cash flows of Roper. Included in other noncurrent assets at October 31, 2002 are estimated insurable settlements receivable from insurance companies of \$2.6 million. At October 31, 2001, the estimated insurable settlements receivable from insurance companies was \$1.7 million.

There recently has been a significant 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 Roper 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 rent expense was approximately \$10.7 million, \$9.3 million and \$8.5 million for fiscal 2002, 2001 and 2000, respectively. Roper's future minimum lease commitments totaled \$38.0 million at October 31, 2002. These commitments included \$8.6 million in fiscal 2003, \$6.6 million in fiscal 2004, \$4.8 million in fiscal 2005, \$3.4 million in fiscal 2006, \$2.7 million in fiscal 2007 and \$11.9 million thereafter.

**14. Segment and Geographic Area Information**

During the quarter ended January 31, 2003, Roper realigned its operations into four market-focused segments to capture value-creating opportunities around common customers, market orientation, sales channels and common cost opportunities. The four new segments are: Instrumentation; Industrial Technology; Energy Systems and Controls; and Scientific and Industrial Imaging. Our Instrumentation segment offers equipment and consumables for materials analysis, fluid properties testing equipment, industrial leak testing equipment, and semiconductor production equipment. Products included within the Industrial Technology segment are industrial pumps, flow measurement and metering equipment, and industrial valves and controls. The Energy Systems and Controls segment's products include control systems, machinery vibration and other non-destructive inspection and measurement instrumentation. Our Scientific and Industrial Imaging offers high performance digital imaging products and software. Roper's management structure and internal reporting are also aligned consistent with these three segments.

There were no material transactions between Roper's business segments during any of the three years ended October 31, 2002. Sales between geographic areas are primarily of finished products and are

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

accounted for at prices intended to represent third-party prices. Operating profit by business segment and by geographic area is defined as sales less operating costs and expenses. These costs and expenses do not include unallocated corporate administrative expenses. Items below income from operations on Roper's statement of earnings are not allocated to business segments.

Identifiable assets are those assets used primarily in the operations of each business segment or geographic area. Corporate assets were principally comprised of cash, recoverable insurance claims, deferred compensation assets, unamortized deferred financing costs and property and equipment.

Selected financial information by business segment for the years ended October 31 follows (in thousands):

<b>2002</b>	<b>Instrumentation</b>	<b>Industrial Technology</b>	<b>Energy Systems and Controls</b>	<b>Scientific and Industrial Imaging</b>	<b>Corporate</b>	<b>Total</b>
Net sales	\$ 175,490	\$ 164,160	\$ 126,709	\$ 151,103	\$	\$ 617,462
Operating profit	32,801	37,447	33,029	25,795	(13,527)	115,545
Total assets:						
Operating assets	74,046	69,857	75,199	68,763		287,865
Intangible assets, net	219,082	77,709	85,758	113,716		496,265
Other	10,256	(346)	(1,599)	12,823	23,709	44,843
Total						828,973
Capital expenditures	2,508	2,281	1,063	1,673	213	7,738
Goodwill amortization						
Depreciation and other amortization	5,353	4,013	1,846	3,736	383	15,331

  

<b>2001</b>	<b>Instrumentation</b>	<b>Industrial Technology</b>	<b>Energy Systems and Controls</b>	<b>Scientific and Industrial Imaging</b>	<b>Corporate</b>	<b>Total</b>
Net sales	\$ 125,354	\$ 170,822	\$ 107,043	\$ 159,736	\$	\$ 562,955
Operating profit	21,580	37,886	25,513	25,575	(9,688)	100,866
Total assets:						
Operating assets	80,483	73,768	42,676	74,775		271,702
Intangible assets, net	196,211	80,354	38,004	131,072		445,641
Other	12,010	(515)	3,546	4,139	25,599	44,779
Total						762,122
Capital expenditures	1,695	2,192	1,652	1,782	111	7,432
Goodwill amortization	4,489	3,128	2,700	4,981		15,298
Depreciation and other amortization	2,154	3,883	1,471	3,534	372	11,411

**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

<b>2000</b>	<b>Instrumentation</b>	<b>Industrial Technology</b>	<b>Energy Systems and Controls</b>	<b>Scientific and Industrial Imaging</b>	<b>Corporate</b>	<b>Total</b>
Net sales	\$ 111,789	\$ 131,251	\$ 86,582	\$ 140,377	\$	\$ 469,999
Operating profit	24,525	29,748	19,321	21,441	(6,373)	88,662
Total assets:						
Operating assets	53,177	76,469	34,467	75,668		239,781
Intangible assets, net	80,202	74,567	40,172	120,127		315,068
Other	1,772	(259)	1,842	5,824	32,874	42,053
Total						596,902
Capital expenditures	1,398	6,656	3,094	3,726	61	14,935
Goodwill amortization	3,969	1,887	1,895	4,851		12,602
Depreciation and other amortization	1,579	3,136	1,176	2,630	221	8,742

Summarized data for Roper's U.S. and foreign operations (principally in Europe and Japan) for the years ended October 31 were as follows (in thousands):

	<b>United States</b>	<b>Non-U.S.</b>	<b>Corporate and Eliminations</b>	<b>Total</b>
<b>2002</b>				
Sales to unaffiliated customers	\$ 438,201	\$ 179,261	\$	\$ 617,462
Sales between geographic areas	35,629	17,534	(53,163)	
Net sales	\$ 473,830	\$ 196,795	\$ (53,163)	\$ 617,462
Long-lived assets	\$ 380,655	\$ 188,279	\$ 11,212	\$ 580,146
<b>2001</b>				
Sales to unaffiliated customers	\$ 427,638	\$ 135,317	\$	\$ 562,955
Sales between geographic areas	41,752	9,394	(51,146)	
Net sales	\$ 469,390	\$ 144,711	\$ (51,146)	\$ 562,955
Long-lived assets	\$ 360,705	\$ 154,230	\$ 7,335	\$ 522,270
<b>2000</b>				
Sales to unaffiliated customers	\$ 336,537	\$ 133,462	\$	\$ 469,999
Sales between geographic areas	29,435	6,958	(36,393)	
Net sales	\$ 365,972	\$ 140,420	\$ (36,393)	\$ 469,999
Long-lived assets	\$ 319,918	\$ 49,251	\$ 6,385	\$ 375,554



Export sales from the United States during the years ended October 31, 2002, 2001 and 2000 were \$223 million, \$238 million and \$195 million, respectively. In the year ended October 31, 2002 these exports were shipped primarily to Russia (27%), elsewhere in Europe (28%), Japan (10%), elsewhere in Asia excluding the Middle East (14%), Latin America (9%) and other (12%).

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

Sales to customers outside the United States accounted for a significant portion of Roper's revenues. Sales are attributed to geographic areas based upon the location where the product is ultimately shipped. Foreign countries that accounted for at least 5% of Roper's net sales in any of the past three years have been individually identified in the following table (in thousands). Other countries have been grouped by region.

	<u>Instrumentation</u>	<u>Industrial Technology</u>	<u>Energy Systems and Controls</u>	<u>Scientific and Industrial Imaging</u>	<u>Total</u>
<b>2002</b>					
Russia	\$ 2,572	\$ 34	\$ 59,996	\$ 18	\$ 62,620
Germany	14,971	10,597	2,574	11,327	39,469
Elsewhere in Europe	34,650	25,776	15,981	29,743	106,150
Japan	13,015	2,263	1,171	27,840	44,289
Elsewhere in Asia excluding the Middle East	17,248	5,844	7,786	17,653	48,231
Latin America	13,132	3,110	5,791	1,287	23,320
Rest of the world	12,312	11,523	9,168	4,357	37,360
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 107,900	\$ 59,147	\$ 102,167	\$ 92,225	\$ 361,439
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>2001</b>					
Russia	\$ 1,083	\$ 15	\$ 58,344	\$ 306	\$ 59,748
Germany	7,295	9,651	2,134	14,524	33,604
Elsewhere in Europe	16,661	27,894	12,196	34,185	90,936
Japan	5,535	1,699	892	29,127	37,253
Elsewhere in Asia excluding the Middle East	12,597	4,386	4,155	15,119	36,257
Latin America	9,763	2,791	3,120	656	16,330
Rest of the world	8,663	7,767	5,478	3,944	25,852
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 61,597	\$ 54,203	\$ 86,319	\$ 97,861	\$ 299,980
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>2000</b>					
Russia	\$ 992	\$ 40	\$ 39,928	\$	\$ 40,960
Germany	3,970	4,720	2,389	11,423	22,502
Elsewhere in Europe	15,005	20,949	12,376	27,260	75,590
Japan	6,021	2,390	790	27,171	36,372
Elsewhere in Asia excluding the Middle East	10,565	3,688	2,722	9,615	26,590
Latin America	7,865	1,226	2,435	1,220	12,746
Rest of the world	7,754	10,836	6,483	2,831	27,904
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 52,172	\$ 43,849	\$ 67,123	\$ 79,520	\$ 242,664
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**15. Restructuring Activities**

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During the three months ended April 30, 2001, Roper recorded \$509,000 of expenses, reported as part of selling, general and administrative expenses, related to activities to consolidate certain operating facilities. All significant restructuring activities were completed by October 31, 2001. In addition, \$2,050,000 of restructuring activities were incurred in fiscal 2001 at our Petrotech unit which has been restated to discontinued operations.

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000****16. Discontinued Operations**

In connection with the realignment of our businesses during the first quarter of fiscal 2003, the company formalized its decision to offer for sale the Petrotech operation. Accordingly, related operating results reported as discontinued operations for the years ended October 31 are outlined as follows (amounts in thousands):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net sales	\$9,568	\$23,551	\$33,814
Loss before income taxes	\$ (641)	\$ (2,426)	\$ (455)
Income tax benefit/(expense)	226	850	158
	<u>          </u>	<u>          </u>	<u>          </u>
Loss on discontinued operations	\$ (415)	\$ (1,576)	\$ (297)
	<u>          </u>	<u>          </u>	<u>          </u>

In addition, related assets and liabilities of Petrotech are recorded in the captions *Assets held for sale* and *Liabilities related to assets held for sale*, respectively, in the Condensed Consolidated Balance Sheets at October 31, 2002 and 2001. The assets held for sale at October 31 are outlined as follows:

	<u>2002</u>	<u>2001</u>
Current assets	\$3,373	\$ 5,435
Property, plant and equipment, net	250	344
Other assets		200
Goodwill	955	6,255
	<u>          </u>	<u>          </u>
Assets held for sale	\$4,578	\$12,234
	<u>          </u>	<u>          </u>

Liabilities related to assets held for sale are comprised of accounts payable and other accrued liabilities.

The Petrotech operation was previously reported in the Company's Industrial Controls segment prior to the segment realignment. The accompanying financial statements have been restated to conform to discontinued operations treatment for all historical periods presented. Petrotech was sold on August 31, 2003.

**17. Concentration of Risk**

Financial Instruments which potentially subject the Company to credit risk consist primarily of cash, cash equivalents and trade receivables.

The Company maintains cash and cash equivalents with various major financial institutions. Cash equivalents include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. Government. At times such amounts may exceed the F.D.I.C. limits. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash investments.

Trade receivables subject the company to the potential for credit risk with customers. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition.

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000****18. Subsequent Event**

On October 21, 2003, the Company entered into a stock purchase agreement pursuant to which it agreed to acquire all of the outstanding capital stock of Neptune Technology Group Holdings Inc. ( Neptune ) from the selling shareholders named in the agreement for a cash purchase price of approximately \$475 million, which is net of cash acquired, and includes debt assumed. Consummation of the acquisition is subject to customary closing conditions, including the receipt of regulatory approvals. The acquisition is expected to close in the first fiscal quarter of 2004.

In connection with the Neptune acquisition, the Company entered into a definitive commitment letter with Merrill Lynch Capital Corporation, JPMorgan Chase Bank, Wachovia Bank, National Association, and Wachovia Capital Investments, Inc. for a new \$625 million senior secured credit facility consisting of five-year \$450 million term loans and a three-year, \$175 million revolving credit facility. In addition, the Company plans to issue approximately \$150 to \$200 million of convertible subordinated notes and approximately \$150 to \$200 million of common stock to the public for cash in registered or private offerings, depending on prevailing market conditions. Merrill Lynch, JPMorgan, and Wachovia have also agreed pursuant to the commitment letter to provide, subject to certain conditions, up to \$300 million of acquisition bridge financing if necessary. Roper would use the new credit facility and the proceeds from the other financing transactions to fund the Neptune acquisition, retire its existing senior notes and repay all amounts outstanding under the Company's existing credit facility. Roper expects to incur debt extinguishment costs of approximately \$13 to \$17 million, net of taxes, in connection with the early retirement of its existing senior notes due in 2007 and 2010.

Consummation of the new credit facility, and, if necessary, the bridge financing, are conditioned upon the completion of the acquisition and are subject to the negotiation and execution of definitive loan documentation and customary closing conditions. Roper expects that consummation of the other financings for the acquisition will be conditioned upon the closing of the acquisition. The actual components of the financing plan and the terms of the financings are subject to certain conditions in the commitment letter and prevailing market conditions at the time of the closing and may, as a result, be different from described above.

**19. Quarterly Financial Data (unaudited)**

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	(in thousands, except per share data)			
<b>2002</b>				
Net sales	\$ 146,517	\$ 150,827	\$ 152,830	\$ 167,288
Gross profit	78,547	82,016	82,409	90,783
Income from operations	24,940	30,236	28,219	32,150
Earnings from continuing operations before change in accounting principle	14,697	17,313	15,200	19,228
Net earnings	(11,460)	17,456	15,033	19,024
Earnings from continuing operations before change in accounting principle per common share:				
Basic*	0.47	0.55	0.49	0.61
Diluted	0.46	0.54	0.48	0.61

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**Table of Contents****ROPER INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****October 31, 2002, 2001 and 2000**

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	(in thousands, except per share data)			
<b>2001</b>				
Net sales	\$ 129,756	\$ 139,097	\$ 134,528	\$ 159,574
Gross profit	68,770	74,501	73,042	88,473
Income from operations	22,271	26,327	23,599	28,669
Earnings from continuing operations before change in accounting principle	12,024	15,288	13,325	16,780
Net earnings	11,760	13,861	13,133	17,085
Earnings from continuing operations before change in accounting principle per common share:				
Basic*	0.38	0.45	0.43	0.55
Diluted	0.38	0.44	0.41	0.54

\* The sum of the four quarters does not agree with the total for the year due to rounding.

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2003	December 31, 2002
	(unaudited)	
	(amounts in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 24,159	\$ 17,046
Receivables, less allowance for doubtful accounts of \$187 and \$150	25,677	29,289
Inventories	14,631	11,623
Deferred taxes on income	3,320	2,185
Other current assets	6,053	5,024
	<hr/>	<hr/>
Total current assets	73,840	65,167
Property, plant and equipment, net	26,085	25,993
Other assets	9,399	12,650
Deferred taxes on income	1,043	
Intangible assets	180,644	190,867
Goodwill	77,231	74,013
	<hr/>	<hr/>
Total assets	\$ 368,242	\$ 368,690
	<hr/>	<hr/>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 10,360	\$ 10,402
Accrued liabilities	16,604	15,869
Current portion of long-term debt	10,000	
	<hr/>	<hr/>
Total current liabilities	36,964	26,271
Postretirement benefits	2,827	2,603
Deferred taxes on income	7,578	5,700
Long term debt	277,304	200,529
	<hr/>	<hr/>
	324,673	235,103
Minority interest in equity of consolidated affiliates	4,512	3,130
Preferred stock	29,017	
<b>Stockholders equity</b>		
Common stock	10	10
Additional paid-in capital	119,990	119,990
Note receivable from issuance of common stock	(382)	(482)
Treasury stock	(120,770)	
Accumulated other comprehensive income (loss)	1,763	(282)
Retained earnings	9,429	11,221
	<hr/>	<hr/>
Total stockholders equity	10,040	130,457
	<hr/>	<hr/>
Total liabilities and equity	\$ 368,242	\$ 368,690
	<hr/>	<hr/>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

	<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(amounts in thousands)</b>	
Revenues	\$ 147,473	\$ 138,681
Cost of goods sold	83,773	79,991
	<u>63,700</u>	<u>58,690</u>
Gross profit	63,700	58,690
Selling, general and administrative	21,844	17,803
Research and engineering	3,477	3,760
Amortization expense	12,151	10,989
	<u>26,228</u>	<u>26,138</u>
Operating income	26,228	26,138
Interest expense	14,867	9,784
Loss on extinguishment of debt	9,329	1,353
Other (income) expense	2,556	(440)
	<u>(524)</u>	<u>15,441</u>
Income (loss) before income taxes and minority interest in consolidated subsidiary	(524)	15,441
Income taxes	451	5,814
	<u>(975)</u>	<u>9,627</u>
Income (loss) before minority interest	(975)	9,627
Minority interest in consolidated subsidiary	(817)	(780)
	<u>\$ (1,792)</u>	<u>\$ 8,847</u>
Net income (loss)	\$ (1,792)	\$ 8,847

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE EARNINGS**

	Common Stock		Treasury Stock	Additional Paid-in Capital	Note Receivable from Issuance of Common Stock	Retained Earnings	Accumulated Other Comprehensive Earnings	Total
	Class A	Class D						
(unaudited) (amounts in thousands)								
Balance at December 31, 2002	\$ 9	\$ 1	\$	\$ 119,990	\$ (482)	\$ 11,221	\$ (282)	\$ 130,457
Net loss						(1,792)		(1,792)
Currency translation adjustments							2,045	2,045
Comprehensive income								253
Management loan collection					100			100
Shares repurchase			(120,770)					(120,770)
Balance at September 30, 2003	\$ 9	\$ 1	\$ (120,770)	\$ 119,990	\$ (382)	\$ 9,429	\$ 1,763	\$ 10,040

The accompanying notes are an integral part of these condensed consolidated financial statements.



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## NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2003	2002
	(unaudited) (amounts in thousands)	
Cash flows from operating activities		
Net income (loss)	\$ (1,792)	\$ 8,847
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	4,298	3,988
Amortization	12,151	10,989
Exchange rate translation adjustment	1,329	(294)
Loss on extinguishment of debt	9,329	1,353
Deferred taxes on earnings	(300)	4,577
Other, net	4,192	3,789
Minority interest in subsidiaries	1,382	2,305
Net cash provided by operating activities	30,589	35,554
Cash flows from investing activities		
Payments to acquire 33% of DAP		(5,878)
Capital expenditures	(4,254)	(4,450)
Other, net	(148)	(128)
Net cash used in investing activities	(4,402)	(10,456)
Cash flows from financing activities		
Debt borrowings	260,000	25,000
Debt payments	(180,252)	(41,635)
Sales of preferred stock	29,017	
Cost of debt financing	(7,885)	
Common stock shares repurchase	(120,770)	
Other, net	100	527
Net cash provided by (used in) financing activities	(19,790)	(16,108)
Effect of exchange rates on cash and cash equivalents	716	(119)
Net increase in cash	7,113	8,871
Cash, beginning of period	17,046	5,850
Cash, end of period	\$ 24,159	\$ 14,721

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2003**  
**(amounts in thousands, except per share data)**

**1. Basis of Presentation**

The accompanying condensed consolidated financial statements for the nine-month periods ended September 30, 2003 and 2002 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 present fairly the financial position, results of operations and cash flows of Neptune Technology Group Holdings, Inc. ( Neptune or the Company ) and its subsidiaries for all periods presented.

Neptune's 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, reported amounts of reserves and expenses 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 nine-month periods ended September 30, 2003 are not necessarily indicative of the results to be expected for the full fiscal year. These reports should be read in conjunction with the Company's consolidated financial statements and the notes thereto.

**2. Recapitalization**

In April of 2003, the company completed a recapitalization transaction of \$301,450. The transaction was funded through a new term loan B of \$190,000, the issuance of \$70,000 of new senior subordinated notes, the issuance of \$30,000 of preferred stock, and \$11,450 of cash. The proceeds from this transaction were used to repurchase 53.8933% of Class A and Class D stock of \$120,770, repay \$160,050 of term loan B borrowings, repay \$11,000 of term loan A borrowings, repurchase options from management and employees of \$762, and pay fees and expenses related to the transaction of \$8,868.

***Preferred Stock***

The Company issued 127,029.6432 shares of \$.01 par value participating convertible preferred stock with a face value of \$30,000. The Company received proceeds of \$30,000 net of approximately \$983 of issuance costs. The shares are convertible into conversion (common equivalent) shares at the holder's option at defined conversion rates. The shares are entitled to a minimum liquidation preference of the greater of (a) \$236.17 per share plus an annual accretion of 10%, or (b) the amount per share the holders would receive based on an as-converted common stock valuation. At September 30, 2003 the estimated minimum liquidation preference was approximately \$42,000. These shares may receive dividends upon the approval of the Board of Directors in the amount equal to any dividends declared per share of common stock. There are no mandatory dividends related to these shares. This issuance is redeemable upon the consummation of any sale of the company in which there is a change in ownership of greater than 20%, as well as recapitalization of the company. Shares are redeemable for a price equal to 101% of the minimum liquidation preference plus any declared and unpaid dividends at redemption date.

***New Senior Subordinated Notes***

In connection with the recapitalization the company sold \$70,000 of senior notes to DLJIP II Holdings, L.P., DLJ Investment Partners, L.P., DLJ Investment Partners II, L.P., 964536 Ontario Limited, York Street Mezzanine Partners, L.P., and Metropolitan Life Insurance Company. These notes have a maturity date of October 1, 2010 and bear an interest rate of 14%, payable on April 1 and October 1 until the maturity date. Payment of interest in excess of 12% may be paid by the issuance of

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Nine Months Ended September 30, 2003**

additional securities pursuant to the provisions of the indenture. The Company incurred \$2,692 of issuance costs related to these notes.

***New Term B Debt***

In connection with the recapitalization, the Company entered into a term loan agreement with UBS AG. The agreement calls for up to \$190,000 of borrowings with a maturity date of March 31, 2010. Borrowings under the term loan bear interest at LIBOR + 4.25%. At September 30, 2003 the new term B debt has an interest rate of 5.58%. The company also has a revolving credit facility of \$30,000, of which none was drawn on this facility at September 30, 2003, other than the support for letters of credit with a value of \$7,318. The Company incurred approximately \$5,193 of issuance costs related to this agreement.

**3. Critical Accounting Policies**

The remainder of the company's critical accounting policies can be reviewed in detail in Note 2 of the Company's financial statements for the year ended December 31, 2002.

***Stock Based Compensation***

The Company accounts for its stock-based compensation plans under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB No. 25 ).

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For SFAS No. 123 purposes, the fair value of each option grant and stock based award has been estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	September 30,	
	2003	2002
Expected life (years)	5	6
Risk-free interest rate	3%	4.25%
Dividend yield	None	None
Expected volatility	0%	0%

The estimated fair value of the options granted during 2003 and 2002 is \$31.30 and \$30.88, respectively. The Company issued 1,000 stock options during 2003 and 5,000 in 2002. Had compensation cost been determined consistent with SFAS No. 123, utilizing the assumptions detailed above, the

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Nine Months Ended September 30, 2003**

Company's pro forma net income (loss) and pro forma basic and diluted earnings (loss) per share would have decreased to the following amounts (in thousands, except share data):

	Nine Months Ended September 30,	
	2003	2002
Net income (loss):		
As reported	\$(1,792)	\$ 8,847
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	127	172
Pro forma for SFAS No. 123	<u>(1,919)</u>	<u>8,675</u>

**4. Inventories**

	September 30, 2003	December 31, 2002
Finished goods	\$ 4,042	\$ 1,476
Work-in process	4,412	4,683
Raw materials	6,177	5,464
	<u>\$ 14,631</u>	<u>\$ 11,623</u>

**5. Goodwill and Intangible Assets**

The following present an evolution of the goodwill and intangible assets balance since December 31, 2003:

<i>Goodwill</i>	
Balance at December 31, 2002	\$ 74,013
Earnout provision related to DB Microwave Acquisition	225
Currency Translation Adjustment	2,993
Balance at September 30, 2003	<u>\$ 77,231</u>
<i>Intangible Assets</i>	
Balance at December 31, 2002	\$ 190,867
Amortization Expense	(10,223)
Balance at September 30, 2003	<u>\$ 180,644</u>



**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Nine Months Ended September 30, 2003****6. Long-Term Debt**

	September 30, 2003	December 31, 2002
Revolving Credit Facility	\$	\$
New Term Loan B (see note 2)	185,000	
Term Loan A (see note 2)		11,000
Term Loan B (see note 2)		160,050
Senior Subordinated Debt (see note 2)	70,698	
Senior Subordinated Notes	28,457	26,466
Notes payable to seller of DB Microware	3,149	3,013
	<u>287,304</u>	<u>200,529</u>
Less Current Portion	10,000	
	<u>\$277,304</u>	<u>\$200,529</u>

The aggregate principal amounts due under the Company's debt agreements and a note payable to a seller are as follows:

2004	\$ 10,000
2005	10,000
2006	12,500
2007	18,149
2008	15,000
2009 and thereafter	221,655
	<u>\$287,304</u>

**7. Income Taxes**

Pretax income subject to US and foreign income taxes for each of the periods presented was as follows:

	Nine Months Ended September 30,	
	2003	2002
United States of America	\$(7,280)	\$11,114
Foreign	6,756	4,327
	<u>\$ (524)</u>	<u>\$15,441</u>

The effective tax rate for the nine months ended September 30, 2003 is not meaningful due to foreign tax expense and certain state taxes more than offsetting United States Federal tax benefits. The effective tax rate for the nine months ended September 30, 2002 reflects the effects of state taxes.

**8. Recently Issued Accounting Pronouncements**

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities or

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**NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Nine Months Ended September 30, 2003**

VIEs) and how to determine when and which business enterprises should consolidate the VIE (the primary beneficiary). This new model for consolidation applies to an entity which either (i) the equity investors (if any) do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance support from other parties. In addition, FIN 46 requires that both the primary and all other enterprises with a significant variable interest in a VIE make additional disclosures. FIN 46 has an effective date of December 31, 2003 for VIEs, which were in existence prior to February 1, 2003. The Company does not believe it is a primary beneficiary on a VIE or holds any significant interests or involvement in a VIE and does not expect there to be an impact on the Company's consolidated financial statements.

In May of 2003 the FASB issued SFAS 150 Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both that clarifies liability or equity classification for different financial instruments including mandatorily redeemable shares, put options and forward purchase contracts, and obligations that can be settled with shares. This standard will be effective for the first fiscal period beginning after December 15, 2003. The Company's current classification of redeemable preferred stock will not be affected by the adoption of SFAS 150 since its redemption is not at specified or determinable dates.

**9. Commitments and Contingencies**

***LADWP Settlement Agreement***

In 1998 the Environmental Law Foundation (ELF) filed suit against Schlumberger under California's False Claims Act (FCA). The ELF complaint alleged that Schlumberger sold water meters to the Los Angeles Department of Water and Power (LADWP) from 1990 to 1998 that were constructed from an alloy that allowed up to 8% lead content, whereas the LADWP contract specifications for water meters limited lead content to 6%. The meters sold by Schlumberger to LADWP were the national standard for water meters containing an average of 7% lead. The ELF and LADWP claims were settled in January 2001. The terms of the settlement are that the Company would provide LADWP 120,000 free non-lead water meters of specified sizes over a period of 24 months, at the rate of 5,000 meters per month. An accrual of \$5,800 was recorded in 1998. In May 2001, cash settlements of \$620 and \$750 were paid to LADWP and to the Environmental Law Foundation, respectively. The balance of \$4,430 would be used to provide the delivery of 120,000 meters to LADWP over a 24-month period. The shipments of 5,000 meters per month began in May 2001 and were completed by April 2003. At December 31, 2002, the liability for this settlement was \$638. Since all of the shipments were completed by April 2003, there is no remaining liability for this settlement at September 30, 2003. The company has fully complied with all of the terms of the settlement.

***Rueda Litigation***

Rueda is a consolidated lawsuit brought in Los Angeles Superior Court as a class action by the customers of LADWP with allegedly out-of-specification water meters installed by LADWP at their properties. When it was filed in August 2000, Rueda alleged causes of action for: (i) violations of the California Business and Professions Code, (ii) negligence per se, (iii) negligence, (iv) nuisance and (v) violations of the California Consumer Legal Remedies Act. In May 2002, the Court granted summary adjudication in favor of the Company with regard to all of Plaintiffs' claims except those under the California Business and Professions Code and held that the plaintiffs had offered no evidence of property damage giving rise to a triable issue of material fact. In January 2003, the Court granted class certification with regard to Plaintiffs' remaining claims under the Business and Professions Code.



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**NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Nine Months Ended September 30, 2003**

As a result of a mediation with a retired federal judge, the Company and Plaintiffs reached a settlement in principal of Rueda in June, 2003. A class action settlement agreement was executed in October 2003 and preliminarily approved by the Los Angeles Superior Court on October 14, 2003. The settlement requires that the Company pay a total of \$3,900 and respond to specified future bid requests from LADWP over the next 60 months in such a manner that LADWP, if it chooses to accept those bids, is provided \$5,000 in savings as compared to the best direct purchase price for the same products obtained by another public water system customer of the Company in the six months prior to LADWP bid. The savings to LADWP can be reflected in prices or credits from the Company, and must be confirmed by an independent expert.

The final approval hearing for the class action settlement is scheduled for January 23, 2004. Notice of the settlement was published on October 24, 2003. Any objections to the settlement or requests for exclusion from the settlement must be filed with the Los Angeles Superior Court by December 15, 2003.

At September 30, 2003 the Company has fully reserved the \$3,900 necessary for the Rueda settlement. Payment will be required after final approval by the Court of all settlement terms.

**10. Subsequent Events**

On October 21, 2003 Roper Industries, Inc. announced that it has signed a definitive agreement to acquire Neptune Technology Group Holdings Inc from Investcorp for total consideration of approximately \$475 million, net of cash acquired and including debt assumed. The acquisition includes Neptune Technology Group Inc, DAP Technologies and DB Microware and is expected to close in early 2004, subject to customary closing conditions including antitrust review and clearance.

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the board of directors and shareholders of

Neptune Technology Group Holdings Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows present fairly, in all material respects, the financial position of Neptune Technology Group Holdings Inc. and its subsidiaries (the Company) at December 31, 2002 and 2001, and the results of their operations and their cash flows for the year ended December 31, 2002, and for the period from November 1, 2001 to December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Atlanta, Georgia  
January 31, 2003

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the board of directors and shareholders of

Schlumberger Ltd.

In our opinion, the accompanying combined statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for the period from January 1, 2001 to October 31, 2001 and for the year ended December 31, 2000 present fairly, in all material respects, the results of operations and cash flows of Water Management (the Company) for the period from January 1, 2001 to October 31, 2001 and for the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Atlanta, Georgia  
January 31, 2003

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****CONSOLIDATED BALANCE SHEETS**

	Successor	
	December 31,	
	2002	2001
	(amounts in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 17,046	\$ 5,850
Receivables, less allowance for doubtful accounts of \$150 and \$519	29,289	24,891
Inventories (Note 4)	11,623	9,427
Deferred taxes on income (Note 12)	2,185	3,487
Other current assets (Note 5)	5,024	1,881
	<hr/>	<hr/>
Total current assets	65,167	45,536
Property, plant and equipment, net (Note 6)	25,993	24,569
Investment in unconsolidated affiliate		5,696
Other assets (Note 7)	12,650	15,168
Deferred taxes on income (Note 12)		401
Intangible assets (Note 8)	190,867	195,116
Goodwill (Note 8)	74,013	60,256
	<hr/>	<hr/>
Total assets	\$368,690	\$346,742
	<hr/>	<hr/>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 9,108	\$ 6,025
Accrued liabilities (Note 10)	15,869	8,523
Current portion of long-term debt (Note 11)		4,400
Income taxes payable	1,294	74
	<hr/>	<hr/>
Total current liabilities	26,271	19,022
Postretirement benefits (Note 13)	2,603	2,229
Other liabilities		733
Notes payable (Note 3)	3,013	
Deferred taxes on income (Note 12)	5,700	
Long term debt (Note 11)	171,050	155,600
Senior subordinated notes (Note 11)	26,466	50,833
	<hr/>	<hr/>
	235,103	228,417
	<hr/>	<hr/>
Minority interest in equity of consolidated affiliates (Note 3)	3,130	
Commitments and contingencies (Note 16)		
Stockholders' equity		
Preferred stock \$0.01 par value, authorized 500,000 shares, none outstanding as of December 31, 2002 and 2001		
Class A common stock, \$0.01 par value, 997,500 shares authorized, issued and outstanding as of December 31, 2002 and 2001	9	9
	1	1

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Class D common stock, \$0.01 par value, 2,500 shares  
authorized, issued and outstanding as of December 31, 2002  
and 2001

Common stock, \$0.01 par value, authorized 1,500,000  
shares, none outstanding as of December 31, 2002 and 2001

Additional paid-in-capital	119,990	119,990
Note Receivable from issuance of common stock	(482)	(1,034)
Accumulated other comprehensive loss	(282)	(35)
Accumulated equity (deficit)	11,221	(606)
	<u>          </u>	<u>          </u>
Total stockholders equity	130,457	118,325
	<u>          </u>	<u>          </u>
Total liabilities and equity	\$ 368,690	\$ 346,742
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these financial statements.

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Successor		Predecessor	
	Year Ended December 31, 2002	Period from November 1, 2001 to December 31, 2001	Period from January 1, 2001 to October 31, 2001	Year Ended December 31, 2000
	(amounts in thousands)			
Revenues	\$ 189,544	\$ 27,498	\$ 130,951	\$ 147,607
Cost of goods sold (Note 4)	109,211	20,024	78,196	82,235
Gross profit	80,333	7,474	52,755	65,372
Selling, general and administrative	25,791	3,184	21,102	18,862
Research and engineering	4,857	649	3,817	4,094
Amortization expense	15,145	2,368	2,546	2,897
Operating income	34,540	1,273	25,290	39,519
Interest expense	12,880	2,394	1,154	760
Loss on extinguishment of debt	1,353			
Other (income) expense, net	(928)	(134)	342	461
Income (loss) before income taxes and minority interest in consolidated subsidiary	21,235	(987)	23,794	38,298
Income taxes (benefit) (Note 12)	7,833	(381)	10,597	16,806
Income (loss) before minority interest	13,402	(606)	13,197	21,492
Minority interest in consolidated subsidiary (Note 3)	(1,575)			
Net income (loss)	\$ 11,827	\$ (606)	\$ 13,197	\$ 21,492

The accompanying notes are an integral part of these financial statements.

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND  
COMPREHENSIVE INCOME**

	<u>Equity</u>
	(amounts in thousands)
<b>Predecessor:</b>	
Balance at December 31, 1999	\$ 61,251
Net income	21,492
Foreign currency translation adjustment	(767)
Net distributions to Schlumberger	(27,040)
	<hr/>
Balance at December 31, 2000	54,936
Net income	13,197
Foreign currency translation adjustment	(322)
Transfer of investment from Schlumberger	2,273
Net distributions to Schlumberger	(13,757)
	<hr/>
Balance at October 31, 2001	\$ 56,327
	<hr/>

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Note Receivable from Issuance of Common Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders Equity</u>
	<u>Class A</u>	<u>Class D</u>					
<b>Successor:</b>							
Balance at November 1, 2001 (reflects issuance of common stock in connection with the Acquisition)	\$ 9	\$ 1	\$ 118,956	\$	\$	\$	\$ 118,966
Net loss						(606)	(606)
Foreign currency translation adjustment					(35)		(35)
							<hr/>
Comprehensive loss							(641)
Notes receivable from issuance of common stock			1,034	(1,034)			<hr/>
Balance at December 31, 2001	9	1	119,990	(1,034)	(35)	(606)	118,325
Net income						11,827	11,827
Foreign currency translation adjustment					(247)		(247)
							<hr/>
Comprehensive income							11,580
Repayment of notes receivable from issuance of common stock				552			552
							<hr/>
Balance at December 31, 2002	\$ 9	\$ 1	\$ 119,990	\$ (482)	\$ (282)	\$ 11,221	\$ 130,457
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.





**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Successor		Predecessor	
	Year Ended December 31, 2002	Period from November 1, 2001 to December 31, 2001	Period from January 1, 2001 to October 31, 2001	Year Ended December 31, 2000
(amounts in thousands)				
Cash flows from operating activities				
Net income (loss)	\$ 11,827	\$ (606)	\$ 13,197	\$ 21,492
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation	5,294	774	4,172	5,185
Minority interest in consolidated subsidiary	1,582			
Amortization of goodwill			2,546	2,897
Amortization of intangibles	11,852	1,874		
Amortization of debt issuance cost	2,293	327		
Amortization of management fees	1,000	166		
Loss on extinguishment of debt	1,353			
Deferred taxes on earnings	4,763	(381)	(173)	1,259
Non-cash paid-in kind interest	3,318	833		
Changes in operating assets and liabilities:				
Accounts receivable	(1,390)	(4,024)	(1,385)	1,242
Inventory	743	2,848	2,040	(2,513)
Accounts payable and accrued liabilities	6,674	6,551	194	887
Payables to related parties		(758)	(908)	1,842
Income tax payable	924	74	1,190	521
Other assets and liabilities, net	(2,478)	1,459	(1,647)	43
Net cash provided by operating activities	47,755	9,137	19,226	32,855
Cash flows from investing activities				
Payments to acquire company, net of cash acquired	(7,399)	(314,161)		
Payments to acquire 33.3% of DAP, net of cash acquired	(5,171)	(5,880)		
Capital expenditures	(5,852)	(555)	(3,325)	(4,964)
Other	(166)	(1,031)	2,296	(684)
Net cash used in investing activities	(18,588)	(321,627)	(1,029)	(5,648)
Cash flows from financing activities				
Proceeds from credit facilities	25,000	161,000		
Proceeds from Investcorp capital contributions		120,000		
Proceeds from senior subordinated notes		50,000		
Proceeds from short term management loan	552			
Payment on credit facilities	(13,950)			
Payment on senior subordinated notes	(27,685)			
Payment of early redemption penalty	(1,353)			
Payments on revolver		(1,000)		
Payments of financing fees	(782)	(11,660)		
Distributions to Schlumberger			(17,136)	(26,873)

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Net cash provided by (used in) financing activities	(18,218)	318,340	(17,136)	(26,873)
Effect of exchange rates on cash and cash equivalents	247			
Net increase in cash	11,196	5,850	1,061	334
Cash, beginning of period	5,850		345	11
Cash, end of period	\$ 17,046	\$ 5,850	\$ 1,406	\$ 345
Supplemental information:				
Cash paid for income taxes	\$ 354	\$	\$ 9,799	\$ 17,226
Cash paid for interest	\$ 9,646	\$ 960	\$	\$
Note payable issued on acquisition	\$ 3,000	\$	\$	\$

The accompanying notes are an integral part of these financial statements.

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2002 and 2001****(dollar amounts in thousands)****1. Organization***Acquisition*

The financial statements include the accounts of Neptune Technology Group Holdings Inc. ( Neptune or the Company ). The Company is a holding company whose primary asset consists of a 100% investment in Neptune Technology Group Inc. ( Neptune TG ). On November 1, 2001, the Company acquired, through an Asset Purchase Agreement between Schlumberger Resource Management Services, Inc. ( Schlumberger ), a division of Schlumberger Limited, and Neptune Acquisition I Corp., a newly formed entity created by affiliates of Investcorp S.A. ( Investcorp ), representing the water meter and meter reading systems business of Schlumberger. Immediately following the completion of this acquisition, Neptune Acquisition I Corp. merged into Neptune TG. The Company was capitalized with \$120,000 of common equity contributed by affiliates of Investcorp and Neptune management and \$50,000 in principal amount of subordinated indebtedness (the Senior Subordinated Notes ) purchased by Cromwell Finance Limited ( Cromwell Finance ), an affiliate of Investcorp.

The aggregate purchase price for the Acquisition was \$331,701 inclusive of \$25,821 of direct costs related to the Acquisition. \$15,000 of the direct costs represented amounts paid to a related party (see note 15). The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at November 1, 2001:

Current assets	\$ 36,365
Property, plant and equipment	24,787
Investment in DAP	5,880
Other assets	19,091
Intangible assets	196,990
Goodwill	60,256
	<hr/>
Total assets acquired	343,369
Current liabilities	(8,756)
Other liabilities	(2,912)
	<hr/>
Net assets acquired	\$ 331,701
	<hr/>

Of the \$196,990 of acquired intangible assets, \$33,670 was assigned to registered trademarks that are considered to be intangible assets with indefinite useful lives and are not subject to amortization. The remaining \$163,320 of acquired intangible assets has a weighted average useful life of approximately 21 years. The intangible assets that make up that amount include customer relationships of \$128,000 (24 year weighted-average useful life), technology of \$24,390 (15 year weighted-average useful life), software of \$2,200 (3 year weighted-average useful life) and contractual arrangements of \$8,730 (5 year weighted-average useful life). Contractual agreements represent contracts for the company to supply product to its utility customers as well as an agreement to purchase production components from a former related party.

The \$60,256 of goodwill and \$196,990 of intangible assets are deductible for income tax purposes.

The Company financed the Acquisition by the issuance of the \$120,000 in common equity and \$50,000 in principal amount of Senior Subordinated Notes, which were used to capitalize Neptune TG in exchange for Neptune's common stock. The remaining financing was provided by \$161,000 of borrowings by Neptune TG under the \$190,000 senior secured Credit Facility (see Note 11).

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**NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2002 and 2001**

***Capitalization***

The Company is authorized to issue up to 3,000,000 shares of stock among the following classes.

*Preferred Stock.* The Company's Board of Directors (Board) may issue up to 500,000 shares of \$0.01 par value preferred stock, with such voting powers, preferences and other rights or restrictions as determined by the Board. As of December 31, 2002 the Company had not issued any preferred shares.

*Class A Common Stock.* In connection with the Acquisition, the Company authorized and issued 997,500 shares of par value, \$0.01 Class A Common Stock.

*Class D Common Stock.* In connection with the Acquisition, the Company authorized and issued 2,500 shares of par value, \$0.01 Class D Common Stock.

*Common Stock.* The Company is authorized to issue up to 1,500,000 shares of \$0.01 par value Common Stock. As of December 31, 2002, the Company had not issued any shares of Common Stock.

Voting rights are limited to Class D Common and Common shareholders, except for any rights to vote that may be afforded Class A Common shareholders under applicable law. All of the shares of stock are subject to certain limitations on transfer. Class A Common shareholders have certain Tag-Along Rights to participate in any sale of Class D Common shares outside permitted transfers as defined.

***Nature of Business***

The Company provides engineering, manufacturing, marketing, sale, maintenance and repair and installation of water meters and metering systems. The Company's primary markets are the United States, Canada, and Mexico.

**Presentation and Predecessor Information**

Neptune Technology Group Holdings Inc. is referred to as the Successor for the period November 1, 2001 to December 31, 2001 and thereafter, and the Company for all periods presented.

For the period from January 1, 2001 to October 31, 2001 and the year 2000 (fiscal 2000) (the predecessor periods), the accompanying financial statements include the manufacturing, sales and distribution operations in the United States of America and the sales and distribution centers in Canada and Mexico of Water Management, the water metering and management businesses of Schlumberger Limited and its subsidiaries (Schlumberger). Although the Company was not a separate company, the accompanying financial statements are presented as if the Company had existed as an entity separate from its parent, Schlumberger. The financial statements include the historical assets, liabilities, revenues, and expenses that were directly related to the Company's businesses of Schlumberger during the predecessor periods presented and have been prepared using Schlumberger's historical bases in the assets and liabilities and the historical results of operations of the Company.

Certain amounts of Schlumberger's corporate assets, liabilities and expenses, including centralized research and engineering, legal, accounting, employee benefits, real estate, insurance services, information technology services, treasury and other corporate and infrastructure costs, although not directly attributable to the Company's operations, have been allocated to the Company on a basis that the Company and Schlumberger considered to be a reasonable reflection of the utilization of services provided or the benefit received by the Company (see Note 15). However, the financial information included herein may not reflect the financial position, operating results, changes in equity and cash flows of the Company had the Company been a separate, stand-alone entity during the predecessor periods presented. All significant intercompany accounts and transactions within the Company have been eliminated.



**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

Because the Company was not operated as a separate, stand-alone entity during the predecessor periods presented, and in many cases the Company's results were included in the consolidated financial statements of Schlumberger on a divisional basis, there are no separate meaningful historical equity accounts for the Company. Changes in stockholders' equity represent Schlumberger's contribution of its net investment in the Company after giving effect to the net earnings of the Company plus net cash transfers to and from Schlumberger and other transfers from Schlumberger.

**2. Summary of Significant Accounting Policies*****Basis of Presentation***

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America.

***Principles of Consolidation***

The accompanying financial statements present the consolidated financial position of the Company and its subsidiaries as of December 31, 2002 and 2001, respectively and their consolidated results of operations and cash flows for the successor and predecessor periods presented. All significant intercompany balances and transactions have been eliminated.

***Revenue Recognition***

Revenue from product sales is recognized when title and risk of loss pass to the customer, which is generally upon delivery.

Revenue from software sales is primarily licensing software, providing software support and maintenance and providing professional services to our customers. Software revenue is recorded in accordance with the guidance provided by Statement of Position (SOP) 97-2,

Software Revenue Recognition, with Respect to Certain Transactions, and SOP 81-1, Accounting for Performance of Construction-Type and Certain Product-Type Contracts. Revenues attributed to the sale of software are as follows:

Year ended 2000	\$ 400
10 month period ended October 31, 2001	184
2 month period ended December 31, 2001	78
Year ended 2002	857

Shipping and Handling costs are included in cost of goods sold.

***Reclassifications***

Certain reclassifications of prior year information have been made to conform to current year reporting.

***Accounts Receivable and Concentration of Credit Risk***

The Company grants credit to its customers and distributors, who are primarily in the water and utility business, in the normal course of business.

Financial instruments which potentially subject the Company to concentration of risk consist primarily of accounts receivable. The Company performs ongoing credit evaluations of its customers

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

financial condition and maintains an allowance for uncollectible accounts receivable based on expected collectibility. The Company's customers are not concentrated in a specific geographic region.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

***Inventory***

Inventories are stated at lower of average cost, or market. Included in inventory are \$33 of absorbed administrative costs at December 31, 2002 and 2001. For both the 12 months ended December 31, 2002 and 2001 \$367 of administrative costs related to inventory were included in cost of goods sold.

***Property, Plant and Equipment and Depreciation***

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Expenditures for replacements and improvements are capitalized. Maintenance and repairs are charged to operating expenses as incurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Estimated useful lives are as follows:

Buildings and improvements	15 years
Machinery and equipment	5-10 years
Furniture and fixtures	5 years
Computer equipment	3 years

***Impairment of Long-Lived Assets***

The Company reviews the appropriateness of the carrying value of its long-lived assets, including property, plant and equipment and intangible assets with finite lives, whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. For assets held for use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference in the fair value and carrying value of the assets. For assets held for sale, a loss is recognized for the difference between the estimated fair value, net of costs to sell, and the carrying value of the assets.

***Goodwill***

Goodwill for the predecessor periods presented was amortized on a straight-line basis over 25 years. Goodwill related to the Acquisition and the 2002 business combinations (Note 3) is not amortized in accordance with Statements of Financial Accounting Standards No. 142

Goodwill and Other Intangible Assets. Amortization of goodwill for the predecessor periods January 1, 2001 to October 31, 2001 and the year ended December 31, 2000 was \$2,546 and \$2,897, respectively.



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**NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2002 and 2001**

***Fair Value of Financial Instruments***

The fair value of cash, accounts receivable and trade accounts payable and accrued expenses are not materially different than their carrying amounts as reported at December 31, 2002 and 2001 due to the short-term nature of these accounts. The December 31, 2002 debt balances under the credit facility approximate the fair value on the basis of the variable interest related to such debt. The fair value of the senior subordinated debt is estimated using a discounted cash flow analysis based upon the interest rates of United States Treasury notes.

***Taxes on Income***

Taxes on income are computed in accordance with the tax rules and regulations of the taxing authorities where the income is earned. Taxable income may differ from pre-tax income for financial accounting purposes. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates during the period such differences are expected to reverse.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company's operating results for the predecessor periods have been included in Schlumberger's consolidated US and state income tax returns and in tax returns of Schlumberger's foreign subsidiaries. The provision for income taxes reflected in the Company's financial statements for the predecessor periods has been determined on a separate return basis.

***Research and Development***

Research and development costs include salaries and benefits, contract services, supplies, and other costs related to various products under development. Research and development costs are expensed in the period incurred and totaled \$4.9 million, \$4.5 million, and \$4.1 million for the years ended December 31, 2002, 2001, and 2000, respectively.

***Deferred Financing Costs***

Deferred financing costs are amortized over a period of 5 to 7 years, the terms of the relating debt instruments, utilizing the effective interest method. Amortization of deferred financing costs for the year ended December 31, 2002 and for the period November 1, 2001 to December 31, 2002 was \$2,293 and \$327, respectively.

***Stock Compensation***

As permitted by SFAS No. 123 Accounting for Stock-Based Compensation, the Company continues to apply intrinsic value accounting for its stock options plans. The Company has adopted the disclosure-only provisions of SFAS No. 123 and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123. The Company's pro forma net income (loss) based upon the fair value at the grant dates for awards under the plans are disclosed below.

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

The Company applies intrinsic value accounting for its stock option plans. If the Company had elected to recognize compensation expense based upon the fair value at the grant dates for awards under the plan, the Company's net income (loss) would have been reduced as follows:

	<u>2002</u>	<u>2001</u>
Net income (loss)	\$ 11,827	\$ (606)
Deduct		
Total additional stock-based employee compensation cost, net of tax, that would have been included in net income (loss) under fair value method	197	32
Pro forma net income (loss)	<u>\$ 11,630</u>	<u>\$ (638)</u>

The weighted average fair value of options granted using the Black-Scholes pricing model was \$30.88 and \$31.80 for the period ended December 31, 2002 and 2001, respectively.

The fair value was determined using a Black-Scholes option pricing model with the following weighted average assumptions:

	<u>2002</u>	<u>2001</u>
Dividend yield	None	None
Volatility	0%	0%
Risk-free interest rate	4.25%	4.4%
Expected life	6 years	7 years

***Translation of Non-US Currencies***

For foreign subsidiaries, the local currency is the functional currency. Assets and liabilities are translated into U.S. dollars at the rate of exchange existing at year-end. Income statement amounts are translated at the weighted average exchange rate for the period with resulting translation adjustments being charged or credited to other comprehensive income. Transaction gains and losses are included in the statement of income.

***Deferred Revenue***

Deferred revenues arise primarily as a result of performance obligations related to sales of hand-held unit maintenance contracts as well as meter reading and route optimization software. These sales do not meet the criteria for recognition under SOP 97-2 and SOP 81-1 as of the balance sheet date.

***Other Comprehensive Income***

Comprehensive income equals net income plus other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that are reflected in stockholders' equity but excluded from net income. The principal component comprising other comprehensive income is foreign currency translation adjustment. Other comprehensive income and the effects on earnings are detailed in the



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**NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2002 and 2001**

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

***Concentrations of Risk***

None of the Company's customers represented more than 10% of sales during the periods presented. No one vendor accounted for more than 10% of total costs of products sold for the periods presented. The Company has readily available alternate vendors for the majority of its raw materials.

***New Accounting Pronouncements***

In August 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and (or) normal use of the asset.

The Company is required and plans to adopt the provisions of SFAS No. 143 on January 1, 2003. Upon initial application, entities are required to recognize a liability for any existing asset retirement obligations adjusted for cumulative accretion to the date of adoption of this Statement. An asset retirement cost would be capitalized as an increase to the carrying amount of the associated long-lived asset, and would be subject to depreciation. The cumulative effect, if any, of initially applying this Statement will be recognized as a change in accounting principle. The Company does not believe there are any obligations meeting the criteria of the standard.

In December of 2002, the Company elected early adoption of SFAS No. 145 *Rescission of FASB Statement No. 4, 44 and 64, Amendment to FASB Statement No. 13, and Technical Corrections of April 2002*. Under the new accounting standard, gains and losses incurred upon the extinguishment of debt may no longer qualify for extraordinary treatment and are now included as a component of income or loss before taxes. The Company has adopted SFAS No. 145 in the financial statements and accordingly has included in income before income taxes a loss of \$1,353 for the year ended December 31, 2002 related to the extinguishment of debt.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Exit or Disposal Activities*. SFAS No. 146 addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 supercedes Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* and requires liabilities associated with exit and disposal activities to be expensed as incurred. SFAS No. 146 will be effective for exit or disposal activities of the Company that are initiated after December 31, 2002. As the company does not currently have any restructuring programs in process, management does not expect the adoption of this statement to have a material impact on the Company's financial position or results of operations.

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**NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2002 and 2001**

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, *Disclosure of Indirect Guarantees of Indebtedness of Others*, which is being superceded. As of December 31, 2002 the company has adopted the disclosure provisions of this interpretation and there was no impact from this adoption.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities or VIEs) and how to determine when and which business enterprises should consolidate the VIE (the primary beneficiary). This new model for consolidation applies to an entity which either (i) the equity investors (if any) do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance support from other parties. In addition, FIN 46 requires that both the primary and all other enterprises with a significant variable interest in a VIE make additional disclosures. FIN 46 has an effective date of December 31, 2003. The Company does not believe it is a primary beneficiary on a VIE or holds any significant interests or involvement in a VIE and does not expect there to be an impact on the Company's consolidated financial statements.

**3. Business Combinations**

***DB Microware, Inc.***

On December 6, 2002, the Company acquired 100% of the outstanding stock of DB Microware, Inc ( DB ) for \$7,000 in cash, \$3,000 in a note payable due December 31, 2007, and \$504 in direct costs related to the acquisition. Additionally, in conjunction with the acquisition, there is a contingent payment of up to \$14,000 over a period of five years based on attaining certain earnings objectives. As these contingencies are realized, the excess purchase price over the fair value of the net tangible assets will be increased accordingly. Results of operations for DB subsequent to December 6, 2002 are included in the consolidated statement of operations for the year ended December 31, 2002.

The acquisition of DB Microware, Inc. further enhances Neptune's systems capabilities and strengthens Neptune's position in the growing Automatic Meter Reading market. DB Microware, Inc. provides a suite of field management tools including meter reading, service work orders, and route optimization software to many of the largest utility companies in the United States.

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at December 6, 2002:

Cash	\$ 105
Other current assets	1,386
Property, plant and equipment	52
Other assets	760
Intangible assets	6,518
Goodwill	6,197
	<hr/>
Total assets acquired	15,018
Current liabilities	(1,231)
Other liabilities	(3,283)
	<hr/>
Net assets acquired	\$ 10,504
	<hr/>

Of the \$6,518 of acquired intangible assets, \$4,518 was assigned to its computer software products, which is being amortized over its estimated useful life of 4 years. The remaining \$2,000 of acquired intangible assets was assigned to customer contracts and is being amortized over a useful life of 2 years.

Goodwill acquired in this transaction is not tax deductible.

***DAP Technologies, Inc.***

In conjunction with the Acquisition on November 1, 2001, Neptune Acquisition I Corp. entered into a Stock Purchase Agreement with Schlumberger Canada Limited to purchase a 33.3% interest in DAP Technologies, Ltd. ( DAP ) for cash consideration of \$5,880. On January 31, 2002, the Company exercised its option to purchase an additional 33.3% of DAP Technologies, Inc. stock for cash consideration of \$6,067, including \$168 in other direct costs, bringing Neptune's total investment to \$11,819. The additional equity purchase resulted in Neptune owning 66.6% of DAP and accordingly, DAP is reported as a consolidated subsidiary effective January 31, 2002. The excess of the total purchase price over the Company's proportionate interest in the net assets of DAP was assigned to goodwill.

The acquisition of the controlling interest in DAP Technologies, Inc. further strengthens Neptune's position in the meter reading systems market. DAP is a leading designer and manufacturer of fully rugged mobile computers for use in applications such as utility meter reading as well as a variety of industrial field related uses.

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

The following table summarizes the estimated fair values of the proportionate interest of assets acquired and liabilities assumed at January 31, 2002:

Cash	\$ 896
Other current assets	5,060
Property, Plant and Equipment	872
Intangible Assets	1,077
Goodwill	7,285
	<hr/>
Total assets acquired	15,190
Current liabilities	(1,520)
Other liabilities (including minority interest)	(1,851)
	<hr/>
Net assets acquired	\$ 11,819
	<hr/>

Of the \$1,077 of acquired intangible assets, \$543 was assigned to its technology products, which is being amortized over its estimated useful life of 5 years. The remaining, \$534 was assigned to customer contracts, and is being amortized over an estimated useful life of 1.5 years.

Goodwill acquired in this transaction is 75% deductible for Canadian tax purposes.

The following pro forma information presents certain financial statement data as if the acquisitions occurred as of the beginning of fiscal year 2002 and 2001:

	<u>2002</u>	<u>2001</u>
<b>Revenues</b>	\$ 189,544	\$ 158,449
Acquisitions		
DAP Technologies	1,320	11,961
DB Microware	864	1,288
	<hr/>	<hr/>
<b>Total</b>	\$ 191,728	\$ 171,698
	<hr/>	<hr/>
Net Income	11,827	12,591
Acquisitions		
DAP Technologies	69	1,840
DB Microware	(695)	(118)
	<hr/>	<hr/>
<b>Total</b>	\$ 11,201	\$ 14,313
	<hr/>	<hr/>

**4. Inventories**

Inventories at December 31, 2002 and 2001 consist of the following:

	December 31,	
	2002	2001
Finished goods	\$ 1,476	\$ 1,295
Work-in process	4,683	4,147
Raw materials	5,464	3,985
	<u>\$ 11,623</u>	<u>\$ 9,427</u>

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

In connection with the Acquisition on November 1, 2001, in accordance with the purchase method of accounting, inventory balances were increased to reflect estimated fair value by \$3,287. As of December 31, 2001, \$3,215 had been expensed through cost of goods sold, as a non-cash charge, based upon inventory turnover. The remainder was expensed through cost of goods sold during 2002.

Additionally, during 2002, the Company increased inventory balances by \$361 to reflect estimated fair value related to the purchase of the additional equity interest in DAP Technologies, Inc. The total amount was expensed through cost of goods sold, as a non-cash charge, during fiscal year 2002.

**5. Other Current Assets**

Other current assets at December 31, 2002 and 2001 consist of the following:

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
Prepaid management fees	\$ 1,000	\$ 1,000
Prepaid insurance	814	657
Prepaid taxes	1,607	57
Other	1,603	167
	<u>5,024</u>	<u>1,881</u>

Prepaid management fees represent fees paid to Investcorp International, Inc. an affiliate of Investcorp. Through its officers, employees, and affiliates, Investcorp International, Inc. provides management advisory services, strategic planning services, and consulting services. These services consist of advice concerning management, finance, marketing, strategic planning, and such other services as shall be requested from time to time by the Board of Directors of Neptune. Five years of management fees at \$1.0 million per year for a total of \$5.0 million were paid by Neptune to Investcorp at the closing on November 1, 2001 (see note 7).

**6. Property, Plant and Equipment**

Property, plant and equipment at December 31, 2002 and 2001 consist of the following:

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
Land	\$ 642	\$ 605
Building and improvements	6,287	5,899
Machinery and equipment	25,097	18,839
	<u>32,026</u>	<u>25,343</u>
Total cost	32,026	25,343
Less accumulated depreciation	(6,033)	(774)
	<u>25,993</u>	<u>24,569</u>
Property, plant and equipment, net	\$ 25,993	\$ 24,569

Depreciation expense aggregated \$5,294 for the year ended December 31, 2002, \$774 for the period November 1, 2001 to December 31, 2001, \$4,172 for the period from January 1, 2001 to October 31, 2001 and \$5,185 for fiscal 2000.

Property, plant and equipment was increased by \$8,117 to reflect estimated fair value at November 1, 2001, the date of the Acquisition.

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Other assets at December 31, 2002 and 2001 consist of the following:

	December 31,	
	2002	2001
Prepaid management fees	\$ 2,834	\$ 3,834
Deferred financing costs	9,816	11,334
	<u>12,650</u>	<u>15,168</u>

In connection with the Acquisition, the Company prepaid a management fee of \$5,000 to Investcorp International, Inc., (of which \$4,000 was classified as a long term Other Asset). This amount is being amortized on a straight-line basis over a five-year period, the term of the related agreement. The total amount amortized for the year ended December 31, 2002 and the period November 1, 2001 to December 31, 2001 was \$1,000 and \$166, respectively.

**8. Goodwill and Intangible Assets**

Intangible assets, net of accumulated amortization, at December 31, 2002 and 2001 consist of the following:

	2002	2001
Goodwill	\$ 74,013	\$ 60,256
Intangible assets not subject to amortization:		
Tradenames	\$ 33,670	\$ 33,670
Intangible assets subject to amortization:		
Customer relationships	121,690	127,098
Technology	27,129	24,086
Contractual agreements	7,032	8,184
Software	1,346	2,078
Total intangibles assets, net	<u>\$ 190,867</u>	<u>\$ 195,116</u>

The results for the year ended December 31, 2002 and the two-month period ended December 31, 2001 include the effect of adopting SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets in conjunction with the Acquisition. SFAS No. 141 provides that all business combinations initiated after June 30, 2001 shall be accounted for using the purchase method. In addition, it provides that the cost of an acquired entity must be allocated to the assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values at the acquisition date. Under SFAS No. 142, goodwill and intangible assets that are deemed to have indefinite lives are not amortized, but are subject to impairment testing. Impairment testing is required to be performed at adoption and at least annually thereafter. On an ongoing basis (absent any impairment indicators), the Company plans to perform impairment testing as of December 31 of each year. Effective November 1, 2001, the Company ceased all amortization of goodwill. Upon adoption of SFAS No. 142, the

Company also tested goodwill for impairment by comparing the fair value of each reporting unit with its carrying value. The fair value was determined using an earnings multiple approach. The Company's transitional impairment test did not result in impairment of goodwill. Additionally, no impairment charge was recorded as a result of the annual impairment test. Amounts assigned to indefinite-life intangible

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assets, primarily trade names, have a carrying value of \$33,670. There was no impairment charge recorded related to the trade names.

Accumulated amortization equaled \$13,724 and \$1,874 at December 31, 2002 and 2001, respectively.

The following table represents a rollforward of goodwill balances:

Neptune Acquisition Goodwill at November 1, 2001	\$ 60,256
	<u>          </u>
Goodwill at December 31, 2001	60,256
	<u>          </u>
2002 Acquisitions:	
DB Microware	6,702
DAP Technologies, Inc.	7,285
Currency Translation Adjustment	(230)
	<u>          </u>
Ending balance	\$ 74,013
	<u>          </u>

The following table reflects consolidated results adjusted as though the adoption of SFAS No. 142 occurred as of January 1, 2000:

	Successor	Predecessor	
	Period from November 1, 2002 to December 31, 2001	Period from January 1, 2001 to October 31, 2001	Year ended December 31, 2000
Net income:			
As reported:	\$(606)	\$ 13,197	\$ 21,492
Goodwill amortization, net of tax		1,412	1,626
	<u>          </u>	<u>          </u>	<u>          </u>
As adjusted	\$(606)	\$ 14,609	\$ 23,118
	<u>          </u>	<u>          </u>	<u>          </u>

Amortization expense for the year ended December 31, 2002 was \$11,852. Estimated annual amortization expense for each of the five succeeding fiscal years is as follows:

Fiscal Year Ending	
2003	\$ 13,685
2004	12,772
2005	8,744
2006	8,650
2007	7,515

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\$51,366  
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Accounts payable at December 31, 2002 and 2001 consist of the following:

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
Supplier payable	\$7,111	\$5,423
Interest payable	1,997	602
	<u>          </u>	<u>          </u>
Total accounts payable	\$9,108	\$6,025
	<u>          </u>	<u>          </u>

**10. Accrued Liabilities**

Accrued liabilities at December 31, 2002 and 2001 consist of the following:

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
Payroll, vacation and employee benefits	\$ 4,195	\$2,663
Pension and defined contribution	1,993	337
Warranty	1,285	1,062
Legal settlement	638	2,164
Taxes payable	1,256	
Deferred revenue	1,924	
Other	4,578	2,297
	<u>          </u>	<u>          </u>
	\$15,869	\$8,523
	<u>          </u>	<u>          </u>

The following represents an evaluation of the Company's warranty liability as shown above:

	<b>2002</b>	<b>2001</b>
Beginning balance January 1	\$1,062	\$1,094
Accruals	103	60
Payments made		(90)
Adjustments	120	(2)
	<u>          </u>	<u>          </u>
Ending Balance December 31	\$1,285	\$1,062
	<u>          </u>	<u>          </u>

Adjustments of \$120 in 2002 relate to the acquisition of DAP Technologies.

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001****11. Debt*****Credit Facility***

	<b>December 31, 2002</b>	<b>December 31, 2001</b>
Current facility		
Revolving credit facility	\$	\$
Term Loan A	11,000	20,000
Term Loan B	160,050	140,000
	<u>171,050</u>	<u>160,000</u>
Less current portion		4,400
Total long-term portion	<u>\$ 171,050</u>	<u>\$ 155,600</u>

In connection with the Acquisition, on November 1, 2001, Neptune TG entered into a senior secured credit facility (the *Credit Facility*). The *Credit Facility* provides for a \$30,000 Revolving Credit Facility, with a maturity date of November 1, 2006 and a \$160,000 term loan facility (the *term loans*), which is divided into two tranches, Term Loan A and Term Loan B, with maturity dates of November 1, 2006 and 2008, respectively. The term loans were fully drawn as a part of the Acquisition with principal balances of \$20,000 and \$140,000 for Term Loan A and Term Loan B, respectively. During 2002, the Company made payments of \$9,000 on Term Loan A and \$4,950 on Term Loan B, a portion of which related to amounts due in 2003 and 2004. Additionally, the Company amended its *Credit Facility* to borrow an additional \$25,000 under Term Loan B. The additional borrowings were used to paydown a portion of the senior subordinated notes.

Borrowings under the Revolving Credit Facility bear interest at LIBOR plus 3.00% (plus applicable margins determined by Neptune TG's leverage ratio). In addition, a commitment fee of 0.50% is charged on all unused amounts. At December 31, 2002, the interest rate for the Revolving Credit Facility was 4.92%.

Term Loans A and B bear interest at LIBOR plus 3.00% (plus applicable margins determined by Neptune TG's leverage ratio) and LIBOR plus 3.50%, respectively. At December 31, 2002, Term Loans A and B had interest rates of 4.92% and 5.42%, respectively. The weighted average borrowing rate for the term loans for the years ended December 31, 2002 as well as the Predecessor period from November 1, 2001 through December 31, 2001 are as follows:

	<b>2002</b>	<b>Predecessor Period</b>
Term A	5.11%	5.96%
Term B	5.51%	5.67%

The Company has provided full, unconditional, joint and several guarantees of the *Credit Facility*. In addition, the *Credit Facility* is collateralized by a first-priority lien on substantially all of the domestic tangible and intangible assets of the Company and a 65% pledge of the stock of the foreign subsidiaries of the Company.

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The Credit Facility contains certain covenants and restrictions on actions by Neptune TG, including limitations on capital expenditures and payment of dividends. In addition, the Credit Facility requires that Neptune TG comply quarterly, beginning March 31, 2002, with specified financial ratios, including a maximum leverage ratio and a minimum interest coverage ratio.

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

As of December 31, 2002 and 2001 the Company had \$1,275 and \$6,205, respectively, of letters of credit outstanding. There were no drawings on these letters. These letters of credit represent requirements related to the company's insurance and workers compensation arrangements and for one raw material supplier.

The Company recognized interest expense of \$9,562 and \$1,561 for the year ended December 31, 2002 and the period November 1, 2001 to December 31, 2001 relating to the Credit Facility.

**Senior Subordinated Notes**

On November 1, 2001, the Company sold senior notes to Cromwell Finance pursuant to a Senior Note Indenture. The senior note agreements, in the aggregate, provide for \$50,000 in borrowings, with a maturity date of November 1, 2011. The senior notes bear an interest rate of 10% and are paid-in-kind each May 15 and November 15 commencing May 15, 2002, until the maturity date. Interest shall be payable at a rate of 12% per annum on any overdue principal or interest. The estimated fair value of the senior subordinated notes at December 31, 2002 was \$27,400.

In conjunction with the amendment to the Credit Facility, the Company repaid \$27,685, including \$1,388 of paid-in-kind interest, of the senior subordinated notes prior to maturity resulting in a charge of \$1,353 due to the payment of an early redemption premium. The senior note agreements include certain restrictions, which, among other things, limit indebtedness and payment of dividends. The Company recognized interest expense of \$3,318 and \$833 for the year ended December 31, 2002 and for the period November 1, 2001 to December 31, 2001 relating to the senior notes.

The aggregate principal amounts due under the credit facility, the senior subordinated notes, and the note payable to the seller as described in Note 3, are as follows:

2003	\$
2004	
2005	7,150
2006	7,150
2007	4,663
2008 and thereafter	181,566
	<hr/>
Total	\$200,529
	<hr/>

**12. Taxes on Income**

Pretax income subject to US and foreign income taxes for each of the periods presented was as follows:

	Successor	Predecessor	
Year Ended December 31, 2002	Period from November 1, 2001 to December 31, 2001	Period from January 1, 2001 to October 31, 2001	Year Ended December 31, 2000
<hr/>	<hr/>	<hr/>	<hr/>

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United States of America	\$ 13,616	\$ (1,252)	\$ 23,716	\$ 38,425
Foreign	7,619	265	78	(127)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Pretax (loss) income	\$ 21,235	\$ (987)	\$ 23,794	\$ 38,298
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

The following table shows the components of current and deferred income tax expense by taxing jurisdiction, both domestic and foreign:

	Successor		Predecessor	
	Year Ended December 31, 2002	Period from November 1, 2001 to December 31, 2001	Period from January 1, 2001 to October 31, 2001	Year Ended December 31, 2000
Current United States federal	\$2,519	\$	\$ 8,725	\$ 13,530
United States state	549		1,864	2,907
Foreign	2		181	186
	<u>3,070</u>	<u></u>	<u>10,770</u>	<u>16,623</u>
Deferred United States federal	1,983	(398)	(38)	112
United States state	308	(59)	(8)	28
Foreign	2,472	76	(127)	43
	<u>4,763</u>	<u>(381)</u>	<u>(173)</u>	<u>183</u>
Total income tax expense (benefit)	<u>\$7,833</u>	<u>\$(381)</u>	<u>\$10,597</u>	<u>\$16,806</u>

The principal components of net deferred tax assets and liabilities are as follows:

	December 31,	
	2002	2001
Current		
Inventory	\$ 94	\$ 234
Accruals not yet deductible for tax returns	1,286	1,989
Pension		67
Loss carryforwards		890
Other	805	307
	<u>\$ 2,185</u>	<u>\$3,487</u>
Noncurrent		
Intangible assets	\$(3,503)	\$ (456)
Property, plant and equipment	(304)	4
Post-retirement benefits	971	853
Accruals not yet deductible for tax returns	(2,097)	
Other	(767)	
	<u>\$(5,700)</u>	<u>\$ 401</u>



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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

Reconciliation between the US federal income tax rate and the effective tax rate is:

	Successor		Predecessor	
	Year Ended December 31, 2002	Period from November 1, 2001 to December 31, 2001	Period from January 1, 2001 to October 31, 2001	Year Ended December 31, 2000
Statutory tax rate	34.00%	(35.00)%	35.00%	35.00%
State income taxes, net of federal benefit	3.30	(3.25)	4.55	4.55
Non-deductible goodwill			4.01	3.03
Other	(.39)	(.35)	.98	1.30
	<u>36.91%</u>	<u>(38.60)%</u>	<u>44.54%</u>	<u>43.88%</u>

**13. Pension and Other Benefit Plans*****Defined Benefit Pension Plans***

For the predecessor periods presented, Schlumberger and its US subsidiary sponsored several defined benefit pension plans that covered substantially all employees. The benefits were based on years of service and compensation on a career-average pay basis. These plans are fully funded with a trustee with respect to past and current service. Charges to expense are based upon costs computed by independent actuaries. The funding policy is to annually contribute amounts that are deductible for federal income tax purposes. These contributions are intended to provide for benefits earned to date and those expected to be earned in the future. For the predecessor periods presented the pension assets related to the Company's pension expense and accrued liabilities have been allocated by Schlumberger based on the proportion of the Company's pension liability compared to total plan liability for the Schlumberger Plans. Allocated pension expense for the 2001 and 2000 predecessor periods was \$0 and \$1,524 respectively. No allocation was necessary for the 2001 predecessor period due to the funded status of the plan.

In connection with the Acquisition, on November 1, 2001, Schlumberger retained the related pension assets and liabilities. Benefits vested by Neptune employees under the Schlumberger defined benefit plan will be administered by Schlumberger.

***Defined Contribution Plan***

For the predecessor periods presented, Schlumberger sponsored a 401(k) defined contribution plan covering substantially all employees. Each year, participants could contribute up to 15% of pretax compensation subject to certain limitations. Schlumberger matched a minimum 50% of the employee pretax contributions up to 6% plus discretionary contributions. Contributions for Company employees totaled approximately \$1,113 for the year ended December 31, 2000.

In connection with the Acquisition, Schlumberger approved a payment of \$572 into the Schlumberger 401(k) plan representing Schlumberger's match of 75% of the first 6% on Neptune employee contributions during the period January 1, 2001 to October 31, 2001. Once the funding was completed, Neptune employees, upon authorization, rolled the vested balances into the Neptune 401(k) plan.

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The Neptune 401(k) plan was established on November 1, 2001 and covers substantially all employees. Each year participants can contribute up to 15% of pretax compensation and the Company can match a minimum 50% of these contributions up to the first 6%. The Company has the option to make

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

higher discretionary matches in profitable years. Matching Company contributions vest ratably over five years. The Company funded a matching contribution of \$107 and \$829 for the years 2001 and 2002, respectively.

In addition, under the terms of the Neptune 401(k) plan, a special contribution and a transition contribution were granted to certain qualifying Neptune employees. The purpose of the special contribution and transition contribution was to compensate Neptune employees for the discontinuance of the Schlumberger defined benefit plan as Neptune did not adopt such a plan on November 1, 2001. The special contribution grants additional Company matching of employees' pretax compensation based on a formula of age plus years of service for the term of employment. The transition contribution also grants additional Company matching for a maximum period of five years to those employees whose age plus years of service equaled 55 or higher as of November 1, 2001. For 2001, the Company funded a special contribution and transition contribution of \$145 and \$46, respectively. For 2002, the Company funded a special contribution and transition contribution of \$845 and \$252, respectively.

***Postretirement Benefits Other than Pensions***

In connection with the Acquisition, on November 1, 2001, Neptune established a new retiree healthcare plan for all employees not eligible for benefits under Schlumberger's postretirement plan. Under the terms of the Asset Purchase Agreement, all Neptune employees who satisfied the retirement eligibility requirements as of the November 1, 2001 Acquisition date will be covered by Schlumberger's postretirement plan.

The principal actuarial assumptions used to measure costs for the year ended December 31, 2002 and the period November 1, 2001 to December 31, 2001 was a discount rate of 6.5% and 7.0%, respectively, and an overall medical cost trend rate of 9.5% graded to 5.0% over the next six years and thereafter.

Net periodic postretirement benefit cost for the year ended December 31, 2002 and the period November 1, 2001 to December 31, 2001 included the following components:

	<b>December 31, 2002</b>	<b>Period November 1, 2001 to December 31, 2001</b>
Service cost — benefits earned during the period	\$ 148	\$ 25
Interest cost on accumulated postretirement benefit obligation	156	25
	<u>          </u>	<u>          </u>
Postretirement benefit cost	\$ 304	\$ 50
	<u>          </u>	<u>          </u>

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

The change in accumulated postretirement benefit obligation for the year ended December 31, 2002 and the period from November 1, 2001 to December 31, 2001 was as follows:

	December 31, 2002	Period November 1, 2001 to December 31, 2001
Accumulated postretirement benefit obligation	\$2,229	\$2,179
Service cost	148	25
Interest cost	156	25
Net actuarial loss	228	
Acquisition	70	
	<u>          </u>	<u>          </u>
Accumulated postretirement benefit obligation	\$2,831	\$2,229
	<u>          </u>	<u>          </u>

The components of the accumulated postretirement benefit obligation on December 31, 2002 and 2001 were as follows:

	2002	2001
Retirees	\$	\$
Fully eligible	787	
Actives (not eligible)	2,044	2,229
	<u>          </u>	<u>          </u>
	\$2,831	\$2,229
	<u>          </u>	<u>          </u>

There are no plan assets associated with the postretirement benefit obligation at December 31, 2002 and 2001. The following is the reconciliation of the funded status:

	2002	2001
Accumulated postretirement benefit obligation in excess of plan assets	\$2,831	\$2,229
Unrecognized net actuarial loss	(228)	
	<u>          </u>	<u>          </u>
Accrued benefit liability	\$2,603	\$2,229
	<u>          </u>	<u>          </u>

**14. Stock Compensation Plans**

In connection with the Acquisition, the Company adopted the Management Stock Incentive Plan (the Plan). The Plan is administered by a committee of the Board of Directors (the Compensation Committee), which has broad authority to administer and interpret the Plan. Options to purchase common stock granted to an employee pursuant to an individual Stock Option Agreement may include a provision terminating the

option upon termination of employment under certain circumstances or accelerating the receipt of benefits upon the occurrence of specified events, including, at the discretion of the Compensation Committee, any change of control of Neptune, as defined by the Plan.

Options granted under the Plan vest over a period of seven years and expire 30 days thereafter. Vesting may be accelerated in the event of an initial public offering or the sale of the Company. Vesting may be deferred based on failing to meet or exceed performance targets, which are based on the Company's earnings before interest, taxes, depreciation and amortization, as defined in each grantee's individual Stock Option Agreement.

**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001**

Upon the termination of an optionee's employment, the Company has certain rights to repurchase the common stock purchased by the optionee as a result of the exercise of option(s).

Class A Common Stock option transactions during fiscal year 2002 and the period November 1, 2001 to December 31, 2001 are summarized as follows (share amounts in thousands):

	Shares Reserved for Issuance Under the Plan	Shares Granted	Shares Available for Grant	Price	Weighted- Average Price
Balance at November 1, 2001				\$	\$
Options granted	75	64	11	120	120
Options exercised					
Options forfeited					
	—	—	—	—	—
Balance at December 31, 2001	75	64	11	120	120
Options granted		5	(5)	120	120
Options exercised					
Options forfeited		(1)	1	120	120
	—	—	—	—	—
Balance at December 31, 2002	75	68	7	\$120	\$120

In accordance with the stock purchase plan, the purchase price of the shares of common stock, subject to options under the Plan, must be no less than the fair market value of the common stock at the date of grant.

For options outstanding and exercisable at December 31, 2002, the exercise price ranges and average remaining lives were:

Exercise Price	Options Outstanding			Options Exercisable	
	Shares Outstanding at December 31, 2002	Weighted Average Remaining Contractual Life	Average Exercise Price	Shares Outstanding at December 31, 2002	Average Exercise Price
\$120	68	7	\$120	9	\$120

***Predecessor Stock Compensation Plans***

During the predecessor periods presented, key employees of the Company were granted stock options under the Schlumberger stock option plans. On November 1, 2001, in connection with the Acquisition, employees who maintained vested stock options under such plans had 180 days to either exercise or forfeit the options. In addition, Schlumberger maintained a Discounted Stock Purchase Plan. Under the terms of this plan, employees could choose each year to have up to 10% of their annual earnings withheld to purchase Schlumberger common stock. On June 30, 2001, employees purchased Schlumberger stock for the amount of their withholding balance on that date. Withholdings for the

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purchase of Schlumberger stock for the period July 1, 2001 to November 1, 2001, the date of the Acquisition, were refunded to Neptune employees.

Schlumberger applied APB 25 and related Interpretations in accounting for its stock options plans. No compensation cost was recognized for its stock option plans and its employee stock purchase plan.

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**Table of Contents****NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2002 and 2001****15. Related Party Transactions**

At December 31, 2001, the Company had recorded notes receivable (as a reduction of additional paid-in-capital), of \$1,034 representing loans to certain executives of the Company for purchases of common stock in conjunction with the Acquisition on November 1, 2001. Of this amount, \$552 was repaid by the executives in the first quarter of 2002. At December 31, 2002, the amount remaining of \$482 is due to the Company within 180 days following (i) an initial public offering by the Company or (ii) the consummation of certain transactions resulting in a 50% or greater change in economic beneficial ownership of the Company. The notes bear an annual interest rate of 3.93%.

In 2001 The Company paid \$15,000 of direct acquisition costs to Investcorp International Inc, an affiliate of Investcorp. \$5,000 represented prepaid management fees, as described in note 7, \$5,700 was paid for loan financing advisory agreement fees, and \$4,300 was paid for asset acquisition advisory agreement fees.

In connection with the Acquisition, on November 1, 2001, the Company paid \$11,660 of financing costs related to the Credit Facility. Of this amount, \$5,700 was paid to Investcorp as described above.

For the predecessor periods presented, the financial statements include allocations of certain corporate expenses, including centralized research and engineering, legal, accounting, employee benefits, real estate, insurance services, information technology services, treasury and other corporate and infrastructure costs. These allocations have been determined on a basis that Schlumberger and the Company considered to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. The allocation methods include relative sales, headcount, square footage, transaction processing costs, adjusted operating expenses and others. These allocations resulted in charges of \$8,316 and \$7,133 being recorded in the Company's results of operations for the period January 1, 2001 to October 31, 2001 and the year 2000, respectively.

Prior to November 1, 2001, the Company participated in Schlumberger's centralized treasury and cash processes. Cash was managed either through zero balance accounts or an interest-bearing offsetting mechanism.

In certain countries, for the predecessor periods presented, there were formal tax sharing arrangements between the Company and the respective entity of Schlumberger. In certain countries, for the predecessor periods presented, the Company was a division of the Schlumberger legal entity that is the ultimate taxpayer in that jurisdiction.

**16. Commitments and Contingencies*****Leases and Lease Commitments***

The Company leases office space and automobiles under lease agreements with varying expirations dates ranging from one to five years. Total rental expense was \$504 for fiscal year 2002, \$53 for the period November 1, 2001 to December 31, 2001, \$421 for the period January 1, 2001 to October 31, 2001, and \$1,299 for fiscal year 2000. Future minimum rental commitments under non-cancelable leases are as follows:

2003	\$282
2004	149
2005	45
2006	6
	<hr/>
	\$482
	<hr/>



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**NEPTUNE TECHNOLOGY GROUP HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2002 and 2001**

***Water Meter Litigation***

The Company has been involved in litigation with environmental groups in California and with the Los Angeles District of Water and Power (LADWP) over the constitution and specifications of its water meters. The following is a summary of this activity:

***Proposition 65 Settlement Agreement***

In May 1997, two citizens groups sued six water meter manufacturers under California's Proposition 65 and the California Unfair Competition Law. The complaint alleged that manufacturers of standard brass water meters, including Schlumberger, violated Proposition 65 by selling their standard brass meters in California because the meters discharged or released lead into a source of drinking water at levels prohibited by Proposition 65. The case was settled by Schlumberger in May of 2000.

Under the settlement the Company is required to stop selling traditional brass water meters in California by May of 2004. A reserve of \$1,200 was recorded in 1997. Payments on this settlement, totaling \$1,205, were completed by May 2000.

***LADWP Settlement Agreement***

In 1998, as a direct result of the above litigation, the Environmental Law Foundation (ELF) filed suit against Schlumberger under California's False Claims Act (FCA). The ELF complaint alleged that Schlumberger sold water meters to the Los Angeles Department of Water and Power (LADWP) from 1990 to 1998 that were constructed from an alloy that allowed up to 8% lead content, whereas the LADWP contract specification for water meters limited lead content to 6%. The meters sold by Schlumberger to LADWP were the national standard for water meters containing an average of 7% lead.

The ELF and LADWP claims were settled in January 2001. The terms of the settlement are that the Company will provide LADWP 120,000 free non-lead water meters of specified sizes over a period of 24 months, at the rate of 5,000 meters per month. A reserve of \$5,800 was recorded in 1998. In May 2001, cash settlements of \$620 and \$750 were paid to LADWP and to the Environmental Law Foundation, respectively. The balance of \$4,430 is being used to provide the delivery of 120,000 meters to LADWP over a 24 month period. The shipments of 5,000 meters per month began in May 2001 with 25,000 meters remaining to be delivered as of December 31, 2002. At December 31, 2002 and 2001, the remaining liability recorded for this settlement is \$638 and \$2,897, respectively.

***Rueda Litigation***

Rueda is an amalgamated lawsuit based on alleged property damage suffered by customers of LADWP whose property is serviced by the water meters sold to LADWP from 1990 through 1998. The lawsuit relates only to the meters, which are the subject of the above LADWP litigation and settlement. The allegations included in the lawsuit are (i) violation of the California Business and Professional Code; (ii) negligence per se; and (iii) negligence and public nuisance. The Plaintiffs allege that their property value have been diminished because the Company sold LADWP meters that did not meet specifications due to their lead content. To prove their claims, the plaintiffs will have to demonstrate that lead leaches from the meters supplied by the Company in greater quantities than it would have leached from the meters specified by LADWP and that any such increased leaching has impacted their property values. Based on motions for judgment filed by the Company, the Court granted the motion for summary adjudication on the negligence per se and negligence and public nuisance causes of action. On January 24, 2003, the Court granted class-action status for the remaining cause of action relating to the violation of the California Business and Professional Code. The Company is currently evaluating the potential impact of the class certification order and cannot determine the amount, if any, of potential exposure at this time.



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**PROSPECTUS**

**\$450,000,000**

**Roper Industries, Inc.**

**Debt Securities**

**Common Stock**

**Stock Purchase Contracts**

**Equity Units**

We may offer from time to time up to \$450,000,000 of debt securities, common stock, stock purchase contracts and equity units. We will provide the specific terms of these securities as applicable in supplements to this prospectus. You should read this prospectus and the accompanying prospectus supplement carefully before you invest.

Our common stock is listed on the New York Stock Exchange under the symbol ROP. Any common stock sold pursuant to this prospectus and an accompanying prospectus supplement will be listed on the New York Stock Exchange.

**Investing in our securities involves risks. See Risk Factors in the accompanying prospectus supplement.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is December 1, 2003.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the SEC using a shelf registration process. Under this shelf process, we may sell any combination of the following securities:

debt securities;

common stock;

stock purchase contracts; and

equity units,

in one or more offerings up to a total dollar amount of \$450,000,000. This prospectus provides you with a general description of the securities we may sell. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement also may add, update or change information contained or incorporated by reference in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the caption Where You Can Find More Information. We may only use this prospectus to sell securities if it is accompanied by a prospectus supplement.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other documents with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov> or on our web site at <http://www.roperind.com>. You may read and copy any document we file with the SEC at its public reference facility located at 450 Fifth Street, N.W., Washington, D.C. 20549, or you can obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference facility. Our SEC filings are also available at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005. For further information on obtaining copies of our SEC filings at the New York Stock Exchange, you should call (212) 656-5060.

The SEC allows us to incorporate by reference into this prospectus information that we file with it, which means that we can disclose important information to you by referring you to our SEC filings. Information incorporated by reference is an important part of this prospectus, and information that we file with the SEC after the date of this prospectus will automatically update and supersede information in this prospectus and in our other filings with the SEC. We incorporate by reference the documents (or portions

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thereof) listed below, which we have already filed with the SEC, as well as any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until we sell all of the securities offered by this prospectus:

Annual Report on Form 10-K/A for the year ended October 31, 2002 filed on November 3, 2003;

Quarterly Reports on Form 10-Q for the quarters ended January 31, 2003, April 30, 2003, July 31, 2003 and September 30, 2003;

Transition Report on Form 10-QT for the transition period from November 1, 2002 to December 31, 2002, filed on September 26, 2003;

Current Reports on Form 8-K filed November 1, 2002, December 12, 2002 and November 14, 2003;

The information set forth under Item 8 of our Current Report on Form 8-K filed September 3, 2003 and under Item 5 of our Current Report on Form 8-K filed October 27, 2003; and

Registration Statement on Form 8-A registering our common stock under the Securities Exchange Act of 1934, filed on January 28, 1992.

You may request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing or calling us at the following address:

Roper Industries, Inc.

2160 Satellite Boulevard, Suite 200  
Duluth, Georgia 30097  
Tel: (770) 495-5100  
Attention: Investor Relations

We have also filed a registration statement with the SEC relating to the securities described in this prospectus. This prospectus is part of the registration statement. You may obtain from the SEC a copy of the registration statement and exhibits that we filed with the SEC when we registered the securities. The registration statement may contain additional information that may be important to you.

**You should rely only on the information contained or incorporated by reference in this prospectus or the applicable prospectus supplement. We have not authorized anyone else to provide you with additional or different information. We are only offering these securities in states where the offer is permitted. You should not assume that the information in this prospectus or the applicable prospectus supplement is accurate as of any date other than the dates on the front of those documents.**

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**ROPER INDUSTRIES, INC.**

*Unless the context otherwise requires, references in this prospectus to we, our, us, and Roper refer to Roper Industries, Inc. and its consolidated subsidiaries.*

**General**

We design, manufacture and distribute specialty industrial controls, fluid handling and analytical instrumentation products worldwide, serving selected segments of a broad range of markets. The principal markets include oil and gas, scientific and industrial research, medical, semiconductor, refrigeration, automotive, water/wastewater, power generation and general industrial.

We pursue consistent and sustainable growth in sales and earnings by emphasizing continuous improvement in the operating performance of our existing businesses, and by acquiring other carefully selected businesses, that offer to our customers high value-added, engineered industrial products and solutions and that are capable of achieving and maintaining high margins. This strategy continually emphasizes (i) increasing market share and market expansion, (ii) new product development, (iii) improving productivity and reducing costs and (iv) acquisition of similar new businesses.

Our company competes in many narrowly defined niche markets. Our position in these markets is typically as the market leader or as a competitive alternate to the market leader. In those markets where we are a regional leader we seek to sustain growth through geographic expansion of our marketing efforts and the development of new products for associated markets.

We were incorporated in Delaware in 1981. Our principal executive offices are located at 2160 Satellite Boulevard, Suite 200, Duluth, Georgia 30097 and our telephone number is (770) 495-5100.

**Our Business Segments**

During the quarter ended January 31, 2003 we realigned our operations into four market-based segments. The four new segments are: Instrumentation, Industrial Technology, Energy Systems and Controls, and Scientific and Industrial Imaging.

*Instrumentation.* Our Instrumentation segment provides sophisticated solutions that prepare material samples for analysis, test fluid products for physical and elemental properties, detect leaks in consumer and industrial products, and dispense fluids with extremely high precision. This segment serves primarily test, inspection and measurement applications in oil & gas, research and industrial markets. Primary brand centers include Acton Research, Antek, IDI, Logitech, PAC, Struers and Uson.

*Industrial Technology.* This segment provides products and solutions for improving our customers' productivity. Industrial Technology products include centrifugal, gear, processing cavity and diaphragm pumping solutions; refrigeration controls and systems; rotating machinery and process controls; and precision metering, measurement and valves for specialty applications. Primary brand centers include Abel Pump, AMOT Controls, Cornell Pump, Flow Technology, Fluid Metering, Hansen and Roper Pump, which provide solutions for diverse industrial, energy, commercial refrigeration and water/wastewater markets.

*Energy Systems and Controls.* The Energy Systems and Controls segment provides control, monitoring and inspection systems service and solutions to improve quality, safety and efficiency for customer equipment and processes, primarily in energy markets with strong long-term growth potential. Relevant technologies include advanced vibration-monitoring components, turbo-machinery control systems and non-destructive testing solutions. Primary brand centers include Compressor Controls, Metrix and Zetec.

*Scientific and Industrial Imaging.* Our Scientific and Industrial Imaging segment provides solutions that enable research in life and physical sciences. Our products include digital imaging cameras, spectrographic systems, electron microscope accessories, high-speed digital video equipment and image

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processing software. Our imaging brands include, among others, Gatan, Media Cybernetics, QImaging, Redlake and Roper Scientific.

**Recent Developments**

On October 21, 2003, we entered into a stock purchase agreement pursuant to which we have agreed to acquire all of the outstanding capital stock of Neptune Technology Group Holdings Inc., or Neptune, from the selling shareholders named in the agreement for a cash purchase price of approximately \$475 million, which is net of cash acquired, and includes debt assumed. Consummation of the acquisition is subject to customary closing conditions, including the receipt of regulatory approvals. The acquisition is expected to close in the first fiscal quarter of 2004.

Neptune provides a complete solution of Automatic Meter Reading, or AMR, data collection and metering to the North American water industry. The vast majority of the North American water market remains available for AMR installation and upgrades. Neptune also has a significant and steadily growing residential water meter business. Complementing the meter and AMR business lines, DAP Technologies is a leading fully rugged handheld data collection/computer manufacturer serving utility and non-utility markets. DB Microwave provides automation software for meter reading and service order management.

In connection with the Neptune acquisition, we have entered into a definitive commitment letter with Merrill Lynch Capital Corporation, JPMorgan Chase Bank, Wachovia Bank, National Association and Wachovia Capital Investments, Inc. for a new \$625 million senior secured credit facility consisting of five-year \$450 million term loans and a three-year \$175 million revolving credit facility. In addition, we plan to issue approximately \$150 to \$200 million of convertible subordinated notes and approximately \$150 to \$200 million of common stock to the public for cash in registered or private offerings, depending on prevailing market conditions. Merrill Lynch, JPMorgan and Wachovia have also agreed pursuant to the commitment letter to provide, subject to certain conditions, up to \$300 million of acquisition bridge financing if necessary.

Consummation of the new credit facility, and, if necessary, the bridge financing, are conditioned upon the completion of the acquisition and are subject to the negotiation and execution of definitive loan documentation and customary closing conditions. We expect that the other financings for the acquisition will be consummated in conjunction with the closing of the acquisition. The actual components of the financing plan and the terms of the financings are subject to certain conditions in the commitment letter and prevailing market conditions at the time of the closing and may, as a result, be different from that described above.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes and incorporates by reference forward-looking statements within the meaning of the federal securities laws. All statements that are not historical facts are forward-looking statements. The words estimate, project, intend, expect, believe, anticipate and similar expressions identify forward-looking statements. These forward-looking statements include statements regarding our expected financial position, business, financing plans, business strategy, business prospects, revenues, working capital, liquidity, capital needs, interest costs and income, potential acquisitions and the benefits of acquisitions, including with respect to the Neptune acquisition.

Forward-looking statements are estimates and projections reflecting our best judgment and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the cost, timing and success of product upgrades and new product introductions, raw materials costs, expected pricing levels, the timing and cost of expected capital expenditures, expected outcomes of pending litigation, competitive conditions, general economic conditions and expected synergies relating to acquisitions, joint ventures and alliances. These assumptions could prove inaccurate. Although we believe that the estimates and projections reflected in the forward-looking statements are reasonable, our expectations may prove to be incorrect. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include:

- completion of the Neptune acquisition;
- if completed, our ability to integrate Neptune into our operations;
- our ability to finance the Neptune acquisition on satisfactory terms;
- reductions in our business with Gazprom;
- unfavorable changes in foreign exchange rates;
- difficulties associated with exports;
- risks and costs associated with our international sales and operations;
- difficulty making acquisitions and successfully integrating acquired businesses;
- increased product liability and insurance costs;
- increased directors and officers liability and other insurance costs;
- product liability and insurance risks;
- increased warranty exposure;
- future competition;
- changes in the supply of, or price for, parts and components;
- environmental compliance costs and liabilities;
- risks and costs associated with asbestos-related litigation;

potential write-offs of our substantial intangible assets;

terrorist attacks; and

those factors listed the accompanying prospectus supplement under Risk Factors, if any, as well as those included in our SEC filings incorporated by reference in this prospectus.

We believe our forward-looking statements are reasonable; however, undue reliance should not be placed on any forward-looking statements, which are based on current expectations. Further, forward-

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looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

**USE OF PROCEEDS**

Unless the applicable prospectus supplement states otherwise, we will use the net proceeds from the sale of any of the securities for general corporate purposes, including repaying debt, making capital investments and funding working capital requirements, or financing acquisitions.



**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The table below shows the ratio of earnings to fixed charges for our company, which includes our subsidiaries, on a consolidated basis.

For purposes of calculating the ratios,

(1) earnings include:

income (loss) from continuing operations before income taxes and change in accounting principle, *plus*

equity in the net income (losses) of less-than-50% owned entities.

(2) fixed charges include:

interest expense incurred;

amortization of capitalized debt issuance costs; and

the interest component of rent.

The ratio of earnings to fixed charges is calculated as follows:

$$\frac{(\text{Earnings}) + (\text{Fixed Charges})}{$$

$$(\text{Fixed Charges})$$

The following table sets forth our ratio of earnings to fixed charges for the periods indicated:

	Year Ended October 31,					Nine Months Ended September 30,	
	1998	1999	2000	2001	2002	2002	2003
Ratio of earnings to fixed charges	6.8	8.4	5.7	5.7	5.4	5.0	5.3

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**DESCRIPTION OF DEBT SECURITIES**

The debt securities will be issued under an Indenture between us and a trustee. The name of the trustee will be set forth in the applicable prospectus supplement. We have summarized selected provisions of the Indenture below. The summary is not complete. The form of the Indenture has been filed as an exhibit to the registration statement and you should read the Indenture for provisions that may be important to you. In the summary below, we have included references to section numbers of the Indenture so that you can easily locate these provisions. Capitalized terms used in the summary have the meaning specified in the Indenture. You can obtain copies of the Indenture by following the directions described under the caption **Where You Can Find More Information**.

**General**

The Indenture does not limit the aggregate principal amount of debt securities that we may issue and provides that we may issue debt securities from time to time in one or more series, in each case with the same or various maturities, at par or at a discount. We may issue additional debt securities of a particular series without the consent of the holders of the debt securities of such series outstanding at the time of the issuance. Any such additional debt securities, together with all other outstanding debt securities of that series, will constitute a single series of debt securities under the Indenture. The Indenture also does not limit our ability to incur other debt and does not contain financial or similar restrictive covenants.

A prospectus supplement relating to a series of debt securities being offered will include specific terms relating to the offering. These terms will include some or all of the following:

the title of the debt securities;

any limit on the total principal amount of the debt securities;

the maturity date or dates of the debt securities;

the rate or rates of interest, which may be fixed or variable, per annum at which the debt securities will bear interest (including any contingent or similar interest), or the method of determining such rate or rates, if any;

the date or dates from which interest, if any, will accrue;

the dates on which interest will be payable and the related record dates;

the basis on which any interest will be calculated, if other than a 360-day year of twelve 30-day months;

whether payments of principal, premium or interest will be determined by any index, formula or other method and the manner of determining the amount of such payments;

the place or places where the principal of, premium, if any, and interest on the debt securities will be payable if other than the location specified in this prospectus;

any redemption dates, prices, rights (of holders or us), obligations and restrictions on the debt securities;

any mandatory or optional sinking fund, purchase fund or analogous provisions;

the security, if any, which may secure any debt securities;

the denominations in which the debt securities will be issuable if other than denominations of \$1,000 and integral multiples thereof;

the portion of the principal amount of the debt securities payable upon the acceleration of the maturity of the debt securities if other than the principal amount;

the currency or currency unit in which principal, premium, if any, and interest will be paid if other than U.S. dollars;

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whether we will issue the debt securities in permanent global form and the circumstances under which such permanent global debt security may be exchanged;

any subordination provisions that will apply to the debt securities;

any special tax, accounting or other special considerations, limitations or implications of the debt securities;

any deletions from, changes in, modifications of or additions to the definitions, modification and waiver provisions, the defeasance and covenant defeasance provisions, events of default, merger and consolidation provisions or the covenants specified in the Indenture, including additions of any restrictive covenants;

the terms of any conversion rights attaching to the debt securities; and

any other terms of the debt securities not specified in this prospectus, whether or not consistent with the terms of the Indenture (Section 3.01).

Our debt securities may be effectively subordinated to all existing and future indebtedness and other liabilities (including trade payables and capital lease obligations) of our subsidiaries. This may affect your ability to receive payments on our debt securities.

In addition, we may issue debt securities at a substantial discount below their stated principal amount. We refer to these securities as Original Issue Discount Securities, which means any security that provides for an amount less than its principal amount to be due and payable upon the acceleration of its maturity. We will describe the federal income tax consequences and other special considerations applicable to any Original Issue Discount Securities in the applicable prospectus supplement.

Unless the applicable prospectus supplement states otherwise, the debt securities will be issued only in fully registered form, without coupons, in denominations of \$1,000 and any integral multiples thereof. Holders of debt securities will not pay any service charge for any registration of transfer or exchange of the debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with such registration or transfer.

### **Payment; Transfer**

Unless the applicable prospectus supplement states otherwise, principal of, premium, if any, and interest, if any, on the debt securities will be payable, and the debt securities will be transferable, at the corporate trust office of the trustee. However, interest may be paid at our option by check mailed to the address of the holder entitled thereto as it appears on the security register. We will have the right to require a holder of any debt security, in connection with any payment on the debt security, to certify information to us or, in the absence of such certification, we may rely on any legal presumption to enable us to determine our obligation, if any, to deduct or withhold taxes, assessments or governmental charges from such payment.

### **Events Of Default**

*Definition.* Unless the applicable prospectus supplement states otherwise, an Event of Default with respect to debt securities of any series is defined as any one of the following events:

- (a) failure to pay any interest on any debt security of that series when due and payable, continued for 30 days;
- (b) failure to pay principal of or any premium on any debt security of that series when due;
- (c) failure to deposit any sinking fund payment, when due, in respect of any debt security of that series;

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(d) failure to perform any other covenant in the Indenture (other than a covenant included in such Indenture solely for the benefit of a series of debt securities other than that series), continued for 90 days after written notice as provided in the Indenture;

(e) the entry of a decree or order for relief in respect of our company by a court having jurisdiction in the premises in an involuntary case under federal or state bankruptcy laws and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days;

(f) the commencement by us of a voluntary case under federal or state bankruptcy laws or the consent by us to the entry of a decree or order for relief in an involuntary case under any such law; and

(g) any other Event of Default provided with respect to debt securities of that series (Section 5.01).

An event of default for a particular series of debt securities does not necessarily constitute an event of default for any other series of debt securities issued under an indenture. Each series will have separate rights upon an event of default.

*Remedies.* If an Event of Default with respect to debt securities of any series occurs and is continuing, then either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series may declare by notice in writing to us the principal amount (or, if the debt securities of that series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms of that series) of all the debt securities of that series to be due and payable immediately. Notwithstanding the foregoing, unless the applicable prospectus supplement states otherwise, if an Event of Default described in clauses (e) or (f) above with respect to debt securities of any series occurs and is continuing, then all of the debt securities of that series shall become immediately due and payable without any further act by us, any holder or the trustee. At any time after a declaration of acceleration, the holders of a majority in aggregate principal amount of outstanding debt securities of that series may, under certain circumstances, rescind and annul such acceleration (Section 5.02).

In the event of a payment or covenant default with respect to debt securities, the trustee, subject to certain limitations and conditions, may institute judicial proceedings to enforce the payment of any amount due or the performance of such covenant or any other proper remedy (Section 5.03). Under certain circumstances, the trustee may withhold notice to the holders of the debt securities of a default (except in the payment of principal or interest) if the trustee in good faith determines that withholding notice is in the best interest of such holders, and the trustee shall withhold such notice for certain defaults for a period of 30 days (Section 6.02).

*Obligations of Trustee.* The Indenture provides that, subject to the duty of the trustee during default to act with the required standard of care, the trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless such holders shall have offered to such trustee reasonable security or indemnity (Section 6.03). Subject to such provisions for the indemnification of the trustee and to certain other conditions, the holders of a majority in aggregate principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on such trustee, with respect to the debt securities of that series. However, the trustee may decline to act if the holders' direction violates any law or the Indenture, would unduly prejudice the right of other holders or would involve such trustee in personal liability (Section 5.12).

No holder of any debt security of any series will have any right to institute any proceeding with respect to the Indenture, or for the appointment of a receiver or trustee or for any remedy, unless:

the holder has previously given the trustee written notice of a continuing Event of Default with respect to the debt securities of that series;

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the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and offered reasonable indemnity, to the trustee to institute such proceeding as trustee;

the trustee has not received an inconsistent direction from the holders of a majority in principal amount of the outstanding debt securities of that series during the 60 day period set forth below; and

the trustee has failed to institute the requested proceeding within 60 days (Section 5.07).

However, the holder of any debt security will have an absolute right to receive payment of the principal of, premium, if any, and interest on such debt security on the due dates expressed in such debt security and to institute suit for the enforcement of any such payment (Section 5.08).

Under the Indenture we must furnish to the trustee annually a statement regarding our performance of certain of our obligations under the Indenture and as to any default in such performance (Section 10.05).

**Satisfaction And Discharge**

Unless the applicable prospectus supplement states otherwise, the Indenture will cease to be of further effect, and we will be deemed to have satisfied and discharged the Indenture with respect to a particular series of debt securities, when the following conditions have been satisfied:

all debt securities of that series not previously delivered to the trustee for cancellation have become due and payable or will become due and payable at their stated maturity or on a redemption date within one year;

we deposit with the trustee, in trust, funds sufficient to pay the entire indebtedness on the debt securities of that series that had not been previously delivered for cancellation, for the principal and interest to the date of the deposit (for debt securities that have become due and payable) or to the stated maturity or the redemption date, as the case may be (for debt securities that have not become due and payable);

we have paid or caused to be paid all other sums payable under the Indenture in respect of that series; and

we have delivered to the trustee an officer's certificate and opinion of counsel, each stating that all these conditions have been complied with.

**Defeasance And Covenant Defeasance**

Unless the applicable prospectus supplement states otherwise, the Indenture provides that we may choose to deposit in trust with the trustee cash and/or government securities in an amount sufficient, without reinvestment, to pay all sums due on any series of debt securities. If we make this deposit, then, at our option, we:

(1) will be deemed to have satisfied and paid all of our obligations in respect of the debt securities of a particular series; or

(2) will not need to comply with certain restrictive covenants contained in the Indenture and the occurrence of a covenant default will no longer be an Event of Default with respect to such series of debt securities, which we refer to as covenant defeasance.

Such a trust may only be established if, among other things,

no Event of Default exists or occurs as a result of such deposit; and

we deliver an opinion of counsel to the effect that the holders will not recognize income, gain or loss for federal income tax purposes as a result of such deposit.

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If we exercise our covenant defeasance option with respect to any series of debt securities and the maturity of that series is accelerated upon an Event of Default, the amount of cash and government securities on deposit with the trustee may not be sufficient to pay amounts due on such debt securities at the time of the acceleration. However, we will remain liable with respect to such payments (Article 13).

### **Modification And Waiver**

We and the trustee may modify and amend the Indenture with the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series affected by such modification or amendment. Unless the applicable prospectus supplement states otherwise, however, we may not, without the consent of the holder of each debt security affected:

change the maturity date of the principal of, or interest on, any debt security;

reduce the principal amount of, or any premium or rate of interest on, any debt security;

reduce the amount of principal of any debt securities, including an Original Issue Discount Security, payable upon acceleration of the maturity thereof;

change the place or currency of payment of principal of, premium, if any, or interest on, any debt security;

in the case of subordinated debt securities, modify the subordination provisions in a manner adverse to the holders of any debt security;

in the case of senior debt securities, subordinate the securities to any other indebtedness;

impair the right to institute suit for the enforcement of any payment on or with respect to any debt security; or

reduce the percentage in principal amount of outstanding debt securities of any series required to modify or amend either Indenture or to waive compliance with certain provisions of, or defaults under, the Indenture (Section 9.02).

The holders of at least a majority in aggregate principal amount of the outstanding debt securities of each series may, on behalf of all holders of debt securities of that series, waive, insofar as that series is concerned, our compliance with certain restrictive provisions of the Indenture (Section 10.06).

The holders of at least a majority in aggregate principal amount of the outstanding debt securities of any series may, on behalf of all holders of debt securities of that series, waive any past default under the Indenture, except:

a default in the payment of principal of, premium, if any, or interest on, any debt security of that series; or

a default in respect of a covenant or provision which under such Indenture cannot be modified or amended without the consent of the holder of each debt security of the series affected (Section 5.13).

Unless the applicable prospectus supplement states otherwise, the Indenture will also describe certain actions that we may take to amend or supplement the Indenture without the consent of holders of debt securities of any series.

### **Consolidation, Merger And Transfer Of Assets**

We may consolidate with or merge into, or transfer our assets substantially as an entirety to, any corporation organized under the laws of the U.S., any state thereof or the District of Columbia, provided that:

either we are the surviving corporation, or the successor corporation expressly assumes our obligations on the debt securities and under the Indenture;

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after giving effect to the transaction no Event of Default, and no event which, after notice or lapse of time, would become an Event of Default, shall have occurred and be continuing; and

certain other conditions are met (Section 8.01).

### **Trustee**

The trustee may resign or be removed with respect to one or more series of debt securities and a successor trustee may be appointed to act with respect to such series (Section 6.10). In the event that two or more persons are acting as trustee with respect to different series of debt securities, each such trustee shall be a trustee of a trust under the Indenture separate and apart from the trust administered by any other such trustee, and any action described herein to be taken by the trustee may then be taken by each such trustee with respect to, and only with respect to, the one or more series of debt securities for which it is trustee (Section 6.11).

The Indenture and provisions of the Trust Indenture Act incorporated by reference in the Indenture contain limitations on the rights of the trustee under the Indenture, should it become a creditor of our company, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The trustee under the Indenture is permitted to engage in other transactions. However, if the trustee under the Indenture acquires any prohibited conflicting interest, it must eliminate the conflict or resign.

The trustee makes no representations or warranties as to the accuracy or the sufficiency of any of the information contained in the registration statement of which this prospectus is a part, except that which specifically relates to the trustee itself, or of any information incorporated herein by reference.

### **Book-Entry Securities**

The debt securities of a series may be issued in the form of one or more book-entry securities that will be deposited with a depository or its nominee identified in the applicable prospectus supplement (Section 3.01). In such a case, one or more book-entry securities will be issued in a denomination or aggregate denominations equal to the portion of the aggregate principal amount of debt securities of the series to be represented by such book-entry security or securities. Unless and until it is exchanged in whole or in part for debt securities in definitive registered form, a book-entry security may not be transferred except as a whole by the depository for such book-entry security to a nominee of such depository or by a nominee of the depository to the depository or another nominee of the depository or by the depository or any such nominee to a successor of the depository or a nominee of such successor (Section 3.05).

The specific terms of the depository arrangement with respect to any portion of a series of debt securities to be represented by a book-entry security will be described in the applicable prospectus supplement. We anticipate that the following provisions will apply to all depository arrangements.

Upon the issuance of a book-entry security, the depository for such book-entry security or its nominee will credit, on its book-entry registration and transfer system, the respective principal amounts of the debt securities represented by such book-entry security to the accounts of persons that have accounts with such depository, or participants. Such accounts shall be designated by the underwriters or agents with respect to such debt securities or by us if such debt securities are offered and sold directly by us. Participants include securities brokers and dealers, banks and trust companies, clearing corporations and certain other organizations. Access to the depository's system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly, which we refer to as indirect participants. Persons who are not participants may beneficially own book-entry securities held by the depository only through participants or indirect participants.

Ownership of beneficial interests in any book-entry security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the depository or its nominee with respect to interests of participants for such book-entry security and on the records of participants with respect to



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interests of indirect participants. The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws, as well as the limits on participation in the depositary's book-entry system, may impair the ability to transfer beneficial interests in a book-entry security.

So long as the depositary or its nominee is the registered owner of a book-entry security, such depositary or such nominee will be considered the sole owner or holder of the debt securities represented by such book-entry security for all purposes under the Indenture. Except as provided below, owners of beneficial interests in debt securities represented by book-entry securities will not be entitled to have debt securities of the series represented by such book-entry security registered in their names, will not receive or be entitled to receive physical delivery of such debt securities in definitive form, and will not be considered the owners or holders thereof under the Indenture.

Payments of principal of, premium, if any, and interest on debt securities registered in the name of the depositary or its nominee will be made to the depositary or its nominee, as the case may be, as the registered owner of the book-entry security representing such debt securities. We expect that the depositary for a series of debt securities or its nominee, upon receipt of any payment of principal, premium or interest, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the book-entry security for such debt securities, as shown on the records of such depositary or its nominee. We also expect that payments by participants and indirect participants to owners of beneficial interests in such book-entry security held through such persons will be governed by standing instructions and customary practices, as is now the case with securities registered in street name, and will be the responsibility of such participants and indirect participants. Neither us, the trustee, any authenticating agent, any paying agent, nor the security registrar for such debt securities will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the book-entry security for such debt securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests (Section 3.11).

If the depositary for debt securities of a series notifies us that it is unwilling or unable to continue as depositary or if at any time the depositary ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, we have agreed to appoint a successor depositary. If such a successor is not appointed by us within 90 days, we will issue debt securities of such series in definitive registered form in exchange for the book-entry security representing such series of debt securities. In addition, we may at any time and in our sole discretion determine that the debt securities of any series issued in the form of one or more book-entry securities shall no longer be represented by such book-entry security or debt securities and, in such event, will issue debt securities of such series in definitive registered form in exchange for such book-entry security or securities representing such series of debt securities. Further, if we so specify with respect to the debt securities of a series, or if an Event of Default, or an event which with notice, lapse of time or both would be an Event of Default with respect to the debt securities of such series has occurred and is continuing, an owner of a beneficial interest in a book-entry security representing debt securities of such series may receive debt securities of such series in definitive registered form. In any such instance, an owner of a beneficial interest in a book-entry security will be entitled to physical delivery in definitive registered form of debt securities of the series represented by such book-entry security equal in principal amount to such beneficial interest and to have such debt securities registered in its name (Section 3.05).

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**DESCRIPTION OF COMMON STOCK**

We have summarized certain terms and provisions of our common stock in this section. The summary is not complete. The prospectus supplement will describe the specific terms of the common stock offered through that prospectus supplement and any general terms outlined in this section that will not apply to that common stock. We have filed our restated certificate of incorporation and our amended and restated bylaws as exhibits to the registration statement and you should read our restated certificate of incorporation and our amended and restated bylaws for information that may be important to you. You can obtain copies of our restated certificate of incorporation and amended and restated bylaws by following the directions described under the caption *Where You Can Find More Information*.

**General**

*Authorized and Issued Shares.* Under our restated certificate of incorporation, we can issue an aggregate of 80,000,000 shares of common stock, par value \$.01 per share. As of October 24, 2003 there were 31,664,208 shares of common stock issued outstanding.

*Dividends.* Holders of common stock may receive dividends when declared by our board of directors out of our funds that we can legally use to pay dividends. We may pay dividends in cash, stock or other property. In certain cases, holders of common stock may not receive dividends until we have satisfied our obligations to holders of any outstanding preferred stock.

*Voting Rights.* Each outstanding share of common stock will entitle the holder to five votes on each matter properly submitted to a vote of our stockholders; provided that any share of common stock which has been the subject of a change in beneficial ownership (as defined in our restated certificate of incorporation) during the four years preceding the record date for the stockholder vote in question, will only be entitled to one vote. The occurrence of a change in beneficial ownership will be determined in accordance with parameters set out in our restated certificate of incorporation, and with procedures that we may prescribe from time to time. Prior to a meeting of stockholders, we require that stockholders who believe they are entitled to exercise five votes on any shares of common stock held in *street name* provide us with written confirmation that they acquired those shares on or before the date four years prior to the record date for that meeting, and that no change of beneficial ownership has occurred since that date. In the absence of such a confirmation, the relevant shares will be entitled to one vote per share.

*Other Rights.* If we voluntarily or involuntarily liquidate, dissolve or wind up our business, holders of common stock will receive any remaining assets on a pro rata basis after we have provided for any liquidation preference for any outstanding shares of preferred stock. When we issue securities in the future, holders of common stock will not have preemptive rights to buy any portion of those issued securities.

*Listing.* Our common stock is listed on the New York Stock Exchange under the symbol *ROP*. The transfer agent and registrar for the common stock is Wachovia Bank, N.A., Charlotte, North Carolina.

*Fully Paid.* All of our outstanding shares of common stock are fully paid and nonassessable, which means that the full purchase price for the outstanding shares of common stock has been paid and the holders of such shares will not be assessed any additional monies for such shares. Any additional common stock that we may issue in the future pursuant to an offering under this prospectus will also be fully paid and nonassessable.

**Anti-Takeover Provisions**

*General.* Certain provisions of our restated certificate of incorporation, amended and restated bylaws and applicable law may make it less likely that our management would be changed or someone would acquire our company without the consent of our board of directors. These provisions may delay, deter or prevent tender offers or takeover attempts that stockholders may believe are in their best interests, including tender offers or takeover attempts that might allow stockholders to receive a premium over the market price of their common stock.

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*Time-Phased Voting.* Each outstanding share of common stock will entitle the holder to five votes on each matter properly submitted to a vote of our stockholders; provided that any share of common stock which has been the subject of a change in beneficial ownership during the four years preceding the record date for the stockholder vote in question, will only be entitled to one vote. The occurrence of a change in beneficial ownership will be determined in accordance with parameters set out in our restated certificate of incorporation, and with procedures that we may prescribe from time to time. Prior to a meeting of stockholders, we customarily require that stockholders wishing to exercise five votes on any shares of common stock held in street name provide us with written confirmation that they acquired those shares on or before the date four years prior the record date for that meeting, and that no change of beneficial ownership has occurred since that date. In the absence of such a confirmation, the relevant shares will be entitled to one vote per share. These provisions may limit the voting power of the holders of newly acquired shares of common stock *vis-à-vis* existing holders, and may make it more difficult for a person attempting to take control of our company to acquire enough voting power to take control.

*Preferred Stock.* Under our certificate of incorporation our board of directors can at any time, and without stockholder approval, issue one or more new series of preferred stock. In some cases, the issuance of preferred stock without stockholder approval could discourage or make more difficult attempts to take control of our company through a merger, tender offer, proxy contest or otherwise. Preferred stock with special voting rights or other features issued to persons favoring our management could stop a takeover by preventing the person trying to take control of our company from acquiring enough voting shares necessary to take control.

We have a shareholder rights plan whereby one preferred stock purchase right (a right) accompanies each outstanding share of common stock. Such rights only become exercisable, or transferable apart from the common stock, ten business days after a person or group acquires various specified levels of beneficial ownership, with or without our board's consent. Each right may be exercised to acquire one one-thousandth of a newly issued share of our series A preferred stock, at an exercise price of \$170, subject to adjustment. Alternatively, upon the occurrence of certain specified events, the rights allow holders to purchase our common stock having a market value at such time of twice the right's exercise price. We may redeem the rights at a redemption price of \$0.01 per right at any time until the tenth business day following public announcement that a 20% position has been acquired or 10 business days after commencement of a tender or exchange offer. The rights expire on January 8, 2006.

*Proposal and Nomination Procedures.* Stockholders can propose that business be considered at an annual meeting of stockholders, and, in addition to our board of directors, can nominate candidates for our board of directors. However, a stockholder must follow the advance notice procedures described in Section 8 of our amended and restated bylaws. In general, a stockholder must submit a written notice of the proposal and the stockholder's interest in the proposal, or of the nomination, to our corporate secretary at least 90 days before the first anniversary date of the annual meeting for the preceding year.

*Removal of Directors.* Subject to the rights of the holders of any outstanding series of preferred stock, any director may be removed from office at any time, but only for cause, and only by an affirmative vote of the holders of at least a majority of the voting power of all shares entitled to vote for the election of directors.

*Amendment of Bylaws.* Under our amended and restated bylaws, our board of directors can adopt, amend or repeal the bylaws by a majority vote, subject to limitations under the Delaware General Corporation Law. Our stockholders also have the power to adopt, amend or repeal our bylaws at any meeting at which a quorum is present by a majority of two-thirds of the number of shares of stock present and entitled to vote. In each case the notice of such meeting of directors or stockholders, or waiver of notice thereof, must contain a statement of the substance of the proposed amendment.

*Business Combination Statute.* We are subject to the provisions of Section 203 of the Delaware General Corporation Law. Section 203 prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is

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approved in a prescribed manner. A business combination includes a merger, asset sale or other transaction involving the interested stockholder. Subject to certain exceptions, an interested stockholder is a person who, together with affiliates and associates, owns or within three years prior to the proposed business combination has owned 15% or more of the corporation's voting stock.

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**DESCRIPTION OF STOCK PURCHASE CONTRACTS AND EQUITY UNITS**

The applicable prospectus supplement will describe the terms of the stock purchase contracts or equity units offered by that prospectus supplement. If we issue any stock purchase contracts or equity units, we will file the form of stock purchase contract and equity unit as exhibits to the registration statement and you should read these documents for provisions that may be important to you. You can obtain copies of any form of stock purchase contract and equity unit by following the directions described under the caption **Where You Can Find More Information**.

We may issue stock purchase contracts, including contracts obligating holders to purchase from us, and obligating us to sell to the holders, a specified number of shares of common stock, or other securities at a future date or dates. We may fix the price and number of securities subject to the stock purchase contracts at the time we issue the stock purchase contracts or we may provide that the price and number of securities will be determined pursuant to a formula set forth in the stock purchase contracts. The stock purchase contracts may be issued separately or as part of units consisting of a stock purchase contract and debt securities or debt obligations of third parties, including U.S. treasury securities, securing the obligations of the holders of the units to purchase the securities under the stock purchase contracts. We refer to these units as equity units. The stock purchase contracts will require holders to secure their obligations under the stock purchase contracts. The stock purchase contracts also may require us to make periodic payments to the holders of the equity units or vice versa, and those payments may be unsecured or refunded on some basis.

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**PLAN OF DISTRIBUTION**

We may sell any securities:

through underwriters or dealers;

through agents;

directly to one or more purchasers; or

through a combination of any such methods of sale.

The distribution of the securities may be effected from time to time in one or more transactions:

at a fixed price or prices, which may be changed from time to time;

at market prices prevailing at the time of sale;

at prices related to prevailing market prices; or

at negotiated prices.

For each series of securities, the applicable prospectus supplement will set forth the terms of the offering including:

the initial public offering price;

the names of any underwriters, dealers or agents;

the purchase price of the securities;

our proceeds from the sale of the securities;

any underwriting discounts, agency fees, or other compensation payable to underwriters or agents;

any discounts or concessions allowed or reallocated or repaid to dealers; and

the securities exchanges on which the securities will be listed, if any.

If we use underwriters in the sale, they will buy the securities for their own account. The underwriters may then resell the securities in one or more transactions at a fixed public offering price or at varying prices determined at or after the time of sale. The obligations of the underwriters to purchase the securities will be subject to certain conditions. The underwriters will be obligated to purchase all the securities offered if they purchase any securities. Any initial public offering price and any discounts or concessions allowed or re-allowed or paid to dealers may be changed from time to time.

If we use dealers in the sale, we will sell securities to those dealers as principals. The dealers may then resell the securities to the public at varying prices to be determined by the dealers at the time of resale. If we use agents in the sale, they will use their reasonable best efforts to solicit purchases for the period of their appointment. If we sell directly, no underwriters or agents would be involved. We are not making an offer of securities in any state that does not permit an offer of these securities.

Underwriters, dealers and agents that participate in the securities distribution may be deemed to be underwriters as defined in the Securities Act of 1933. Any discounts, commissions, or profit they receive when they resell the securities may be treated as underwriting discounts and commissions under the Securities Act of 1933. We may have agreements with underwriters, dealers and agents to indemnify them against certain civil liabilities, including certain liabilities under the Securities Act of 1933, or to contribute with respect to payments that they may be required

to make.

We may authorize underwriters, dealers or agents to solicit offers from certain institutions where the institution contractually agrees to purchase the securities from us on a future date at a specific price. This type of contract may be made only with institutions that we specifically approve. These institutions could include banks, insurance companies, pension funds, investment companies and educational and charitable

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institutions. The underwriters, dealers or agents will not be responsible for the validity or performance of these contracts.

The securities, other than any common stock, will be new issues of securities with no established trading market and unless otherwise specified in the applicable prospectus supplement, we will not list any series of the securities (other than the common stock) on any exchange. It has not presently been established whether the underwriters, if any, of the securities will make a market in the securities. If the underwriters make a market in the securities, the market making may be discontinued at any time without notice. We cannot provide any assurance as to the liquidity of the trading market for the securities.

To facilitate the offering of securities, certain persons participating in the offering may engage in transactions that stabilize, maintain, or otherwise affect the price of the securities. These may include over-allotment, stabilization, syndicate, short covering transactions and penalty bids. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions involve bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate short covering transactions involve purchases of securities in the open market after the distribution has been completed in order to covert syndicate short positions. Penalty bids permit the underwriters to reclaim selling concessions from dealers when the securities originally sold by the dealers are purchased in covering transactions to cover syndicate short positions. These transactions may cause the price of the securities sold in an offering to be higher than it would otherwise be. These transactions, if commenced, may be discontinued by the underwriters at any time.

The amount of expenses expected to be incurred by us in connection with any issuance of securities will be set forth in the applicable prospectus supplement. Certain of the underwriters, dealers or agents and their associates may engage in transactions with, and perform services for, us and certain of our affiliates in the ordinary course of our business.

**LEGAL MATTERS**

The validity of any common stock, debt securities, stock purchase contracts and/or equity units will be passed upon for us by King & Spalding LLP.

**EXPERTS**

The consolidated financial statements of Roper Industries, Inc. incorporated in this prospectus by reference to the Annual Report on Form 10-K/A Amendment No. 2 for the year ended October 31, 2002 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Neptune Technology Group Holdings, Inc. for the three years ended December 31, 2002 incorporated in this prospectus by reference to the Current Report on Form 8-K filed November 14, 2003 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.



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**3,955,000 Shares**

**Common Stock**

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**PROSPECTUS SUPPLEMENT**

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**Merrill Lynch & Co.  
JPMorgan  
Wachovia Securities  
Robert W. Baird & Co.  
JMP Securities  
McDonald Investments Inc.  
SunTrust Robinson Humphrey**

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