

DENTSPLY INTERNATIONAL INC /DE/  
Form 10-Q  
October 29, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-16211

DENTSPLY International Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

39-1434669  
(I.R.S. Employer  
Identification No.)

221 West Philadelphia Street, York, PA  
(Address of principal executive offices)

17405-2558  
(Zip Code)

(717) 845-7511  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer" and "accelerated filer" and "smaller reporting

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-Q

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: At October 22, 2014, DENTSPLY International Inc. had 141,529,741 shares of Common Stock outstanding, with a par value of \$.01 per share.

---

DENTSPLY International Inc.

TABLE OF CONTENTS

<b><u>PART I</u></b>	<b><u>FINANCIAL INFORMATION</u></b>	<b>Page</b>
<b><u>Item 1</u></b>	<b><u>Financial Statements (unaudited)</u></b>	<b><u>3</u></b>
	<u>Consolidated Statements of Operations</u>	<u>3</u>
	<u>Consolidated Statements of Comprehensive Income</u>	<u>4</u>
	<u>Consolidated Balance Sheets</u>	<u>5</u>
	<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
	<u>Consolidated Statements of Changes in Equity</u>	<u>7</u>
	<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	<u>8</u>
<b><u>Item 2</u></b>	<b><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b><u>35</u></b>
<b><u>Item 3</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b><u>51</u></b>
<b><u>Item 4</u></b>	<b><u>Controls and Procedures</u></b>	<b><u>51</u></b>
<b><u>PART II</u></b>	<b><u>OTHER INFORMATION</u></b>	
<b><u>Item 1</u></b>	<b><u>Legal Proceedings</u></b>	<b><u>52</u></b>
<b><u>Item 1A</u></b>	<b><u>Risk Factors</u></b>	<b><u>52</u></b>
<b><u>Item 2</u></b>	<b><u>Unregistered Sales of Securities and Use of Proceeds</u></b>	<b><u>52</u></b>
<b><u>Item 6</u></b>	<b><u>Exhibits</u></b>	<b><u>53</u></b>
	<u>Signatures</u>	<u>53</u>

## PART I – FINANCIAL INFORMATION

## Item 1 – Financial Statements

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS(In thousands, except per share amounts)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales	\$708,240	\$704,018	\$2,203,579	\$2,197,112
Cost of products sold	320,176	327,601	996,841	1,017,539
Gross profit	388,064	376,417	1,206,738	1,179,573
Selling, general and administrative expenses	275,980	269,165	859,943	852,763
Restructuring and other costs	2,503	2,231	4,538	5,065
Operating income	109,581	105,021	342,257	321,745
Other income and expenses:				
Interest expense	12,665	11,442	35,418	38,170
Interest income	(1,391)	) (2,138	) (4,570	) (6,556
Other expense (income), net	791	1,581	1,754	8,723
Income before income taxes	97,516	94,136	309,655	281,408
Provision for income taxes	21,283	13,187	69,831	39,599
Equity in net (loss) income of unconsolidated affiliated company	(967)	) (83	) (1,624	) 320
Net income	75,266	80,866	238,200	242,129
Less: Net (loss) income attributable to noncontrolling interests	(7)	) 1,015	56	3,366
Net income attributable to DENTSPLY International	\$75,273	\$79,851	\$238,144	\$238,763
Earnings per common share:				
Basic	\$0.53	\$0.56	\$1.68	\$1.67
Diluted	\$0.52	\$0.55	\$1.65	\$1.65
Weighted average common shares outstanding:				
Basic	141,766	142,421	141,869	142,705
Diluted	144,286	144,698	144,289	144,952

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.



DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$75,266	\$80,866	\$238,200	\$242,129
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(198,622 )	140,374	(227,297 )	52,118
Net gain (loss) on derivative financial instruments	35,898	(31,997 )	38,095	(17,241 )
Net unrealized holding gain (loss) on available-for-sale securities	3,558	(1,916 )	(245 )	(10,905 )
Pension liability adjustments	3,865	(1,692 )	5,006	1,624
Total other comprehensive income (loss), net of tax	(155,301 )	104,769	(184,441 )	25,596
Total comprehensive (loss) income	(80,035 )	185,635	53,759	267,725
Less: Comprehensive (loss) income attributable to noncontrolling interests	(252 )	2,666	(392 )	4,866
Comprehensive (loss) income attributable to DENTSPLY International	\$(79,783 )	\$182,969	\$54,151	\$262,859

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)  
(unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$97,652	\$74,954
Accounts and notes receivables-trade, net	476,856	472,802
Inventories, net	422,485	438,559
Prepaid expenses and other current assets, net	260,708	157,487
<b>Total Current Assets</b>	<b>1,257,701</b>	<b>1,143,802</b>
Property, plant and equipment, net	606,924	637,172
Identifiable intangible assets, net	710,112	795,323
Goodwill, net	2,160,696	2,281,596
Other noncurrent assets, net	148,628	220,154
<b>Total Assets</b>	<b>\$4,884,061</b>	<b>\$5,078,047</b>
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$128,233	\$132,789
Accrued liabilities	443,516	339,308
Income taxes payable	47,567	14,446
Notes payable and current portion of long-term debt	115,253	309,862
<b>Total Current Liabilities</b>	<b>734,569</b>	<b>796,405</b>
Long-term debt	1,165,566	1,166,178
Deferred income taxes	215,482	238,394
Other noncurrent liabilities	272,200	299,096
<b>Total Liabilities</b>	<b>2,387,817</b>	<b>2,500,073</b>
Commitments and contingencies		
Equity:		
Preferred stock, \$.01 par value; .25 million shares authorized; no shares issued	—	—
Common stock, \$.01 par value; 200.0 million shares authorized; 162.8 million shares issued at September 30, 2014 and December 31, 2013	1,628	1,628
Capital in excess of par value	227,027	255,272
Retained earnings	3,305,448	3,095,721
Accumulated other comprehensive loss	(253,055)	(69,062)
Treasury stock, at cost, 21.1 million and 20.5 million shares at September 30, 2014 and December 31, 2013, respectively	(785,940)	(748,506)

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-Q

Total DENTSPLY International Equity	2,495,108	2,535,053
Noncontrolling interests	1,136	42,921
Total Equity	2,496,244	2,577,974
Total Liabilities and Equity	\$4,884,061	\$5,078,047

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

5

---



DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$238,200	\$242,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	63,048	61,545
Amortization	36,430	34,700
Amortization of deferred financing costs	3,517	3,842
Deferred income taxes	4,635	(32,096)
Share-based compensation expense	19,901	18,027
Restructuring and other costs - non-cash	—	843
Stock option income tax benefit	(365)	(2,262)
Equity in loss (earnings) from unconsolidated affiliates	1,624	(320)
Other non-cash expense	3,589	3,422
Changes in operating assets and liabilities, net of acquisitions:		
Accounts and notes receivable-trade, net	(30,916)	(65,455)
Inventories, net	(5,753)	(45,284)
Prepaid expenses and other current assets, net	(12,411)	26,137
Other noncurrent assets, net	245	992
Accounts payable	1,947	(25,099)
Accrued liabilities	7,635	706
Income taxes	27,931	29,544
Other noncurrent liabilities	8,523	6,895
Net cash provided by operating activities	367,780	258,266
Cash flows from investing activities:		
Capital expenditures	(73,025)	(73,500)
Cash paid for acquisitions of businesses, net of cash acquired	(2,009)	(3,939)
Cash received from sale of business or product line	1,371	—
Cash received on derivatives contracts	4,871	9,172
Cash paid on derivatives contracts	(4,865)	(95,667)
Expenditures for identifiable intangible assets	(1,314)	(1,049)
Purchase of short-term investments	(2,271)	—
Liquidation of short-term investments	1,136	—
Purchase of Company-owned life insurance policies	(900)	—
Proceeds from sale of property, plant and equipment, net	601	3,092
Net cash used in investing activities	(76,405)	(161,891)
Cash flows from financing activities:		

(Decrease) increase in short-term borrowings	(99,831	) 8,789	
Cash paid for treasury stock	(70,757	) (72,381	)
Cash dividends paid	(27,927	) (25,895	)
Cash paid for acquisition of noncontrolling interests of consolidated subsidiary	(33	) (8,960	)
Proceeds from long-term borrowings	114,070	174,628	
Repayments on long-term borrowings	(198,991	) (251,335	)
Proceeds from exercised stock options	18,733	48,350	
Excess tax benefits from share-based compensation	365	2,262	
Cash received on derivative contracts	—	21	
Cash paid on derivative contracts	—	(129	)
Net cash used in financing activities	(264,371	) (124,650	)
Effect of exchange rate changes on cash and cash equivalents	(4,306	) (1,199	)
Net increase (decrease) in cash and cash equivalents	22,698	(29,474	)
Cash and cash equivalents at beginning of period	74,954	80,132	
Cash and cash equivalents at end of period	\$97,652	\$50,658	

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

(unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	\$ 1,628	\$ 246,548	\$ 2,818,461	\$ (144,200 )	\$ (713,739)	\$ 2,208,698	\$ 40,745	\$ 2,249,443
Net income	—	—	238,763	—	—	238,763	3,366	242,129
Other comprehensive income	—	—	—	24,096	—	24,096	1,500	25,596
Acquisition of noncontrolling interest	—	(3,926 )	—	—	—	(3,926 )	(5,034 )	(8,960 )
Exercise of stock options	—	(5,569 )	—	—	53,919	48,350	—	48,350
Tax benefit from stock options exercised	—	2,262	—	—	—	2,262	—	2,262
Share based compensation expense	—	18,027	—	—	—	18,027	—	18,027
Funding of Employee Stock Ownership Plan	—	959	—	—	3,698	4,657	—	4,657
Treasury shares purchased	—	—	—	—	(72,381 )	(72,381 )	—	(72,381 )
RSU distributions	—	(8,378 )	—	—	5,015	(3,363 )	—	(3,363 )
RSU dividends	—	230	(230 )	—	—	—	—	—
Cash dividends (\$0.18750 per share)	—	—	(26,742 )	—	—	(26,742 )	—	(26,742 )
Balance at September 30, 2013	\$ 1,628	\$ 250,153	\$ 3,030,252	\$ (120,104 )	\$ (723,488)	\$ 2,438,441	\$ 40,577	\$ 2,479,018
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-Q

	Loss							
Balance at December 31, 2013	\$1,628	\$255,272	\$3,095,721	\$(69,062 )	\$(748,506)	\$2,535,053	\$42,921	\$2,577,974
Net income	—	—	238,144	—	—	238,144	56	238,200
Other comprehensive loss	—	—	—	(178,463 )	—	(178,463 )	(448 )	(178,911 )
Acquisition of noncontrolling interest	—	(35,814 )	—	(5,530 )	—	(41,344 )	(41,393 )	(82,737 )
Exercise of stock options	—	(3,274 )	—	—	22,007	18,733	—	18,733
Tax benefit from stock options exercised	—	365	—	—	—	365	—	365
Share based compensation expense	—	19,901	—	—	—	19,901	—	19,901
Funding of Employee Stock Ownership Plan	—	1,535	—	—	4,418	5,953	—	5,953
Treasury shares purchased	—	—	—	—	(70,757 )	(70,757 )	—	(70,757 )
RSU distributions	—	(11,201 )	—	—	6,898	(4,303 )	—	(4,303 )
RSU dividends	—	243	(243 )	—	—	—	—	—
Cash dividends (\$0.19875 per share)	—	—	(28,174 )	—	—	(28,174 )	—	(28,174 )
Balance at September 30, 2014	\$1,628	\$227,027	\$3,305,448	\$(253,055 )	\$(785,940)	\$2,495,108	\$1,136	\$2,496,244

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY International Inc. and Subsidiaries

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and the rules of the United States Securities and Exchange Commission (“SEC”). The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. Results for interim periods should not be considered indicative of results for a full year. These financial statements and related notes contain the accounts of DENTSPLY International Inc. and Subsidiaries (“DENTSPLY” or the “Company”) on a consolidated basis and should be read in conjunction with the consolidated financial statements and notes included in the Company’s most recent Form 10-K for the year ended December 31, 2013.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company, as applied in the interim consolidated financial statements presented herein are substantially the same as presented in the Company’s Form 10-K for the year ended December 31, 2013, except as may be indicated below:

Accounts and Notes Receivable

The Company sells dental and certain healthcare products through a worldwide network of distributors and directly to end users. For customers on credit terms, the Company performs ongoing credit evaluations of those customers’ financial condition and generally does not require collateral from them. The Company establishes allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments based on historical averages of aged receivable balances and the Company’s experience in collecting those balances, customer specific circumstances, as well as changes in the economic and political environments. The Company records a provision for doubtful accounts, which is included in “Selling, general and administrative expenses” on the Consolidated Statements of Operations.

Accounts and notes receivables – trade, net are stated net of allowances for doubtful accounts and trade discounts, which were \$11.2 million at September 30, 2014 and \$14.7 million at December 31, 2013.

Marketable Securities

The Company’s marketable securities consist of corporate convertible bonds that are classified as available-for-sale in “Other noncurrent assets, net” on the Consolidated Balance Sheets as the instruments mature in December 2015. The Company determined the appropriate classification at the time of purchase and will re-evaluate such designation as of each balance sheet date. In addition, the Company reviews the securities each quarter for indications of possible impairment. If an impairment is identified, the determination of whether the impairment is temporary or other-than-temporary requires significant judgment. The primary factors that the Company considers in making this judgment include the extent and time the fair value of each investment has been below cost and the existence of a credit loss. If a decline in fair value is judged other-than-temporary, the basis of the securities is written down to fair value and the amount of the write-down is included as a realized loss in the Consolidated Statement of Operations. Changes in fair value are reported in accumulated other comprehensive income (“AOCI”).

The convertible element of the bonds has not been bifurcated from the underlying bonds as the element does not contain a net-settlement feature, nor would the Company be able to achieve a hypothetical net-settlement that would substantially place the Company in a comparable cash settlement position. As such, the derivative is not accounted for separately from the bond. The cash paid by the Company was equal to the face value of the bonds issued, and therefore, the Company has not recorded any bond premium or discount on acquiring the bonds. The fair value of the bonds was \$65.5 million and \$70.0 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, an unrealized holding gain of \$12.5 million and \$12.7 million, respectively, on available-for-sale securities, net of tax, has been recorded in AOCI.

#### New Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-05, “Foreign Currency Matters (Topic 830): Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.” This newly issued accounting standard requires a cumulative translation adjustment (“CTA”) attached to the parent’s investment in a

foreign entity should be released in a manner consistent with the derecognition guidance on investment entities. Thus the entire amount of CTA associated with the foreign entity would be released when there has been a sale of a subsidiary or group of net assets within a foreign entity and the sale represents a complete liquidation of the investment in the foreign entity, a loss of a controlling financial interest in an investment in a foreign entity, or step acquisition for a foreign entity. The Company adopted this accounting standard for the quarter ended March 31, 2014. The adoption of this standard did not materially impact the Company's financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The newly issued accounting standard requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction losses or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefit. The Company adopted this accounting standard for the quarter ended March 31, 2014. The adoption of this standard did not materially impact the Company's financial position or results of operations.

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This newly issued accounting standard changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. This standard will have the impact of reducing the frequency of disposals reported as discontinued operations, by requiring such a disposal to represent a strategic shift that has or will have a major effect on entity's operations and financial results. Additionally, existing provisions that prohibit an entity from reporting a discontinued operation if it has certain continuing cash flows or involvement with the component after a disposal are eliminated by this standard. The ASU also expands the disclosures for discontinued operations and requires new disclosures related to individually significant disposals that do not qualify as discontinued operations. This standard allows for early adoption and the Company expects to adopt this accounting standard no later than the quarter ended March 31, 2015. The adoption of this standard is not expected to materially impact the Company's financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". This newly issued accounting standard is intended to improve the reporting of revenue. The Company has not yet determined the impact from adoption of this new accounting pronouncement on the Company's financial position or results of operations. The Company expects to adopt this accounting standard for the quarter ended March 31, 2017. Early adoption is not permitted.

## NOTE 2 – STOCK COMPENSATION

The following table represents total stock based compensation expense for non-qualified stock options, restricted stock units (“RSU”) and the tax related benefit for the three and nine months ended September 30, 2014 and 2013:

(in thousands)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Stock option expense	\$2,148	\$2,565	\$6,651	\$7,570
RSU expense	4,013	3,077	12,098	9,346
Total stock based compensation expense	\$6,161	\$5,642	\$18,749	\$16,916
Total related tax benefit	\$1,550	\$1,590	\$5,093	\$4,250

At September 30, 2014, the remaining unamortized compensation cost related to non-qualified stock options is \$11.5 million, which will be expensed over the weighted average remaining vesting period of the options, or approximately 1.6 years. At September 30, 2014, the unamortized compensation cost related to RSU is \$23.8 million, which will be expensed over the weighted average remaining restricted period of the RSU, or approximately 1.4 years.

The following table reflects the non-qualified stock option transactions from December 31, 2013 through September 30, 2014:

(in thousands, except per share data)	Outstanding			Exercisable		
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance at December 31, 2013	8,295	\$35.04	\$111,450	6,225	\$33.67	\$92,200
Granted	926	45.24				
Exercised	(581	) 32.25				
Cancelled	(5	) 45.15				
Forfeited	(25	) 40.88				
Balance at September 30, 2014	8,610	\$36.31	\$80,108	6,729	\$34.57	\$74,228

At September 30, 2014, the weighted average remaining contractual term of all outstanding options is approximately 5.5 years and the weighted average remaining contractual term of exercisable options is approximately 4.6 years.

The following table summarizes the unvested RSU transactions from December 31, 2013 through September 30, 2014:

(in thousands, except per share data)	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2013	1,131	\$38.81
Granted	446	45.18
Vested	(279	) 36.59
Forfeited	(98	) 40.86
Balance at September 30, 2014	1,200	\$41.52





## NOTE 3 – COMPREHENSIVE INCOME

During the quarter ended September 30, 2014, foreign currency translation adjustments included currency translation losses of \$201.8 million and gains on the Company's loans designated as hedges of net investments of \$9.0 million. During the quarter ended September 30, 2013, foreign currency translation adjustments included currency translation gains of \$141.4 million and losses of \$2.7 million on the Company's loans designated as hedges of net investments. During the nine months ended September 30, 2014, foreign currency translation adjustments included currency translation losses of \$227.2 million and gains on the Company's loans designated as hedges of net investments of \$5.9 million. During the nine months ended September 30, 2013, foreign currency translation adjustments included currency translation gains of \$40.8 million and gains on the Company's loans designated as hedges of net investments of \$9.8 million. These foreign currency translation adjustments were partially offset by movements on derivative financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

The cumulative foreign currency translation adjustments included translation gains of \$17.1 million and \$249.9 million at September 30, 2014 and December 31, 2013, respectively, were offset by losses of \$103.0 million and \$108.9 million, respectively, on loans designated as hedges of net investments. These foreign currency translation adjustments were partially offset by movements on derivatives financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

Changes in AOCI, net of tax, by component for the nine months ended September 30, 2014 and 2013:

(in thousands)	Foreign Currency Translation Adjustments	Gain and (Loss) on Derivative Financial Instruments Designated as Cash Flow Hedges	Gain and (Loss) on Derivative Financial Instruments Designated as Net Investment Hedges	Net Unrealized Holding Gain (Loss) on Available-for-Sale Securities	Pension Liability Adjustments	Total
Balance at December 31, 2013	\$ 140,992	\$(21,753 )	\$(151,114 )	\$ 12,729	\$(49,916 )	\$(69,062 )
Other comprehensive income (loss) before reclassifications	(221,319 )	4,498	27,619	(245 )	3,611	(185,836 )
Amounts reclassified from accumulated other comprehensive income (loss)	—	5,978	—	—	1,395	7,373
Net (decrease) increase in other comprehensive income	(221,319 )	10,476	27,619	(245 )	5,006	(178,463 )
Foreign currency translation related to acquisition of noncontrolling interests	(5,530 )	—	—	—	—	(5,530 )
Balance at September 30, 2014	\$(85,857 )	\$(11,277 )	\$(123,495 )	\$ 12,484	\$(44,910 )	\$(253,055 )



(in thousands)	Foreign Currency Translation Adjustments	Gain and (Loss) on Derivative Financial Instruments Designated as Cash Flow Hedges	Gain and (Loss) on Derivative Financial Instruments Designated as Net Investment Hedges	Net Unrealized Holding Gain (Loss) on Available-for-Sale Securities	Pension Liability Adjustments	Total
Balance at December 31, 2012	\$54,302	\$(17,481 )	\$(125,661 )	\$ 17,822	\$(73,182 )	\$(144,200 )
Other comprehensive income (loss) before reclassifications	50,618	(3,562 )	(14,408 )	(10,905 )	(1,195 )	20,548
Amounts reclassified from accumulated other comprehensive income (loss)	—	729	—	—	2,819	3,548
Net increase (decrease) in other comprehensive income	50,618	(2,833 )	(14,408 )	(10,905 )	1,624	24,096
Balance at September 30, 2013	\$104,920	\$(20,314 )	\$(140,069 )	\$ 6,917	\$(71,558 )	\$(120,104 )

Reclassifications out of accumulated other comprehensive income (expense) to the Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013:

(in thousands)

Details about AOCI Components	Amounts Reclassified from AOCI		Affected Line Item in the
	Three Months Ended September 30, 2014	2013	Statements of Operations
Gains and (losses) on derivative financial instruments:			
Interest rate swaps	\$(929 )	\$(924 )	Interest expense
Foreign exchange forward contracts	(2,191 )	460	Cost of products sold
Foreign exchange forward contracts	(16 )	(27 )	SG&A expenses
Commodity contracts	(95 )	(190 )	Cost of products sold
	(3,231 )	(681 )	Net loss before tax
	1,320	156	Tax benefit
	\$(1,911 )	\$(525 )	Net of tax
Amortization of defined benefit pension and other postemployment benefit items:			
Amortization of prior service benefits	\$33	\$34	(a)
Amortization of net actuarial losses	(678 )	(1,380 )	(a)
	(645 )	(1,346 )	Net loss before tax
	193	394	Tax benefit
	\$(452 )	\$(952 )	Net of tax

Total reclassifications for the period                    \$(2,363                    ) \$(1,477                    )

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the three months ended September 30, 2014 and 2013 (see Note 8, Benefit Plans, for additional details).

(in thousands)

Details about AOCI Components	Amounts Reclassified from AOCI Nine Months Ended September 30,		Affected Line Item in the Statements of Operations
	2014	2013	
<b>Gains and (losses) on derivative financial instruments:</b>			
Interest rate swaps	\$(2,785	) \$(2,755	) Interest expense
Foreign exchange forward contracts	(5,487	) 1,589	) Cost of products sold
Foreign exchange forward contracts	(174	) (67	) SG&A expenses
Commodity contracts	(498	) 12	) Cost of products sold
	(8,944	) (1,221	) Net loss before tax
	2,966	492	) Tax benefit
	\$(5,978	) \$(729	) Net of tax
<b>Amortization of defined benefit pension and other postemployment benefit items:</b>			
Amortization of prior service benefits	\$102	\$101	(b)
Amortization of net actuarial losses	(2,116	) (4,104	) (b)
	(2,014	) (4,003	) Net loss before tax
	619	1,184	) Tax benefit
	\$(1,395	) \$(2,819	) Net of tax
Total reclassifications for the period	\$(7,373	) \$(3,548	)

(b) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the nine months ended September 30, 2014 and 2013 (see Note 8, Benefit Plans, for additional details).



## NOTE 4 – EARNINGS PER COMMON SHARE

The dilutive effect of outstanding non-qualified stock options and RSU is reflected in diluted earnings per share by application of the treasury stock method. The following table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2014 and 2013:

Basic Earnings Per Common Share Computation (in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Net income attributable to DENTSPLY International	\$75,273	\$79,851	\$238,144	\$238,763
Weighted average common shares outstanding	141,766	142,421	141,869	142,705
Earnings per common share - basic	\$0.53	\$0.56	\$1.68	\$1.67
Diluted Earnings Per Common Share Computation (in thousands, except per share amounts)				
Net income attributable to DENTSPLY International	\$75,273	\$79,851	\$238,144	\$238,763
Weighted average common shares outstanding	141,766	142,421	141,869	142,705
Incremental weighted average shares from assumed exercise of dilutive options from stock-based compensation awards	2,520	2,277	2,420	2,247
Total weighted average diluted shares outstanding	144,286	144,698	144,289	144,952
Earnings per common share - diluted	\$0.52	\$0.55	\$1.65	\$1.65

The calculation of weighted average diluted shares outstanding excludes options to purchase 0.9 million and 1.2 million shares of common stock that were outstanding during the three and nine months ended September 30, 2014, respectively, because their effect would be antidilutive. There were 2.1 million and 2.7 million antidilutive shares of common stock outstanding during the three and nine months ended September 30, 2013, respectively.

## NOTE 5 – BUSINESS ACQUISITIONS

Effective January 1, 2014, the Company recorded a liability for the contractual purchase of the remaining shares of one variable interest entity. The amount is preliminary and is based on the Company's best estimate of this obligation, which is subject to contractual adjustments. As a result, the Company recorded a reduction to additional paid in capital for the excess of the purchase price above the carrying value of the noncontrolling interest. The Company anticipates the cash outflow for this purchase to be later in 2014 or early in 2015.

## NOTE 6 – SEGMENT INFORMATION

The Company has numerous operating businesses covering a wide range of dental and certain healthcare products and geographic regions, primarily serving the professional dental market. Professional dental products represented approximately 88% of sales in each of the three month periods ended September 30, 2014 and 2013, and 88% of sales for the nine month periods ended September 30, 2014 and 2013.

The operating businesses are combined into operating groups, which generally have overlapping product offerings, geographical presence, customer bases, distribution channels, and regulatory oversight. These operating groups are



considered the Company's reportable segments as the Company's chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company's operations. The accounting policies of the segments are consistent with those described in the Company's most recently filed Form 10-K in the summary of significant accounting policies. The Company evaluates performance of the segments based on the groups' net third party sales, excluding precious metal content, and segment income. The Company defines net third party sales excluding precious metal content as the Company's net sales excluding the precious metal cost within the products sold, and this is considered a non-US GAAP measure. The

Company's exclusion of precious metal content in the measurement of net third party sales enhances comparability of performance between periods as it excludes the fluctuating market prices of the precious metal content. The Company defines segment income as net operating income before restructuring and other costs, interest expense, interest income, other expense (income), net and provision for income taxes. A description of the products and services provided within each of the Company's three reportable segments is provided below.

Significant interdependencies exist among the Company's operations in certain geographic areas. Inter-segment sales are at prices intended to provide a reasonable profit to the manufacturing unit after recovery of all manufacturing costs and to provide a reasonable profit for purchasing locations after coverage of marketing and general and administrative costs.

During the first quarter of 2014, the Company realigned reporting responsibilities for multiple locations as a result of changes to the management structure. The segment information below reflects the revised structure for all periods shown.

#### Dental Consumables and Certain International Businesses

This segment includes responsibility for the design and manufacture of the Company's chairside consumable products. It also has responsibilities for sales and distribution of certain small equipment and chairside consumable products in the United States, Germany and certain other European regions as well as responsibility for the sales and distribution of certain endodontic products in Germany and certain other European regions. In addition, this segment has responsibilities for sales and distribution of chairside consumable, endodontic and dental laboratory products in Australia.

#### Dental Specialty and Laboratory and Certain Global Distribution Businesses

This segment includes responsibility for the design, manufacture, sales and distribution of most of the Company's dental specialty products, including endodontic, orthodontic and implant products, in most regions of the world. In addition, this segment is responsible for the design, manufacture, sales and distribution of most of the Company's dental laboratory products. This segment is also responsible for the sales and distribution of most of the Company's other dental products, including most dental consumables, within certain European regions as well as Japan, Canada and Mexico, and the design, manufacture, worldwide distribution and sales of certain non-dental products, excluding urological and surgery-related products.

#### Healthcare and Emerging Markets Businesses

This segment is responsible for the worldwide design, manufacture, sales and distribution of the Company's healthcare products, primarily urological and surgery-related products, throughout most of the world. This segment also includes the responsibility for the sales and distribution of most of the Company's dental products, including most dental consumables, sold in Eastern Europe, Middle East, South America, Latin America, Asia (excluding Japan) and Africa.

The following tables set forth information about the Company's segments for the three and nine months ended September 30, 2014 and 2013:

#### Third Party Net Sales

(in thousands)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Dental Consumable and Certain International Businesses	\$ 182,885	\$ 172,382	\$ 540,601	\$ 506,777

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-Q

Dental Specialty and Laboratory and Certain Global Distribution Businesses	387,005	403,200	1,262,067	1,309,304
Healthcare and Emerging Markets Businesses	139,521	129,551	404,314	384,344
All Other (a)	(1,171 )	(1,115 )	(3,403 )	(3,313 )
Total net sales	\$708,240	\$704,018	\$2,203,579	\$2,197,112

(a) Includes amounts recorded at Corporate headquarters.

## Third Party Net Sales, Excluding Precious Metal Content

(in thousands)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Dental Consumable and Certain International Businesses	\$182,811	\$172,300	\$540,363	\$506,505
Dental Specialty and Laboratory and Certain Global Distribution Businesses	360,600	368,915	1,160,911	1,171,218
Healthcare and Emerging Markets Businesses	139,344	129,324	403,794	383,619
All Other (b)	(1,171 )	(1,115 )	(3,403 )	(3,313 )
Total net sales, excluding precious metal content	681,584	669,424	2,101,665	2,058,029
Precious metal content of sales	26,656	34,594	101,914	139,083
Total net sales, including precious metal content	\$708,240	\$704,018	\$2,203,579	\$2,197,112

(b) Includes amounts recorded at Corporate headquarters.

## Inter-segment Net Sales

(in thousands)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Dental Consumable and Certain International Businesses	\$29,296	\$30,154	\$90,106	\$91,757
Dental Specialty and Laboratory and Certain Global Distribution Businesses	42,689	47,161	143,407	139,598
Healthcare and Emerging Markets Businesses	3,851	3,611	9,797	10,188
All Other (c)	58,751	61,214	182,019	178,880
Eliminations	(134,587 )	(142,140 )	(425,329 )	(420,423 )
Total	\$—	\$—	\$—	\$—

(c) Includes amounts recorded at Corporate headquarters and one distribution warehouse not managed by named segments.

## Segment Operating Income (Loss)

(in thousands)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Dental Consumable and Certain International Businesses	\$69,135	\$61,946	\$193,791	\$176,124
Dental Specialty and Laboratory and Certain Global Distribution Businesses	57,504	62,125	211,033	211,561
Healthcare and Emerging Markets Businesses	9,834	6,239	24,517	16,328
All Other (d)	(24,389 )	(23,058 )	(82,546 )	(77,203 )
Segment operating income	112,084	107,252	346,795	326,810

## Reconciling Items:

Restructuring and other costs	2,503	2,231	4,538	5,065
Interest expense	12,665	11,442	35,418	38,170
Interest income	(1,391 )	(2,138 )	(4,570 )	(6,556 )
Other expense (income), net	791	1,581	1,754	8,723
Income before income taxes	\$97,516	\$94,136	\$309,655	\$281,408

(d) Includes the results of Corporate headquarters, inter-segment eliminations and one distribution warehouse not managed by named segments.



Assets (in thousands)	September 30, 2014	December 31, 2013
Dental Consumable and Certain International Businesses	\$684,089	\$683,965
Dental Specialty and Laboratory and Certain Global Distribution Businesses	3,133,070	3,364,190
Healthcare and Emerging Markets Businesses	862,659	925,742
All Other (e)	204,243	104,150
Total	\$4,884,061	\$5,078,047

(e) Includes the assets of Corporate headquarters, inter-segment eliminations and one distribution warehouse not managed by named segments.

#### NOTE 7 – INVENTORIES

Inventories are stated at the lower of cost or market. The cost of inventories determined by the last-in, first-out (“LIFO”) method at September 30, 2014 and December 31, 2013 were \$6.8 million and \$6.5 million, respectively. The cost of other inventories was determined by the first-in, first-out (“FIFO”) or average cost methods. If the FIFO method had been used to determine the cost of LIFO inventories, the amounts at which net inventories are stated would be higher than reported at September 30, 2014 and December 31, 2013 by \$6.1 million and \$5.9 million, respectively.

The Company establishes reserves for inventory estimated to be obsolete or unmarketable. Assumptions about future demand and market conditions are considered when estimating these reserves. The inventory valuation reserves were \$37.5 million and \$34.2 million at September 30, 2014 and December 31, 2013, respectively.

Inventories, net of inventory valuation reserves, consist of the following:

(in thousands)	September 30, 2014	December 31, 2013
Finished goods	\$273,773	\$285,271
Work-in-process	66,831	67,718
Raw materials and supplies	81,881	85,570
Inventories, net	\$422,485	\$438,559

#### NOTE 8 – BENEFIT PLANS

The following sets forth the components of net periodic benefit cost of the Company’s defined benefit plans and for the Company’s other postemployment benefit plans for the three and nine months ended September 30, 2014 and 2013:

Defined Benefit Plans (in thousands)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Service cost	\$3,371	\$3,728	\$10,473	\$11,113
Interest cost	2,742	2,486	8,468	7,408
Expected return on plan assets	(1,339)	(1,252)	(4,117)	(3,729)
Amortization of prior service credit	(33)	(34)	(102)	(101)
Amortization of net actuarial loss	699	1,292	2,116	3,840
Curtailments and settlement gains	—	(680)	—	(1,305)
Net periodic benefit cost	\$5,440	\$5,540	\$16,838	\$17,226



Other Postemployment Benefit Plans (in thousands)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Service cost	\$97	\$61	\$187	\$184
Interest cost	118	122	398	364
Amortization of net actuarial (gain) loss	(21	) 88	—	264
Net periodic benefit cost	\$194	\$271	\$585	\$812

The following sets forth the information related to the contributions to the Company's benefit plans for 2014:

(in thousands)	Pension Benefits	Other Postemployment Benefits
Actual contributions through September 30, 2014	\$8,967	\$196
Projected contributions for the remainder of the year	3,310	306
Total projected contributions	\$12,277	\$502

#### NOTE 9 – RESTRUCTURING AND OTHER COSTS

##### Restructuring Costs

During the three and nine months ended September 30, 2014, the Company recorded net restructuring costs of \$2.5 million and \$4.5 million, respectively. During the three and nine months ended September 30, 2013, the Company recorded net restructuring costs of \$2.4 million and \$5.2 million, respectively. These costs are recorded in “Restructuring and other costs” in the Consolidated Statements of Operations and the associated liabilities are recorded in “Accrued liabilities” in the Consolidated Balance Sheets.

At September 30, 2014, the Company's restructuring accruals were as follows:

(in thousands)	Severance 2012 and Prior Plans	2013 Plans	2014 Plans	Total
Balance at December 31, 2013	\$1,282	\$5,764	\$—	\$7,046
Provisions	144	288	3,670	4,102
Amounts applied	(691	) (3,877	) (679	) (5,247
Change in estimates	(376	) (747	) (219	) (1,342
Balance at September 30, 2014	\$359	\$1,428	\$2,772	\$4,559

(in thousands)	Lease/Contract Terminations 2012 and Prior Plans	2013 Plans	2014 Plans	Total
Balance at December 31, 2013	\$748	\$98	\$—	\$846
Provisions	11	80	33	124
Amounts applied	(100	) (266	) —	(366
Change in estimate	(92	) 95	—	3
Balance at September 30, 2014	\$567	\$7	\$33	\$607





(in thousands)	Other Restructuring Costs			
	2012 and Prior Plans	2013 Plans	2014 Plans	Total
Balance at December 31, 2013	\$58	\$658	\$—	\$716
Provisions	—	17	2,237	2,254
Amounts applied	(61	) (389	) (1,251	) (1,701
Change in estimate	28	(274	) —	(246
Balance at September 30, 2014	\$25	\$12	\$986	\$1,023

The following table provides the year-to-date changes in the restructuring accruals by segment:

(in thousands)	December 31, 2013	Provisions	Amounts Applied	Change in Estimates	September 30, 2014
Dental Consumable and Certain International Businesses	\$656	\$1,885	\$(386	) \$(141	) \$2,014
Dental Specialty and Laboratory and Certain Global Distribution Businesses	6,333	3,613	(5,325	) (1,275	) 3,346
Healthcare and Emerging Markets Businesses	1,245	689	(1,001	) (104	) 829
All Other	374	293	(602	) (65	) —
Total	\$8,608	\$6,480	\$(7,314	) \$(1,585	) \$6,189

## NOTE 10 – FINANCIAL INSTRUMENTS AND DERIVATIVES

## Derivative Instruments and Hedging Activities

The Company's activities expose it to a variety of market risks, which primarily include the risks related to the effects of changes in foreign currency exchange rates, interest rates and commodity prices. These financial exposures are monitored and managed by the Company as part of its overall risk management program. The objective of this risk management program is to reduce the volatility that these market risks may have on the Company's operating results and equity. The Company employs derivative financial instruments to hedge certain anticipated transactions, firm commitments, or assets and liabilities denominated in foreign currencies. Additionally, the Company utilizes interest rate swaps to convert variable rate debt to fixed rate debt and to convert fixed rate debt to variable rate debt, cross currency basis swaps to convert debt denominated in one currency to another currency and commodity swaps to fix certain variable raw material costs.

## Derivative Instruments Designated as Hedging

## Cash Flow Hedges

The following table summarizes the notional amounts of cash flow hedges by derivative instrument type at September 30, 2014 and the notional amounts expected to mature during the next 12 months, with a discussion of the various cash flow hedges by derivative instrument type following the table:

(in thousands)	Aggregate Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Foreign exchange forward contracts	\$371,154	\$278,247
Interest rate swaps	182,496	—
Commodity contracts	1,949	1,949
Total derivative instruments designated as cash flow hedges	\$555,599	\$280,196

## Foreign Exchange Risk Management

The Company uses a layered hedging program to hedge select anticipated foreign currency cash flows to reduce volatility in both cash flows and reported earnings of the consolidated Company. The Company accounts for the designated foreign exchange forward contracts as cash flow hedges. As a result, the Company records the fair value of the contracts primarily through AOCI based on the tested effectiveness of the foreign exchange forward contracts. The Company measures the effectiveness of cash flow hedges of anticipated transactions on a spot-to-spot basis rather than on a forward-to-forward basis. Accordingly, the spot-to-spot change in the derivative fair value will be deferred in AOCI and released and recorded on the Consolidated Statements of Operations in the same period that the hedged transaction is recorded. The time value component of the fair value of the derivative is deemed ineffective and is reported currently in "Other expense (income), net" on the Consolidated Statements of Operations in the period which it is applicable. Any cash flows associated with these instruments are included in cash from operating activities on the Consolidated Statements of Cash Flows. The Company hedges various currencies, with the most significant activity occurring in euros, Swedish kronor, Canadian dollars, and Swiss francs.

These foreign exchange forward contracts generally have maturities up to 18 months and the counterparties to the transactions are typically large international financial institutions.

## Interest Rate Risk Management

The Company uses interest rate swaps to convert a portion of its variable interest rate debt to fixed interest rate debt. At September 30, 2014, the Company has two groups of significant interest rate swaps. On September 29, 2014, the Company replaced the maturing 12.6 billion Japanese yen variable interest rate debt facility with a new variable rate facility for the same amount. In addition, the Company settled existing swaps that converted the underlying variable interest rate on the matured facility and issued new interest rate swaps with notional amounts totaling 12.6 billion Japanese yen, which effectively converts the underlying variable interest rate on the new facility to a fixed interest rate of 0.9% for a term of five years ending September 2019. Another swap has a notional amount of 65.0 million Swiss francs, and effectively converts the underlying variable interest rate of a Swiss franc denominated loan to a fixed interest rate of 0.7% for an initial term of five years, ending in September 2016.

The Company enters into interest rate swap contracts infrequently as they are only used to manage interest rate risk on long-term debt instruments and not for speculative purposes. Any cash flows associated with these instruments are included in cash from operating activities on the Consolidated Statements of Cash Flows.

#### Commodity Risk Management

The Company enters into precious metal commodity swap contracts to effectively fix certain variable raw material costs typically for up to 18 months. These swaps are used to stabilize the cost of components used in the production of certain of the Company's products. The Company generally accounts for the commodity swaps as cash flow hedges. As a result, the Company records the fair value of the contracts primarily through AOCI based on the tested effectiveness of the commodity swaps. The Company measures the effectiveness of cash flow hedges of anticipated transactions on a spot-to-spot basis rather than on a forward-to-forward basis. Accordingly, the spot-to-spot change in the derivative fair value will be deferred in AOCI and released and recorded on the Consolidated Statements of Operations in the same period that the hedged transaction is recorded. The time value component of the fair value of the derivative is deemed ineffective and is reported currently in "Interest expense" on the Consolidated Statements of Operations in the period which it is applicable. Any cash flows associated with these instruments are included in cash from operating activities on the Consolidated Statements of Cash Flows.

The following tables summarize the amount of gains (losses) recorded in AOCI in the Consolidated Balance Sheets and income (expense) in the Company's Consolidated Statements of Operations related to all cash flow hedges for the three months ended September 30, 2014 and 2013:

September 30, 2014

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
<b>Effective Portion:</b>				
Interest rate swaps	\$ 332	Interest expense	\$(929)	)
Foreign exchange forward contracts	7,440	Cost of products sold	(2,191	)
Foreign exchange forward contracts	322	SG&A expenses	(16	)
Commodity contracts	(311	) Cost of products sold	(95	)
<b>Ineffective Portion:</b>				
Foreign exchange forward contracts		Other expense (income), net		\$(146)
Total in cash flow hedging	\$7,783		\$(3,231	) \$(146)

September 30, 2013

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
<b>Effective Portion:</b>				
Interest rate swaps	\$(414	) Interest expense	\$(924	)
Foreign exchange forward contracts	(2,488	) Cost of products sold	460	
Foreign exchange forward contracts	(273	) SG&A expenses	(27	)
Commodity contracts	457	Cost of products sold	(190	)
<b>Ineffective Portion:</b>				
Foreign exchange forward contracts		Other expense (income), net		\$134
Commodity contracts		Interest expense		(13
Total for cash flow hedging	\$(2,718	)	\$(681	) \$121

The following tables summarize the amount of gains (losses) recorded in AOCI in the Consolidated Balance Sheets and income (expense) in the Company's Consolidated Statements of Operations related to all cash flow hedges for the nine months ended September 30, 2014 and 2013:

September 30, 2014

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
<b>Effective Portion:</b>				
Interest rate swaps	\$(205	) Interest expense	\$(2,785	)
Foreign exchange forward contracts	3,871	Cost of products sold	(5,487	)
Foreign exchange forward contracts	357	SG&A expenses	(174	)
Commodity contracts	(108	) Cost of products sold	(498	)
<b>Ineffective Portion:</b>				
Foreign exchange forward contracts		Other expense (income), net		\$(191
Commodity contracts		Interest expense		(24
Total in cash flow hedging	\$3,915		\$(8,944	) \$(215

September 30, 2013

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
<b>Effective Portion:</b>				
Interest rate swaps	\$ 180	Interest expense	\$(2,755)	)
Foreign exchange forward contracts	(3,790)	) Cost of products sold	1,589	
Foreign exchange forward contracts	(184)	) SG&A expenses	(67)	)
Commodity contracts	(802)	) Cost of products sold	12	
<b>Ineffective Portion:</b>				
Foreign exchange forward contracts		Other expense (income), net		\$ 323
Commodity contracts		Interest expense		(54)
Total for cash flow hedging	\$(4,596)	)	\$(1,221)	) \$ 269

Overall, the derivatives designated as cash flow hedges are considered to be highly effective. At September 30, 2014, the Company expects to reclassify \$1.6 million of deferred net losses on cash flow hedges recorded in AOCI to the Consolidated Statements of Operations during the next 12 months. This reclassification is primarily due to the sale of inventory that includes hedged purchases and recognized interest expense on interest rate swaps. The term over which the Company is hedging exposures to variability of cash flows (for all forecasted transactions, excluding interest payments on variable interest rate debt) is typically 18 months.

For the rollforward of derivative instruments designated as cash flow hedges in AOCI see Note 3, Comprehensive Income.

#### Hedges of Net Investments in Foreign Operations

The Company has significant investments in foreign subsidiaries the most significant of which are denominated in euros, Swiss francs, Japanese yen and Swedish kronor. The net assets of these subsidiaries are exposed to volatility in currency exchange rates. To hedge a portion of this exposure the Company employs both derivative and non-derivative financial instruments. The derivative instruments consist of foreign exchange forward contracts and cross currency basis swaps. The non-derivative instruments consist of foreign currency denominated debt held at the parent company level. Translation gains and losses related to the net assets of the foreign subsidiaries are offset by gains and losses in derivative and non-derivative financial instruments designated as hedges of net investments, which are included in AOCI. Any cash flows associated with these instruments are included in investing activities on the Consolidated Statements of Cash Flows except for derivative instruments that include an other-than-insignificant financing element, in which case all cash flows will be classified as financing activities on the Consolidated Statements of Cash Flows.

The following table summarizes the notional amounts of hedges of net investments by derivative instrument type at September 30, 2014 and the notional amounts expected to mature during the next 12 months:

Aggregate

(in thousands)	Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Foreign exchange forward contracts	\$435,730	\$247,543
Total derivative instruments designated as net investment hedges	\$435,730	\$247,543

On February 14, 2014, the Company de-designated 449.8 million euros of foreign exchange forward contracts that were previously designated as net investment hedges. The change in the value of the de-designated hedges will be recorded in "Other expense (income), net" on the Consolidated Statements of Operations and will offset the change in the value of non-designated



euro denominated cross currency basis swaps as further noted in the section below titled Derivative Instruments Not Designated as Hedges.

On September 4, 2014, the Company settled and replaced with new contracts net investment hedges totaling 432.5 million Swiss francs. The settled hedge instruments were cross currency basis swaps that matured periodically through April 2018. The Company replaced these hedges with new foreign exchange forwards contracts, totaling 258.1 million Swiss francs, which have layered maturity dates from December 2014 through September 2016. These settled net investment hedges resulted in cash receipts totaling \$0.1 million during September 2014.

The fair value of the cross currency basis swaps and foreign exchange forward contracts is the estimated amount the Company would receive or pay at the reporting date, taking into account the effective interest rates, cross currency swap basis rates and foreign exchange rates. The effective portion of the change in the value of these derivatives is recorded in AOCI, net of tax effects.

The following tables summarize the amount of gains (losses) recorded in AOCI on the Consolidated Balance Sheets and income (expense) on the Company's Consolidated Statements of Operations related to the hedges of net investments for the three months ended September 30, 2014 and 2013:

September 30, 2014

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
Effective Portion:			
Cross currency basis swaps	\$22,427	Interest income	\$501
		Interest expense	(1,726 )
Foreign exchange forward contracts	21,167	Other expense (income), net	569
Total for net investment hedging	\$43,594		\$(656 )

September 30, 2013

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
Effective Portion:			
Cross currency basis swaps	\$(49,614 )	Interest income	\$1,331
		Interest expense	755
Total for net investment hedging	\$(49,614 )		\$2,086

The following tables summarize the amount of gains (losses) recorded in AOCI on the Consolidated Balance Sheets and income (expense) on the Company's Consolidated Statements of Operations related to the hedges of net investments for the nine months ended September 30, 2014 and 2013:

September 30, 2014

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
Effective Portion:			

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-Q

Cross currency basis swaps	\$19,340	Interest income	\$1,852	
		Interest expense	(1,569	)
Foreign exchange forward contracts	25,508	Other expense (income), net	743	
Total for net investment hedging	\$44,848		\$1,026	

24

---

September 30, 2013

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
Effective Portion:			
Cross currency basis swaps	\$(23,464 )	Interest income	\$3,988
		Interest expense	497
Total for net investment hedging	\$(23,464 )		\$4,485

## Fair Value Hedges

The Company uses interest rate swaps to convert a portion of its fixed interest rate debt to variable interest rate debt. The Company has a group of U.S. dollar denominated interest rate swaps with an initial total notional value of \$150.0 million to effectively convert the underlying fixed interest rate of 4.1% on the Company's \$250.0 million Private Placement Notes ("PPN") to variable rate for an initial term of five years, ending February 2016. The notional value of the swaps will decline proportionately as portions of the PPN mature. These interest rate swaps are designated as fair value hedges of the interest rate risk associated with the hedged portion of the fixed rate PPN. Accordingly, the Company will carry the portion of the hedged debt at fair value, with the change in debt and swaps offsetting each other on the Consolidated Statements of Operations. Any cash flows associated with these instruments are included in operating activities on the Consolidated Statements of Cash Flows.

The following table summarizes the notional amounts of fair value hedges by derivative instrument type at September 30, 2014 and the notional amounts expected to mature during the next 12 months:

(in thousands)	Aggregate Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Interest rate swaps	\$105,000	\$60,000

The following tables summarize the amount of income (expense) recorded on the Company's Consolidated Statements of Operations related to the hedges of fair value for the three and nine months ended September 30, 2014 and 2013:

(in thousands)	Consolidated Statements of Operations Location	Income (Expense) Recognized			
		Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Interest rate swaps	Interest expense	\$(107 )	\$251	\$113	\$163

## Derivative Instruments Not Designated as Hedges

The Company enters into derivative instruments with the intent to partially mitigate the foreign exchange revaluation risk associated with recorded assets and liabilities that are denominated in a non-functional currency. The gains and losses on these derivative transactions offset the gains and losses generated by the revaluation of the underlying non-functional currency balances and are recorded in "Other expense (income), net" on the Consolidated Statements of Operations. The Company primarily uses foreign exchange forward contracts and cross currency basis swaps to hedge these risks. Any cash flows associated with the foreign exchange forward contracts and interest rate swaps not designated as hedges are included in cash from operating activities on the Consolidated Statements of Cash Flows.

Any cash flows associated with the cross currency basis swaps not designated as hedges are included in investing activities on the Consolidated Statements of Cash Flows except for derivative instruments that include an other-than-insignificant financing element, in which case the cash flows will be classified as financing activities on the Consolidated Statements of Cash Flows.

The following tables summarize the aggregate notional amounts of the Company's economic hedges not designated as hedges by derivative instrument types at September 30, 2014 and the notional amounts expected to mature during the next 12 months:

(in thousands)	Aggregate Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Foreign exchange forward contracts	\$1,075,094	\$1,075,094
Interest rate swaps	3,192	912
Cross currency basis swaps	637,528	637,528
Total for instruments not designated as hedges	\$1,715,814	\$1,713,534

The Company maintains Swiss franc denominated cross currency basis swaps to offset an intercompany Swiss franc note receivable at a U.S. dollar functional entity. The hedge declines each quarter to coincide with expected repayments of the note. At September 30, 2014, the remaining notional value of the cross currency swaps was 66.4 million Swiss francs.

On February 14, 2014, a series of U.S. dollar denominated intercompany note receivables were transferred from a euro functional entity to a U.S. dollar functional entity at which point the underlying foreign currency revaluation risk that was hedged by non-designated cross currency swaps totaling 449.8 million euro was eliminated. As a result, the company de-designated an offsetting amount of 449.8 million euro of net investment hedges. The change in the value of the de-designated net investment hedges will be recorded in "Other expense (income), net" on the Consolidated Statements of Operations and will offset the change in the value of the non-designated euro denominated cross currency swaps until both sets of hedges mature in December 2014.

The following table summarizes the amounts of gains (losses) recorded on the Company's Consolidated Statements of Operations related to the economic hedges not designated as hedging for the three and nine months ended September 30, 2014 and 2013:

(in thousands)	Consolidated Statements of Operations Location	Gain (Loss) Recognized Three Months Ended September 30,	
		2014	2013
Foreign exchange forward contracts (a)	Other expense (income), net	\$36,759	\$3,110
DIO equity option contracts	Other expense (income), net	(34	) 8
Interest rate swaps	Interest expense	(20	) (7
Cross currency basis swaps (a)	Other expense (income), net	(40,596	) 10,625
Total for instruments not designated as hedges		\$(3,891	) \$13,736

(a) The gains and losses on these derivative transactions offset the gains and losses generated by the revaluation of the underlying non-functional currency balances which are recorded in "Other expense (income), net" on the Consolidated Statements of Operations.

(in thousands)	Consolidated Statements of Operations Location	Gain (Loss) Recognized Nine Months Ended September 30,	
		2014	2013

Foreign exchange forward contracts (b)	Other expense (income), net	\$31,635	\$6,193
DIO equity option contracts	Other expense (income), net	(169	) 20
Interest rate swaps	Interest expense	(47	) 14
Cross currency basis swaps (b)	Other expense (income), net	(43,776	) 9,250
Total for instruments not designated as hedges		\$(12,357	) \$15,477

(b) The gains and losses on these derivative transactions offset the gains and losses generated by the revaluation of the underlying non-functional currency balances which are recorded in "Other expense (income), net" on the Consolidated Statements of Operations.

## Consolidated Balance Sheets Location of Derivative Fair Values

The following tables summarize the fair value and consolidated balance sheet location of the Company's derivatives at September 30, 2014 and December 31, 2013:

(in thousands)	September 30, 2014			
	Prepaid Expenses and Other Current Assets, Net	Other Noncurrent Assets, Net	Accrued Liabilities	Other Noncurrent Liabilities
<b>Designated as Hedges</b>				
Foreign exchange forward contracts	\$17,622	\$7,929	\$2,055	\$288
Commodity contracts	—	—	258	—
Interest rate swaps	1,277	445	587	689
Total	\$18,899	\$8,374	\$2,900	\$977
<b>Not Designated as Hedges</b>				
Foreign exchange forward contracts	\$50,435	\$—	\$5,020	\$—
DIO equity option contracts	—	—	—	289
Interest rate swaps	—	—	75	170
Cross currency basis swaps	1,622	—	81,995	—
Total	\$52,057	\$—	\$87,090	\$459
(in thousands)	December 31, 2013			
	Prepaid Expenses and Other Current Assets, Net	Other Noncurrent Assets, Net	Accrued Liabilities	Other Noncurrent Liabilities
<b>Designated as Hedges</b>				
Foreign exchange forward contracts	\$1,517	\$255	\$10,280	\$940
Commodity contracts	—	1	434	1
Interest rate swaps	789	1,617	466	419
Cross currency basis swaps	530	—	2,223	16,413
Total	\$2,836	\$1,873	\$13,403	\$17,773
<b>Not Designated as Hedges</b>				
Foreign exchange forward contracts	\$3,128	\$—	\$2,328	\$—
DIO equity option contracts	—	—	—	142
Interest rate swaps	—	—	85	256
Cross currency basis swaps	—	—	38,551	1,941
Total	\$3,128	\$—	\$40,964	\$2,339

## Balance Sheet Offsetting

Substantially all of the Company's derivative contracts are subject to netting arrangements, whereby the right to offset occurs in the event of default or termination in accordance with the terms of the arrangements with the counterparty. While these contracts contain the enforceable right to offset through netting arrangements with the same counterparty, the Company elects to present them on a gross basis on the Consolidated Balance Sheets.



## Offsetting of financial assets and liabilities under netting arrangements at September 30, 2014:

(in thousands)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received/Pledged	
<b>Assets</b>						
Foreign exchange forward contracts	\$75,986	\$—	\$75,986	\$(15,258)	\$—	\$60,728
Interest rate swaps	1,722	—	1,722	(780)	—	942
Cross currency basis swaps	1,622	—	1,622	(926)	—	696
<b>Total Assets</b>	<b>\$79,330</b>	<b>\$—</b>	<b>\$79,330</b>	<b>\$(16,964)</b>	<b>\$—</b>	<b>\$62,366</b>

(in thousands)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received/Pledged	
<b>Liabilities</b>						
Foreign exchange forward contracts	\$7,362	\$—	\$7,362	\$(4,791)	\$—	\$2,571
Commodity contracts	258	—	258	—	—	258
DIO equity option contracts	289	—	289	—	—	289
Interest rate swaps	1,522	—	1,522	(1,170)	—	352
Cross currency basis swaps	81,995	—	81,995	(11,003)	—	70,992
<b>Total Liabilities</b>	<b>\$91,426</b>	<b>\$—</b>	<b>\$91,426</b>	<b>\$(16,964)</b>	<b>\$—</b>	<b>\$74,462</b>



## Offsetting of financial assets and liabilities under netting arrangements at December 31, 2013:

(in thousands)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received/Pledged	
<b>Assets</b>						
Foreign exchange forward contracts	\$4,900	\$—	\$4,900	\$(4,641)	\$—	\$259
Commodity contracts	1	—	1	(1)	—	—
Interest rate swaps	2,406	—	2,406	(1,979)	—	427
Cross currency basis swaps	530	—	530	(530)	—	—
<b>Total Assets</b>	<b>\$7,837</b>	<b>\$—</b>	<b>\$7,837</b>	<b>\$(7,151)</b>	<b>\$—</b>	<b>\$686</b>

(in thousands)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received/Pledged	
<b>Liabilities</b>						
Foreign exchange forward contracts	\$13,548	\$—	\$13,548	\$(3,467)	\$—	\$10,081
Commodity contracts	435	—	435	(1)	—	434
DIO equity option contracts	142	—	142	—	—	142
Interest rate swaps	1,226	—	1,226	(62)	—	1,164
Cross currency basis swaps	59,128	—	59,128	(3,621)	—	55,507
<b>Total Liabilities</b>	<b>\$74,479</b>	<b>\$—</b>	<b>\$74,479</b>	<b>\$(7,151)</b>	<b>\$—</b>	<b>\$67,328</b>

## NOTE 11 – FAIR VALUE MEASUREMENT

The Company records financial instruments at fair value with unrealized gains and losses related to certain financial instruments reflected in AOCI on the Consolidated Balance Sheets. In addition, the Company recognizes certain liabilities at fair value. The Company applies the market approach for recurring fair value measurements. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Company believes the carrying amounts of cash and cash equivalents, accounts receivable (net of allowance for doubtful accounts), prepaid expenses and other current assets, accounts payable, accrued liabilities, income taxes payable and notes payable approximate fair value due to the short-term nature of these instruments. The Company estimated the fair value and carrying value of total long-term debt, including the current portion, was \$1,314.5 million and \$1,275.7 million, respectively, at September 30, 2014. At December 31, 2013, the Company estimated the fair value and carrying value, including the current portion, was \$1,387.7 million and \$1,370.8 million, respectively. The interest rate on the \$450.0 million Senior Notes, the \$300.0 million Senior Notes, and the \$250.0 million PPN are fixed rates of 4.2%, 2.8% and 4.1%, respectively, and their fair value is

based on the interest rates as of September 30, 2014. The interest rates on variable rate term loan debt and commercial paper are consistent with current market conditions, therefore the fair value of these instruments approximates their carrying values.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2014 and December 31, 2013, which are classified as "Cash and cash equivalents," "Prepaid expenses and other current assets, net," "Other noncurrent assets, net," "Accrued liabilities," and "Other noncurrent liabilities" in the Consolidated Balance Sheets. Financial assets and liabilities that are recorded at fair value as of the balance sheet date are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(in thousands)	September 30, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Interest rate swaps	\$ 1,722	\$—	\$ 1,722	\$—
Cross currency basis swaps	1,622	—	1,622	—
Foreign exchange forward contracts	75,986	—	75,986	—
DIO Corporation convertible bonds	65,453	—	—	65,453
Total assets	\$ 144,783	\$—	\$ 79,330	\$ 65,453
<b>Liabilities</b>				
Interest rate swaps	\$ 1,521	\$—	\$ 1,521	\$—
Commodity contracts	258	—	258	—
Cross currency basis swaps	81,995	—	81,995	—
Foreign exchange forward contracts	7,363	—	7,363	—
Long term debt	106,023	—	106,023	—
DIO equity option contracts	289	—	—	289
Total liabilities	\$ 197,449	\$—	\$ 197,160	\$ 289
(in thousands)	December 31, 2013			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Interest rate swaps	\$ 2,406	\$—	\$ 2,406	\$—
Commodity contracts	1	—	1	—
Cross currency basis swaps	530	—	530	—
Foreign exchange forward contracts	4,900	—	4,900	—
DIO Corporation convertible bonds	70,019	—	—	70,019
Total assets	\$ 77,856	\$—	\$ 7,837	\$ 70,019
<b>Liabilities</b>				
Interest rate swaps	\$ 1,226	\$—	\$ 1,226	\$—
Commodity contracts	435	—	435	—
Cross currency basis swaps	59,128	—	59,128	—
Foreign exchange forward contracts	13,548	—	13,548	—
Long term debt	152,370	—	152,370	—
DIO equity option contracts	142	—	—	142
Total liabilities	\$ 226,849	\$—	\$ 226,707	\$ 142

Derivative valuations are based on observable inputs to the valuation model including interest rates, foreign currency exchange rates, future commodities prices and credit risks. As discussed in Note 10, Financial Instruments and Derivatives, commodity

30

---

contracts, certain interest rate swaps and foreign exchange forward contracts are considered cash flow hedges. In addition, certain cross currency basis swaps and foreign exchange forward contracts are considered hedges of net investments in foreign operations.

The Company uses the income method valuation technique to estimate the fair value of the DIO Corporation convertible bonds. The significant unobservable inputs for valuing the corporate bonds are DIO Corporation's stock volatility factor of approximately 40% and corporate bond rating which implies approximately a 9.3% discount rate on the valuation model. Significant observable inputs used to value the corporate bonds include foreign exchange rates and DIO Corporation's period-ending market stock price.

The Company has valued the DIO equity option contracts using a Monte Carlo simulation which uses several estimates and probability assumptions by management including the future stock price, the stock price as a multiple of DIO earnings and the probability of the sellers to reduce their shares held by selling into the open market. The fair value of equity option contracts are reported in "Other noncurrent liabilities," on the Consolidated Balance Sheets and changes in the fair value are reported in "Other expense (income), net" in the Consolidated Statements of Operations.

The following table presents a rollforward of the Company's Level 3 holdings measured at fair value on a recurring basis using unobservable inputs:

(in thousands)	DIO Corporation Convertible Bonds	DIO Equity Options Contracts	
Balance at December 31, 2013	\$70,019	\$(142	)
Unrealized gain:			
Reported in AOCI, pretax	1,246	—	
Unrealized loss:			
Reported in other expense (income), net	—	(169	)
Effects of exchange rate changes	(5,812	) 22	
Balance at September 30, 2014	\$65,453	\$(289	)

For the nine months ended September 30, 2014, there were no purchases, issuances or transfers of Level 3 financial instruments.

## NOTE 12 – INCOME TAXES

### Uncertainties in Income Taxes

The Company recognizes in the interim consolidated financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

It is reasonably possible that certain amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date of the Company's interim consolidated financial statements. Final settlement and resolution of outstanding tax matters in various jurisdictions during the next twelve months could include unrecognized tax benefits of approximately \$23.6 million. Of this total, approximately \$7.0 million represents the amount of unrecognized tax benefits that, if recognized would affect the effective income tax rate. In addition, expiration of statutes of limitation in various jurisdictions during the next 12 months could include unrecognized tax benefits of approximately \$0.3 million.

### Other Tax Matters

For the nine months ended September 30, 2014, the effective tax rate was unfavorably impacted by the Company's change in the mix of consolidated earnings. For the nine months ended September 30, 2013, the Company recorded a tax benefit of \$9.4 million related to U.S. federal legislative changes enacted in January 2013, relating to 2012, and \$9.3 million of benefits related to prior year tax matters.



#### NOTE 13 – FINANCING ARRANGEMENTS

The Company refinanced the first required payment of \$75.0 million under the PPN due February 2016 by issuing commercial paper. The second required payment of \$100.0 million due in February 2015 has been classified as current on the Consolidated Balance Sheets.

The Company repaid the first annual principal amortization of \$8.8 million representing a 5% mandatory principal amortization due in each of the first six years under the terms of the PNC Term Loan with a final maturity of August 26, 2020. The second annual installment in the amount of \$8.8 million will be due in August 2015 and has been classified as current on the Consolidated Balance Sheets.

On July 23, 2014, the Company entered into an Amended and Extended Revolving Credit Agreement to replace the 2011 Revolving Credit Agreement dated July 27, 2011, that had provided for a multi-currency revolving credit facility in an aggregate amount of up to \$500.0 million through July 27, 2016. The new Credit Agreement provides for a new five year, \$500.0 million multi-currency revolving credit facility through July 23, 2019 (the “Facility”) to provide working capital from time to time for the Company and for other general corporate purposes. The Facility is unsecured and contains certain affirmative and negative covenants, which are generally consistent with the prior agreement, relating to the Company’s operations and financial condition, including prescribed leverage and interest coverage ratios. The Facility contains customary events of default. Upon the occurrence of an event of default, all outstanding borrowings under the Credit Agreement may be accelerated and become immediately due and payable. At September 30, 2014, there were no outstanding borrowings, in the form of issued commercial paper, under the current multi-currency revolving facility.

On September 29, 2014, the Company entered into a new Samurai Loan Agreement to replace the maturing Samurai Loan Agreement dated August 27, 2011, in an aggregate amount of 12.6 billion Japanese yen. The new Samurai Loan Agreement (“Samurai Loan”) provides for a new five-year, 12.6 billion Japanese yen term loan through September 30, 2019. The Samurai Loan is designated as a net investment hedge. The Samurai Loan is unsecured and contains certain affirmative and negative covenants relating to the Company’s operations and financial condition, including prescribed leverage and interest coverage ratios. The Samurai Loan contains customary events of default. Upon the occurrence of an event of default, all outstanding borrowings under the Samurai Loan may be accelerated and become immediately due and payable.

The Company’s revolving credit facility, term loans and PPN contain certain affirmative and negative covenants relating to the Company’s operations and financial condition. At September 30, 2014, the Company was in compliance with all debt covenants.

At September 30, 2014, the Company had total unused lines of credit, including lines available under its short-term arrangements and revolving credit agreement, of \$567.7 million.

#### NOTE 14 – GOODWILL AND INTANGIBLE ASSETS

The Company performed the required annual impairment tests of goodwill as of April 30, 2014 on 15 reporting units. As discussed in Note 6, Segment Information, effective in the first quarter of 2014, the Company realigned reporting responsibilities for multiple locations. For any realignment that resulted in reporting unit changes, the Company applied the relative fair value method to determine the reallocation of goodwill of the associated reporting units.

To determine the fair value of the Company’s reporting units, the Company uses a discounted cash flow model with market-based support as its valuation technique to measure the fair value for its reporting units. The discounted cash flow model uses five-year forecasted cash flows plus a terminal value based on a multiple of earnings. In addition, the

Company applies gross margin and operating expense assumptions consistent with historical trends. The total cash flows were discounted based on a range between 8.6% to 14.0%, which included assumptions regarding the Company's weighted-average cost of capital. The Company considered the current market conditions both in the U.S. and globally, when determining its assumptions. Lastly, the Company reconciled the aggregated fair values of its reporting units to its market capitalization, which included a reasonable control premium based on market conditions. As a result of the annual impairment tests of goodwill, no impairment was identified.

In addition, the Company assessed the annual impairment of indefinite-lived intangible assets as of April 30, 2014, which largely consists of acquired tradenames, in conjunction with the annual impairment tests of goodwill. The performance of the Company's annual impairment test did not result in any impairment of the Company's indefinite-lived assets.

A reconciliation of changes in the Company's goodwill is as follows:

(in thousands)	Dental Consumable Businesses and Certain International Businesses	Dental Specialty and Laboratory Businesses and Certain Global Distribution Businesses	Healthcare and Emerging Markets Businesses	Total
Balance at December 31, 2013	\$325,044	\$1,576,126	\$380,426	\$2,281,596
Adjustments of provisional amounts on prior acquisitions	—	(240 )	—	(240 )
Effects of exchange rate changes	(4,784 )	(100,804 )	(15,072 )	(120,660 )
Balance at September 30, 2014	\$320,260	\$1,475,082	\$365,354	\$2,160,696

Identifiable definite-lived and indefinite-lived intangible assets consist of the following:

(in thousands)	September 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	\$178,007	\$(95,318 )	\$82,689	\$181,847	\$(91,736 )	\$90,111
Trademarks	79,120	(37,372 )	41,748	85,922	(35,994 )	49,928
Licensing agreements	31,507	(22,343 )	9,164	31,950	(20,992 )	10,958
Customer relationships	470,955	(101,122 )	369,833	497,108	(82,381 )	414,727
Total definite-lived	\$759,589	\$(256,155 )	\$503,434	\$796,827	\$(231,103 )	\$565,724
Indefinite-lived Trademarks and In-process R&D	\$206,678	\$—	\$206,678	\$229,599	\$—	\$229,599
Total identifiable intangible assets	\$966,267	\$(256,155 )	\$710,112	\$1,026,426	\$(231,103 )	\$795,323

## NOTE 15 – COMMITMENTS AND CONTINGENCIES

### Litigation

On June 18, 2004, Marvin Weinstat, DDS and Richard Nathan, DDS filed a class action suit in San Francisco County, California alleging that the Company misrepresented that its Cavitron® ultrasonic scalers are suitable for use in oral surgical procedures. The Complaint seeks a recall of the product and refund of its purchase price to dentists who have purchased it for use in oral surgery. The Court certified the case as a class action in June 2006 with respect to the breach of warranty and unfair business practices claims. The class that was certified is defined as California dental professionals who, at any time during the period beginning June 18, 2000 through September 14, 2012, purchased and used one or more Cavitron® ultrasonic scalers for the performance of oral surgical procedures on their patients, which Cavitrons® were accompanied by Directions for Use that “Indicated” Cavitron® use for “periodontal debridement for all types of periodontal disease.” The case went to trial in September 2013, and on January 22, 2014, the San Francisco Superior Court issued its decision in the Company's favor, rejecting all of the plaintiffs' claims. The plaintiffs have appealed the Superior Court's decision, and the appeal is now pending. The Company intends to defend against this

appeal.

On December 12, 2006, a Complaint was filed by Carole Hildebrand, DDS and Robert Jaffin, DDS in the Eastern District of Pennsylvania (the Plaintiffs subsequently added Dr. Mitchell Goldman as a named class representative). The case was filed by the same law firm that filed the Weinstat case in California. The Complaint asserts putative class action claims on behalf of dentists located in New Jersey and Pennsylvania. The Complaint seeks damages and asserts that the Company's Cavitron® ultrasonic scaler was negligently designed and sold in breach of contract and warranty arising from misrepresentations about the potential uses of the product because it cannot assure the delivery of potable or sterile water. Following grant of a Company Motion and dismissal of the case for lack of jurisdiction, the plaintiffs filed a second complaint under the name of Dr. Hildebrand's corporate practice, Center City Periodontists, asserting the same allegations (this case is now proceeding under the name "Center City

33

---

Periodontists”). The plaintiffs moved to have the case certified as a class action, to which the Company has objected and filed its brief. The Court has not yet ruled on class certification. The Court subsequently granted a Motion filed by the Company and dismissed plaintiffs’ New Jersey Consumer Fraud and negligent design claims, leaving only a breach of express warranty claim, in response to which the Company has filed a Motion for Summary Judgment.

On January 20, 2014, the Company was served with a qui tam complaint filed by two former and one current employee of the Company under the Federal False Claims Act and equivalent state and city laws. The lawsuit was previously under seal in the U.S. District Court for the Eastern District of Pennsylvania. The complaint alleges, among other things, that the Company engaged in various illegal marketing activities, and thereby caused dental and other healthcare professionals to file false claims for reimbursement with Federal and State governments. The relators seek injunctive relief, fines, treble damages, and attorneys’ fees and costs. On January 27, 2014, the United States filed with the Court a notice that it had elected not to intervene in the qui tam action at this time. The United States’ notice indicated that the named state and city co-plaintiffs had authorized the United States to communicate to the Court that they also had decided not to intervene at this time. These non-intervention decisions do not prevent the qui tam relators from litigating this action, and the United States and/or the named states and/or cities may seek to intervene in the action at a later time. On September 4, 2014, the Company’s motion to dismiss the complaint was granted in part and denied in part. The Company intends to vigorously defend itself in the litigation.

The Company does not believe a loss is probable related to the above litigation. Further a reasonable estimate of a possible range of loss cannot be made. In the event that one or more of these matters is unfavorably resolved, it is possible the Company’s results from operations could be materially impacted.

In 2012, the Company received subpoenas from the United States Attorney’s Office for the Southern District of Indiana (the “USAO”) and from the Office of Foreign Assets Control of the United States Department of the Treasury (“OFAC”) requesting documents and information related to compliance with export controls and economic sanctions regulations by certain of its subsidiaries. The Company has voluntarily contacted OFAC and the Bureau of Industry and Security of the United States Department of Commerce (“BIS”), in connection with these matters as well as regarding compliance with export controls and economic sanctions regulations by certain other business units of the Company identified in connection with an internal review by the Company. The Company is cooperating with the USAO, OFAC and BIS with respect to these matters.

At this stage of the inquiries, the Company is unable to predict the ultimate outcome of these matters or what impact, if any, the outcome of these matters might have on the Company’s consolidated financial position, results of operations or cash flows. Violations of export control or economic sanctions laws or regulations could result in a range of governmental enforcement actions, including fines or penalties, injunctions and/or criminal or other civil proceedings, which actions could have a material adverse effect on the Company’s reputation, business, financial condition and results of operations. At this time, no claims have been made against the Company.

In addition to the matters disclosed above, the Company is, from time to time, subject to a variety of litigation and similar proceedings incidental to its business. These legal matters primarily involve claims for damages arising out of the use of the Company’s products and services and claims relating to intellectual property matters including patent infringement, employment matters, tax matters, commercial disputes, competition and sales and trading practices, personal injury and insurance coverage. The Company may also become subject to lawsuits as a result of past or future acquisitions or as a result of liabilities retained from, or representations, warranties or indemnities provided in connection with, divested businesses. Some of these lawsuits may include claims for punitive and consequential, as well as compensatory damages. Based upon the Company’s experience, current information and applicable law, it does not believe that these proceedings and claims will have a material adverse effect on its consolidated results of operations, financial position or liquidity. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other similar matters, if unfavorable, may be materially adverse to the

Company's business, financial condition, results of operations or liquidity.

While the Company maintains general, products, property, workers' compensation, automobile, cargo, aviation, crime, fiduciary and directors' and officers' liability insurance up to certain limits that cover certain of these claims, this insurance may be insufficient or unavailable to cover such losses. In addition, while the Company believes it is entitled to indemnification from third parties for some of these claims, these rights may also be insufficient or unavailable to cover such losses.

#### Purchase Commitments

From time to time, the Company enters into long-term inventory purchase commitments with minimum purchase requirements for raw materials and finished goods to ensure the availability of products for production and distribution. These commitments may have a significant impact on levels of inventory maintained by the Company.

DENTSPLY International Inc. and Subsidiaries

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

This report contains information that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, the use of terms such as “may,” “could,” “expect,” “intend,” “believe,” “plan,” “estimate,” “forecast,” “project,” “anticipate,” and similar expressions identify forward-looking statements. All statements that address operating performance, events or developments that DENTSPLY International Inc. (“DENTSPLY” or the “Company”) expects or anticipates will occur in the future are forward-looking statements. Forward-looking statements are based on management's current expectations and beliefs, and are inherently susceptible to uncertainty, risks, and changes in circumstances that could cause actual results to differ materially from the Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part I, Item 1A (“Risk Factors”) of the Company's Form 10-K for the year ended December 31, 2013 and those described from time to time in our future reports filed with the Securities and Exchange Commission. The Company undertakes no duty and has no obligation to update forward-looking statements as a result of future events or developments.

OVERVIEW

Highlights

For the quarter ended September 30, 2014, worldwide internal sales growth was 2.4%, with positive internal growth in all major geographic regions. Internal growth in the U.S. was 2.0% for the quarter, while internal growth for Europe and the Rest of World regions were 1.0% and 5.9%, respectively.

Third quarter 2014 earnings per diluted share of \$0.52 decreased by 5.5% from \$0.55 in the prior year period. On an adjusted basis (a non-GAAP measure), third quarter 2014 earnings per diluted share of \$0.62 grew 8.8% from \$0.57 in the same period in the prior year.

Operating margin for the first nine months of 2014 was 15.5%, an increase of 90 basis points as compared to 14.6% for the first nine months of 2013.

Operating cash flow for the nine months ended September 30, 2014 was \$367.8 million compared to \$258.3 million for the nine months ended September 30, 2013.

Company Profile

DENTSPLY International Inc. is a leading manufacturer and distributor of dental and other consumable medical device products. The Company believes it is the world’s largest manufacturer of consumable dental products for the professional dental market. For over 110 years, DENTSPLY’s commitment to innovation and professional collaboration has enhanced its portfolio of branded consumables and small equipment. Headquartered in the United States, the Company has global operations with sales in more than 120 countries. The Company also has strategically located distribution centers to enable it to better serve its customers and increase its operating efficiency. While the United States and Europe are the Company’s largest markets, the Company serves all major markets worldwide.

Principal Products

The Company has four principal product categories: 1) Dental Consumable Products; 2) Dental Laboratory Products; 3) Dental Specialty Products; and 4) Consumable Medical Device Products.

Dental consumable products consist of dental supplies and devices and small equipment used in dental offices for the treatment of patients. The Company manufactures thousands of different dental consumable products marketed under more than one hundred brand names. DENTSPLY's dental consumable products within this category include dental anesthetics, prophylaxis paste, dental sealants, impression materials, restorative materials, tooth whiteners and topical fluoride. Small equipment products in the dental consumable category consist of various durable goods used in dental offices for treatment of patients. DENTSPLY's small equipment products include dental handpieces, intraoral curing light systems, dental diagnostic systems, and ultrasonic scalers and polishers.



DENTSPLY's products in the dental laboratory products category include dental prosthetics, including artificial teeth, precious metal dental alloys, dental ceramics and crown and bridge materials. Equipment in this category includes computer aided design and machining (CAD/CAM) ceramic systems and porcelain furnaces.

Dental specialty products are specialized treatment products used within the dental office and laboratory settings. DENTSPLY's products in this category include endodontic (root canal) instruments and materials, implants and related products, bone grafting materials, 3D digital scanning and treatment planning software, orthodontic appliances and accessories.

Consumable medical device products consist mainly of urology catheters, certain surgical products, medical drills and other non-medical products.

### Principal Measurements

The principal measurements used by the Company in evaluating its business are: (1) internal sales growth by geographic region; (2) constant currency sales growth by geographic region; (3) operating margins of each reportable segment including product pricing and cost controls; (4) the development, introduction and contribution of innovative new products; and (5) sales growth through acquisition.

The Company defines "internal sales growth" as the increase or decrease in net sales from period to period, excluding (1) precious metal content; (2) the impact of changes in currency exchange rates; and (3) net acquisition sales growth. The Company defines "net acquisition sales growth" as the net sales, excluding precious metal content, for a period of twelve months following the transaction date of businesses that have been acquired, less the net sales, excluding precious metal content, for a period of twelve months prior to the transaction date of businesses that have been divested. The Company defines "constant currency sales growth" as internal sales growth plus net acquisition sales growth.

The primary drivers of internal growth includes global dental market growth, innovation and new products launched by the Company, and continued investments in sales and marketing resources, including clinical education. Management believes that over time, the Company's ability to execute its strategies allows it to grow at a modest premium to the growth rate of the underlying dental market. Management further believes that the global dental market has generally in the past and should over time in the future grow at a premium to underlying economic growth rates. Considering all of these factors, the Company assumes that the long-term growth rate for the dental market will range from 3% to 6% on average and that the Company targets a slight premium to market growth. Over the past several years, growth in the global dental and other healthcare markets have been restrained by lower economic growth in Western Europe and certain other markets compared to historical averages and, accordingly, market growth rates, and the Company's internal growth rate remains uncertain in the near term.

The Company's business is subject to quarterly fluctuations of consolidated net sales and net income. The Company typically implements most of its price changes at the beginning of the first or fourth quarters. Price changes, other marketing and promotional programs as well as the management of inventory levels by distributors and the implementation of strategic initiatives, may impact sales levels in a given period.

The Company also has a focus on maximizing operational efficiencies. Management continues to evaluate the consolidation of operations or functions to reduce costs. In addition, the Company remains focused on enhancing efficiency through expanded use of technology and process improvement initiatives. The Company believes that the benefits from these initiatives will improve the cost structure and help offset areas of rising costs such as energy, employee benefits and regulatory oversight and compliance. In connection with these efforts, the Company targets adjusted operating income margins to expand to 20% as the benefits of these initiatives are realized over time. In

addition, the Company expects that it will record restructuring charges, from time to time, associated with such initiatives. These restructuring charges could be material to the Company's consolidated financial statements and there can be no assurance that the target adjusted operating income margins will be achieved. Consistent with these efforts, the Company recently announced it is proposing steps in Germany to reorganize elements of its laboratory business and associated manufacturing capabilities. The Company seeks to realign its portfolio of laboratory products, with increased focus on innovative prosthetics materials while deemphasizing its CAD/CAM equipment business. As required under German law, the Company has entered into a statutory co-determination process under which it will collaborate with the appropriate labor groups to jointly define the infrastructure and staffing adjustments necessary to support this initiative.

Product innovation is a key component of the Company's overall growth strategy. New advances in technology are anticipated to have a significant influence on future products in dentistry and consumable medical device markets in which the Company operates. As a result, the Company continues to pursue research and development initiatives to support technological development, including collaborations with various research institutions and dental schools. In addition, the Company licenses and purchases technologies developed by third parties. Although the Company believes these activities will lead to new innovative dental and

consumable medical device products, they involve new technologies and there can be no assurance that commercialized products will be developed.

The Company will continue to pursue opportunities to expand the Company's product offerings through acquisitions. Although the professional dental and the consumable medical device markets in which the Company operates have experienced consolidation, they remain fragmented. Management believes that there will continue to be adequate opportunities to participate as a consolidator in the industry for the foreseeable future.

#### Reclassification of Prior Year Amounts

Certain reclassifications have been made to prior year's data in order to conform to current year presentation. Specifically, during the first quarter of 2014, the Company realigned reporting responsibilities for multiple locations as a result of changes to the management reporting structure. The segment information reflects the revised structure for all periods shown.

### RESULTS OF OPERATIONS, QUARTER ENDED SEPTEMBER 30, 2014 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2013

#### Net Sales

Management believes that the presentation of net sales, excluding precious metal content, provides useful information to investors because a significant portion of DENTSPLY's net sales is comprised of sales of precious metals generated through sales of the Company's precious metal dental alloy products, which are used by third parties to construct crown and bridge materials. Due to the fluctuations of precious metal prices and because the precious metal content of the Company's sales is largely a pass-through to customers and has minimal effect on earnings, DENTSPLY reports net sales both with and without precious metal content to show the Company's performance independent of precious metal price volatility and to enhance comparability of performance between periods. The Company uses its cost of precious metal purchased as a proxy for the precious metal content of sales, as the precious metal content of sales is not separately tracked and invoiced to customers. The Company believes that it is reasonable to use the cost of precious metal content purchased in this manner since precious metal dental alloy sale prices are typically adjusted when the prices of underlying precious metals change.

The presentation of net sales, excluding precious metal content, is considered a measure not calculated in accordance with the generally accepted accounting principles in the United States ("US GAAP"), and is therefore considered a non-US GAAP measure. The Company provides the following reconciliation of net sales to net sales, excluding precious metal content. The Company's definitions and calculations of net sales, excluding precious metal content, and other operating measures derived using net sales, excluding precious metal content, may not necessarily be the same as those used by other companies.

(in millions)	Three Months Ended September 30,		\$ Change	% Change	
	2014	2013			
Net sales	\$708.2	\$704.0	\$4.2	0.6	%
Less: precious metal content of sales	26.7	34.6	(7.9)	(22.8)	%
Net sales, excluding precious metal content	\$681.5	\$669.4	\$12.1	1.8	%

Net sales, excluding precious metal content, for the three months ended September 30, 2014 were \$681.5 million, an increase of \$12.1 million over the third quarter of 2013. The change in net sales, excluding precious metal content,

was primarily a result of 3.0% of constant currency sales growth partially offset by 1.2% of unfavorable foreign currency translation. Precious metal content of sales declined mostly as a result of lower refinery volume compared to the same period a year ago.

## Constant Currency and Internal Sales Growth

The following table includes growth rates for net sales, excluding precious metal content, for the three months ended September 30, 2014 compared with the three months ended September 30, 2013.

	Three Months Ended September 30, 2014				
	United States	Europe	Rest of World	Worldwide	
Internal sales growth	2.0	% 1.0	% 5.9	% 2.4	%
Acquisition sales growth	0.3	% 0.1	% 2.5	% 0.6	%
Constant currency sales growth	2.3	% 1.1	% 8.4	% 3.0	%

## United States

Net sales, excluding precious metal content, increased by 2.3% on a constant currency basis in the third quarter of 2014 as compared to the third quarter of 2013. Internal sales growth was led by increased sales in dental consumable and dental laboratory products partially offset by lower sales of a consumable medical device product that was in-sourced by a customer.

## Europe

Net sales, excluding precious metal content, increased by 1.1% on a constant currency sales growth basis in the third quarter of 2014 as compared to the third quarter of 2013. Internal sales growth was led by increased sales in consumable medical device products partially offset by decreased sales in dental laboratory products. The geopolitical instability within the CIS region continues to negatively impact sales growth in the European region. Excluding sales in the CIS, constant currency sales growth would have increased 2.4% for the three months ended September 30, 2014 compared to the same period in 2013, led by increased sales in consumable medical device and dental specialty products.

## Rest of World

Net sales, excluding precious metal content, increased by 8.4% on a constant currency sales growth basis in the third quarter of 2014 as compared to the third quarter of 2013. Internal and acquisition sales growth were led by dental specialty products category.

## Gross Profit

(in millions)	Three Months Ended			
	September 30, 2014	2013	\$ Change	% Change
Gross profit	\$388.1	\$376.4	\$11.7	3.1 %
Gross profit as a percentage of net sales, including precious metal content	54.8	% 53.5	%	
Gross profit as a percentage of net sales, excluding precious metal content	56.9	% 56.2	%	

Gross profit as a percentage of net sales, excluding precious metal content, increased by 70 basis points for the quarter ended September 30, 2014 compared to the same three month period ended September 30, 2013. The increase in the gross profit rate was primarily the result of favorable net pricing and positive product mix, compared to the same three month period in 2013

## Operating Expenses

(in millions)	Three Months Ended		\$ Change	% Change	
	September 30, 2014	2013			
Selling, general and administrative expenses (“SG&A”)	\$276.0	\$269.2	\$6.8	2.5	%
Restructuring and other costs	2.5	2.2	0.3	13.6	%
SG&A as a percentage of net sales, including precious metal content	39.0	% 38.2	%		
SG&A as a percentage of net sales, excluding precious metal content	40.5	% 40.2	%		
SG&A Expenses					

SG&A expenses as a percentage of net sales, excluding precious metal content, for the quarter ended September 30, 2014 increased 30 basis points compared to the quarter end September 30, 2013. The increase is primarily related to higher professional fees in the period.

## Other Income and Expense

(in millions)	Three Months Ended		
	September 30, 2014	2013	Change
Net interest expense	\$11.3	\$9.3	\$2.0
Other expense (income), net	0.8	1.6	(0.8)
Net interest and other expense	\$12.1	\$10.9	\$1.2

## Net Interest Expense

Net interest expense for the three months ended September 30, 2014 was \$2.0 million higher compared to the three months ended September 30, 2013. The net increase is the result of a decline in non-cash fair value adjustments on net investment hedges in the three months period ended September 30, 2014 as compared to the same period in 2013, partially offset by reduced interest expense as a result of lower average debt levels.

## Other Expense (Income), Net

Other expense (income), net for the three months ended September 30, 2014 was \$0.8 million lower compared to the three months ended September 30, 2013. Other expense (income), net in the three months ended September 30, 2014 of \$0.8 million is comprised primarily of \$0.7 million of interest and non-cash fair value adjustments on cross currency basis swaps not designated as hedges that offset currency risk on intercompany loans and \$0.8 million of currency transaction losses and \$0.7 million of other expense. Other expense (income), net in the third quarter of 2013 of \$1.6 million was comprised primarily of \$0.8 million of non-cash charges relating to cross currency basis swaps not designated as hedges that offset currency risk on intercompany loans, \$0.2 million of currency transaction losses and \$0.6 million of other expense.





## Income Taxes and Net Income

(in millions, except per share data)	Three Months Ended		
	September 30,		\$ Change
	2014	2013	
Effective income tax rate	21.8	% 14.0	%
Equity in net loss of unconsolidated affiliated company	\$(1.0 )	\$(0.1 )	\$(0.9 )
Net income attributable to noncontrolling interests	\$—	\$1.0	\$(1.0 )
Net income attributable to DENTSPLY International	\$75.3	\$79.9	\$(4.6 )
Earnings per common share - diluted	\$0.52	\$0.55	

## Provision for Income Taxes

The Company's effective tax rate for the third quarter of 2014 and 2013 was 21.8% and 14.0%, respectively. During the third quarter of 2013, the Company recorded a favorable impact to the tax rate of \$6.2 million related to prior year tax matters. For the three months ended September 30, 2014, the effective tax rate was unfavorably impacted by the Company's change in the mix of consolidated earnings compared to the same period in the prior year.

The Company's effective income tax rate for 2014 includes the net favorable impact of amortization on purchased intangibles assets, income related to credit risk adjustments on outstanding derivatives, integration and restructuring and other costs, and various income tax adjustments which impacted income before income taxes and the provision for income taxes by \$19.0 million and \$5.3 million, respectively.

In 2013, the Company's effective income tax rate included the net favorable impact of amortization on purchased intangibles assets, restructuring and other costs, income related to credit risk adjustments on outstanding derivatives and various income tax adjustments which impacted income before income taxes and the provision for income taxes by \$13.9 million and \$10.7 million, respectively.

## Equity in net loss of unconsolidated affiliated company

The Company's 17% ownership investment of DIO Corporation ("DIO") resulted in a net loss of \$1.0 million and \$0.1 million on an after-tax basis for the third quarter of 2014 and 2013, respectively. The equity earnings of DIO include the result of mark-to-market changes related to the derivative accounting for the convertible bonds issued by DIO to DENTSPLY. The Company's portion of the mark-to-market loss recorded through DIO's net income for the third quarter of 2014 was approximately \$0.2 million and for the third quarter of 2013, the mark-to-market gain recorded by DIO was approximately \$0.8 million.

## Net income attributable to noncontrolling interests

The portion of consolidated net income attributable to noncontrolling interests decreased \$1.0 million for the three months ended September 30, 2014 as compared to the same three month period in 2013 as a result of the contractual purchase of the remaining shares of a variable interest entity effective January 1, 2014. The Company anticipates the cash outflow for this purchase to be later in 2014 or early 2015.

Net Income attributable to DENTSPLY International

In addition to the results reported in accordance with US GAAP, the Company provides adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share. The Company discloses adjusted net income attributable to DENTSPLY International to allow investors to evaluate the performance of the Company's operations exclusive of certain items that impact the comparability of results from period to period and certain large non-cash charges related to purchased intangible assets. The Company believes that this information is helpful in understanding underlying operating trends and cash flow generation. The adjusted net income attributable to DENTSPLY International consists of net income attributable to DENTSPLY International adjusted to exclude the impact of the following:

(1) Acquisition related costs. These adjustments include costs related to integrating recently acquired businesses and specific costs related to the consummation of the acquisition process. These costs are irregular in timing and as such may not be indicative of past and future performance of the Company and are therefore excluded to allow investors to better understand underlying operating trends.

(2) Restructuring and other costs. These adjustments include both costs and income that are irregular in timing, amount and impact to the Company's financial performance. As such, these items may not be indicative of past and future performance of the Company and are therefore excluded for the purpose of understanding underlying operating trends.

(3) Amortization of purchased intangible assets. This adjustment excludes the periodic amortization expense related to purchased intangible assets. Beginning in 2011, the Company began recording large non-cash charges related to the values attributed to purchased intangible assets. These charges have been excluded from adjusted net income attributed to DENTSPLY International to allow investors to evaluate and understand operating trends excluding these large non-cash charges.

(4) Income related to credit risk and fair value adjustments. These adjustments include both the cost and income impacts of adjustments in certain assets and liabilities that are recorded through net income which are due solely to the changes in fair value and credit risk. These items can be variable and driven more by market conditions than the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.

(5) Certain fair value adjustments related to an unconsolidated affiliated company. This adjustment represents the fair value adjustment of the unconsolidated affiliated company's convertible debt instrument held by the Company. The affiliate is accounted for under the equity method of accounting. The fair value adjustment is driven by open market pricing of the affiliate's equity instruments, which has a high degree of variability and may not be indicative of the operating performance of the affiliate or the Company.

(6) Income tax related adjustments. These adjustments include both income tax expenses and income tax benefits that are representative of income tax adjustments mostly related to prior periods, as well as the final settlement of income tax audits. These adjustments are irregular in timing and amount and may significantly impact the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.

Adjusted earnings per diluted common share is calculated by dividing adjusted net income attributable to DENTSPLY International by diluted weighted-average common shares outstanding. Adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share are considered measures not calculated in accordance with US GAAP, and therefore are non-US GAAP measures. These non-US GAAP measures may differ from other companies. Income tax related adjustments may include the impact to adjust the interim effective income tax rate to the expected annual effective tax rate. The non-US GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with US GAAP.

(in thousands, except per share amounts)	Three Months Ended September 30, 2014	
	Net Income	Per Diluted Common Share
Net income attributable to DENTSPLY International	\$75,273	\$0.52
Amortization of purchased intangible assets, net of tax	8,417	0.06
Restructuring and other costs, net of tax	2,524	0.02
Acquisition related activities, net of tax	1,394	0.01
Credit risk and fair value adjustments to outstanding derivatives, net of tax	817	0.01
Income tax related adjustments	595	—
Loss on fair value adjustments related to an unconsolidated affiliated company, net of tax	243	—

Adjusted non-US GAAP earnings	\$89,263	\$0.62
-------------------------------	----------	--------

41

---

(in thousands, except per share amounts)	Three Months Ended September 30, 2013	
	Net Income	Per Diluted Common Share
Net income attributable to DENTSPLY International	\$79,851	\$0.55
Amortization of purchased intangible assets, net of tax	7,851	0.06
Restructuring and other costs, net of tax	1,961	0.01
Acquisition related activities, net of tax	744	0.01
Credit risk and fair value adjustments to outstanding derivatives, net of tax	(488 )	—
Gain on fair value adjustments at an unconsolidated affiliated company, net of tax	(829 )	(0.01 )
Income tax related adjustments	(6,882 )	(0.05 )
Adjusted non-US GAAP earnings	\$82,208	\$0.57

### Operating Segment Results

#### Third Party Net Sales, Excluding Precious Metal Content

(in millions)	Three Months Ended September 30,		\$ Change	% Change	
	2014	2013			
Dental Consumable and Certain International Businesses	\$182.8	\$172.3	\$10.5	6.1	%
Dental Specialty and Laboratory and Certain Global Distribution Businesses	\$360.6	\$368.9	\$(8.3 )	(2.2	%)
Healthcare and Emerging Markets Businesses	\$139.3	\$129.3	\$10.0	7.7	%

#### Segment Operating Income

(in millions)	Three Months Ended September 30,		\$ Change	% Change	
	2014	2013			
Dental Consumable and Certain International Businesses	\$69.1	\$61.9	\$7.2	11.6	%
Dental Specialty and Laboratory and Certain Global Distribution Businesses	\$57.5	\$62.1	\$(4.6 )	(7.4	%)
Healthcare and Emerging Markets Businesses	\$9.8	\$6.2	\$3.6	58.1	%

#### Dental Consumable and Certain International Businesses

Net sales, excluding precious metal content, increased \$10.5 million, or 6.1% for the three months ended September 30, 2014 as compared to the same period in 2013. On a constant currency basis, net sales, excluding precious metal content, increased 6.7% as compared to 2013 reflecting sales growth across all businesses as well as the benefit of recent acquisitions.

Operating income increased \$7.2 million, or 11.6% for the three months ended September 30, 2014 as compared to 2013. The increase in operating income was primarily the result of sales growth and improved gross margins within these businesses.

#### Dental Specialty and Laboratory and Certain Global Distribution Businesses

Net sales, excluding precious metal content, decreased \$8.3 million, or 2.2% for the three months ended September 30, 2014 compared to 2013. On a constant currency basis, net sales, excluding precious metal content, decreased 0.8% as compared to 2013 due to sales declines in the dental laboratory and global distribution businesses partially offset by sales growth in dental specialty businesses.

Operating income decreased \$4.6 million compared to 2013, primarily due to lower sales in 2014.

#### Healthcare and Emerging Markets Businesses

Net sales, excluding precious metal content, increased \$10.0 million, or 7.7% for the three months ended September 30, 2014 as compared to 2013. On a constant currency basis, net sales, excluding precious metal content, increased 9.1% as compared to 2013. The growth was primarily due to increased sales in the emerging markets businesses and, to a lesser extent, the healthcare business.

Operating income improved \$3.6 million during the three months ended September 30, 2014 as compared to 2013 primarily due to stronger sales and improved operating expense rates within these businesses.

#### RESULTS OF OPERATIONS, NINE MONTHS ENDED SEPTEMBER 30, 2014 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2013

##### Net Sales

(in millions)	Nine Months Ended		\$ Change	% Change	
	September 30, 2014	September 30, 2013			
Net sales	\$2,203.6	\$2,197.1	\$6.5	0.3	%
Less: precious metal content of sales	101.9	139.1	(37.2)	(26.7)	%
Net sales, excluding precious metal content	\$2,101.7	\$2,058.0	\$43.7	2.1	%

Net sales, excluding precious metal content, for the nine months ended September 30, 2014 were \$2,101.7 million, an increase of \$43.7 million compared to the nine months ended September 30, 2013. The change in net sales, excluding precious metal content, was a result of 1.7% constant currency sales growth. Precious metal content of sales declined mostly as a result of lower refinery volume compared to the same period a year ago.

##### Constant Currency and Internal Sales Growth

The following table includes growth rates for net sales, excluding precious metal content, for the nine months ended September 30, 2014 compared with the nine months ended September 30, 2013.

	Nine Months Ended September 30, 2014				
	United States	Europe	Rest of World	Worldwide	
Internal sales growth	0.8	% (0.6	%) 4.5	% 0.9	%
Acquisition sales growth	0.3	% 0.1	% 2.9	% 0.8	%
Constant currency sales growth	1.1	% (0.5	%) 7.4	% 1.7	%

##### United States

Net sales, excluding precious metal content, increased by 1.1% on a constant currency sales growth basis for the nine months ended September 30, 2014 as compared to the same nine month period of 2013. Internal sales growth was led by increased sales in the dental consumable product category, partially offset by lower sales of a consumable medical device product that was in-sourced by a customer.

Europe

Net sales, excluding precious metal content, decreased by 0.5% on a constant currency sales growth basis for the nine months ended September 30, 2014 as compared to the same nine months ended September 30, 2013, reflecting a continuing decline in sales within the CIS countries. Excluding sales in the CIS, constant currency sales growth would have increased 1.1% for the nine months ended September 30, 2014 compared to the same period in 2013, led by increased sales in consumable medical device and dental specialty products.

43

---



## Rest of World

Net sales, excluding precious metal content, increased by 7.4% on a constant currency sales growth basis for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. Internal sales and acquisition growth was led by the dental specialty products category.

## Gross Profit

(in millions)	Nine Months Ended September 30,		\$ Change	% Change	
	2014	2013			
Gross profit	\$1,206.7	\$1,179.6	\$27.1	2.3	%
Gross profit as a percentage of net sales, including precious metal content	54.8	% 53.7	%		
Gross profit as a percentage of net sales, excluding precious metal content	57.4	% 57.3	%		

Gross profit as a percentage of net sales, excluding precious metal content, increased 10 basis points for the nine month period ended September 30, 2014 compared to the nine months end September 30, 2013. The increase in the gross profit rate was primarily the result of favorable net pricing compared to the same nine month period in 2013.

## Operating Expenses

(in millions)	Nine Months Ended September 30,		\$ Change	% Change	
	2014	2013			
Selling, general and administrative expenses (“SG&A”)	\$859.9	\$852.8	\$7.1	0.8	%
Restructuring and other costs	4.5	5.1	(0.6)	(11.8)	%
SG&A as a percentage of net sales, including precious metal content	39.0	% 38.8	%		
SG&A as a percentage of net sales, excluding precious metal content	40.9	% 41.4	%		

## SG&amp;A Expenses

SG&A expenses as a percentage of net sales, excluding precious metal content, decreased 50 basis points in the nine months ended September 30, 2014 when compared to the same period ended September 30, 2013. The rate decrease is primarily due to cost reduction initiatives and expense controls across a number of businesses, as well as higher expenses recorded in the first three months of 2013 relating to trade shows.

## Other Income and Expense

(in millions)	Nine Months Ended September 30,		Change	
	2014	2013		
Net interest expense	\$30.8	\$31.6	\$(0.8)	)

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-Q

Other expense (income), net	1.8	8.7	(6.9	)
Net interest and other expense	\$32.6	\$40.3	\$(7.7	)

44

---

### Net Interest Expense

Net interest expense for the nine month period ended September 30, 2014 was \$0.8 million lower compared to the nine months ended September 30, 2013. The net decrease is a result of a \$3.7 million decrease in interest expense due to lower average debt levels in 2014 compared to the prior year period, largely offset by \$3.0 million decrease in investment income due to lower balances of cross currency basis swaps designated as net investment hedges compared to the same nine month period in 2013.

### Other Expense (Income), Net

Other expense (income), net for the nine months ended September 30, 2014 was \$6.9 million lower compared to the nine months ended September 30, 2013. Other expense (income), net for the nine months ended September 30, 2014 was \$1.8 million comprised primarily of \$0.8 million income of interest and non-cash fair value adjustments on cross currency basis swaps not designated as hedges that offset currency risk on intercompany loans, \$1.4 million of currency transaction losses and \$1.2 million of other expense. Other expense (income), net for the nine months ended September 30, 2013 was \$8.7 million, comprised primarily of \$6.4 million of interest and non-cash fair value adjustments on cross currency basis swaps not designated as hedges that offset currency risk on intercompany loans, \$1.5 million of currency transaction losses and \$0.8 million of other expense.

### Income Taxes and Net Income

(in millions, except per share data)	Nine Months Ended		\$ Change
	September 30, 2014	September 30, 2013	
Effective income tax rate	22.6	14.1	%
Equity in net (loss) income of unconsolidated affiliated company	\$(1.6 )	\$0.3	\$(1.9 )
Net income attributable to noncontrolling interests	\$0.1	\$3.4	\$(3.3 )
Net income attributable to DENTSPLY International	\$238.1	\$238.8	\$(0.7 )
Earnings per common share - diluted	\$1.65	\$1.65	

### Provision for Income Taxes

The Company's effective tax rate for the nine month period of 2014 and 2013 was 22.6% and 14.1%, respectively. In the 2013 period, the Company recorded a tax benefit of \$9.4 million related to U.S. federal legislative changes enacted in January 2013, relating to 2012, and \$9.3 million of benefits related to prior year tax matters. In the nine months ended September 30, 2014, the effective tax rate was unfavorably impacted by the Company's change in the mix of consolidated earnings as compared to the same period in the prior year.

The Company's effective income tax rate for 2014 includes the net favorable impact of amortization on purchased intangibles assets, income related to credit risk adjustments on outstanding derivatives, integration and restructuring and other costs, and various income tax adjustments, which impacted income before income taxes and the provision for income taxes by \$48.1 million and \$11.0 million, respectively.

In 2013, the Company's effective income tax rate included the net favorable impact of amortization on purchased intangibles assets, income related to credit risk adjustments on outstanding derivatives, integrating and restructuring and other costs and various income tax adjustments which impacted income before income taxes and the provision for income taxes by \$48.8 million and \$33.0 million, respectively.

Equity in net (loss) income of unconsolidated affiliated company

The Company's 17% ownership investment of DIO Corporation ("DIO") resulted in a net loss of \$1.6 million on an after-tax basis for the nine months end September 30, 2014 and net income of \$0.3 million on an after-tax basis for the nine months ended September 30, 2013. The equity earnings of DIO include the result of mark-to-market changes related to the derivative accounting for the convertible bonds issued by DIO to DENTSPLY. The Company's portion of the mark-to-market gains recorded through DIO's net income for the nine month period in 2014 and 2013 was approximately \$0.9 million and \$1.3 million, respectively.

#### Net income attributable to noncontrolling interests

The portion of consolidated net income attributable to noncontrolling interests decreased \$3.3 million for the nine months ended September 30, 2014 as compared to the same period in 2013 as a result of the contractual purchase of the remaining shares of a variable interest entity effective January 1, 2014. The Company anticipates the cash outflow for this purchase to be later in 2014 or early 2015.

#### Net Income attributable to DENTSPLY International

In addition to the results reported in accordance with US GAAP, the Company provides adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share. The Company discloses adjusted net income attributable to DENTSPLY International to allow investors to evaluate the performance of the Company's operations exclusive of certain items that impact the comparability of results from period to period and certain large non-cash charges related to purchased intangible assets. The Company believes that this information is helpful in understanding underlying operating trends and cash flow generation. The adjusted net income attributable to DENTSPLY International consists of net income attributable to DENTSPLY International adjusted to exclude the impact of the following:

- (1) Acquisition related costs. These adjustments include costs related to integrating recently acquired businesses and specific costs related to the consummation of the acquisition process. These costs are irregular in timing and as such may not be indicative of past and future performance of the Company and are therefore excluded to allow investors to better understand underlying operating trends.
- (2) Restructuring and other costs. These adjustments include both costs and income that are irregular in timing, amount and impact to the Company's financial performance. As such, these items may not be indicative of past and future performance of the Company and are therefore excluded for the purpose of understanding underlying operating trends.
- (3) Amortization of purchased intangible assets. This adjustment excludes the periodic amortization expense related to purchased intangible assets. Beginning in 2011, the Company began recording large non-cash charges related to the values attributed to purchased intangible assets. These charges have been excluded from adjusted net income attributed to DENTSPLY International to allow investors to evaluate and understand operating trends excluding these large non-cash charges.
- (4) Income related to credit risk and fair value adjustments. These adjustments include both the cost and income impacts of adjustments in certain assets and liabilities that are recorded through net income which are due solely to the changes in fair value and credit risk. These items can be variable and driven more by market conditions than the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.
- (5) Certain fair value adjustments related to an unconsolidated affiliated company. This adjustment represents the fair value adjustment of the unconsolidated affiliated company's convertible debt instrument held by the Company. The affiliate is accounted for under the equity method of accounting. The fair value adjustment is driven by open market pricing of the affiliate's equity instruments, which has a high degree of variability and may not be indicative of the operating performance of the affiliate or the Company.
- (6) Income tax related adjustments. These adjustments include both income tax expenses and income tax benefits that are representative of income tax adjustments mostly related to prior periods, as well as the final settlement of income tax audits. These adjustments are irregular in timing and amount and may significantly impact the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.

Adjusted earnings per diluted common share is calculated by dividing adjusted net income attributable to DENTSPLY International by diluted weighted-average common shares outstanding. Adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share are considered measures not calculated in

accordance with US GAAP, and therefore are non-US GAAP measures. These non-US GAAP measures may differ from other companies. Income tax related adjustments may include the impact to adjust the interim effective income tax rate to the expected annual effective tax rate. The non-US GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with US GAAP.

(in thousands, except per share amounts)	Nine Months Ended September 30, 2014	
	Net Income	Per Diluted Common Share
Net income attributable to DENTSPLY International	\$238,144	\$1.65
Amortization of purchased intangible assets, net of tax	25,648	0.18
Restructuring and other costs, net of tax	4,112	0.03
Acquisition related activities, net of tax	3,740	0.02
Income tax-related adjustments	3,536	0.02
Credit risk and fair value adjustments to outstanding derivatives, net of tax	15	—
Gain on fair value adjustments related to an unconsolidated affiliated company, net of tax	(792 )	—
Adjusted non-US GAAP earnings	\$274,403	\$1.90

(in thousands, except per share amounts)	Nine Months Ended September 30, 2013	
	Net Income	Per Diluted Common Share
Net income attributable to DENTSPLY International	\$238,763	\$1.65
Amortization of purchased intangible assets, net of tax	24,229	0.17
Restructuring and other costs, net of tax	4,462	0.03
Acquisition related activities, net of tax	2,843	0.02
Credit risk and fair value adjustments to outstanding derivatives, net of tax	2,702	0.02
Gain on fair value adjustments at an unconsolidated affiliated company, net of tax	(1,347 )	(0.01 )
Income tax related adjustments	(18,388 )	(0.13 )
Adjusted non-US GAAP earnings	\$253,264	\$1.75

### Operating Segment Results

#### Third Party Net Sales, Excluding Precious Metal Content

(in millions)	Nine Months Ended September 30,		\$ Change	% Change	
	2014	2013			
Dental Consumable and Certain International Businesses	\$540.4	\$506.5	\$33.9	6.7	%
Dental Specialty and Laboratory and Certain Global Distribution Businesses	\$1,160.9	\$1,171.2	\$(10.3 )	(0.9	%)
Healthcare and Emerging Markets Businesses	\$403.8	\$383.6	\$20.2	5.3	%





## Segment Operating Income

(in millions)	Nine Months Ended September 30,		\$ Change	% Change	
	2014	2013			
Dental Consumable and Certain International Businesses	\$193.8	\$176.1	\$17.7	10.1	%
Dental Specialty and Laboratory and Certain Global Distribution Businesses	\$211.0	\$211.6	\$(0.6)	(0.3)	(%)
Healthcare and Emerging Markets Businesses	\$24.5	\$16.3	\$8.2	50.3	%

## Dental Consumable and Certain International Businesses

Net sales, excluding precious metal content, increased \$33.9 million, or 6.7% for the nine months ended September 30, 2014 compared to the same period in 2013. On a constant currency basis, net sales, excluding precious metal content, increased 6.1% as compared to the same period in 2013 reflecting balanced growth across all businesses as well as the benefit of recent acquisitions.

Operating income increased \$17.7 million, or 10.1% for the nine months ended September 30, 2014 compared to 2013. The improvement in operating income was primarily the result of sales growth and improved gross margins within the businesses.

## Dental Specialty and Laboratory and Certain Global Distribution Businesses

Net sales, excluding precious metal content, decreased \$10.3 million for the nine months ended September 30, 2014 compared to 2013. On a constant currency basis, net sales, excluding precious metal content, decreased 1.4% as compared to the same period in 2013 due to sales declines in the dental laboratory and dental specialty businesses partially offset by sales growth in the global distribution businesses.

Operating income decreased \$0.6 million compared to the same period in 2013, primarily due to sales declines mostly offset by the effects of positive foreign currency translation.

## Healthcare and Emerging Markets Businesses

Net sales, excluding precious metal content, increased \$20.2 million, or 5.3% for the nine months ended September 30, 2014 compared to 2013. On a constant currency basis, net sales, excluding precious metal content, increased 5.2% when compared to the same period of 2013 reflecting balanced improvements in both the healthcare and emerging markets businesses.

Operating income improved \$8.2 million during the nine months ended September 30, 2014 compared to 2013 primarily due to increased sales and lower expense rates.

## CRITICAL ACCOUNTING POLICIES

Except as noted below, there have been no other significant material changes to the critical accounting policies as disclosed in the Company's Form 10-K for the year ended December 31, 2013.

## Annual Goodwill and Indefinite-Lived Assets Impairment Testing

## Goodwill

Goodwill is not amortized; instead, it is tested for impairment annually or more frequently if indicators of impairment exist or if a decision is made to sell a business. The valuation date for annual impairment testing is April 30.

The performance of the Company's 2014 annual impairment test did not result in any impairment of the Company's goodwill. The weighted average cost of capital ("WACC") rates utilized in the 2014 analysis ranged from 8.6% to 14.0%. If the WACC rate of each of the Company's reporting units been hypothetically increased by 100 basis points at April 30, 2014, the fair value of those reporting units would still exceed net book value. If the fair value of each of the Company's reporting units had been hypothetically reduced by 5% at April 30, 2014, the fair value of those reporting units would still exceed net book value. If the fair value of each of the Company's reporting units had been hypothetically reduced by 10% at April 30, 2014, due to competitive

conditions, one reporting unit within the Dental Specialty and Laboratory and Certain Global Distribution Businesses segment would have a net book value exceeding its fair value by approximately \$5.9 million.

At September 30, 2014, the Company updated its goodwill impairment testing for the reporting unit noted above as well as for one reporting unit in the Healthcare and Emerging Markets Business segment based on current year financial performance. The review did not result in any impairment of the reporting units' respective goodwill balances. Assumptions used in the calculations of fair value were substantially consistent with those at April 30, 2014. If the WACC rate of these two reporting units had been hypothetically increased by 100 basis points at September 30, 2014, the fair value of these reporting units would still exceed net book value. If the fair value of these reporting units had been hypothetically reduced by 5%, the reporting unit within the Healthcare and Emerging Markets Businesses segment would have had a net book value exceeding its fair value by approximately \$0.5 million. If the fair value of these reporting units had been hypothetically reduced by 10% at September 30, 2014, both reporting units would have net book values exceeding their fair values by approximately \$4.0 million each. Goodwill for the two reporting units totals \$148.2 million at September 30, 2014. To the extent that future operating results of these reporting units do not meet the forecasted cash flows the Company can provide no assurance that a future goodwill impairment charge would not be incurred.

#### Indefinite-Lived Assets

Indefinite-lived intangible assets consist of tradenames and are not subject to amortization; instead, they are tested for impairment annually or more frequently if indicators of impairment exist or if a decision is made to sell a business. The valuation date for annual impairment testing is April 30.

The performance of the Company's 2014 annual impairment test did not result in any impairment of the Company's indefinite-lived assets. If the fair value of each of the Company's indefinite-lived intangibles assets had been hypothetically reduced by 10% or the discount rate had been hypothetically increased by 50 basis points at April 30, 2014, the fair value of these assets would still exceed their book value.

#### LIQUIDITY AND CAPITAL RESOURCES

##### Nine months ended September 30, 2014

Cash flow from operating activities during the nine months ended September 30, 2014 was \$367.8 million compared to \$258.3 million during the nine months ended September 30, 2013. The improvement in the first nine months' cash from operations of \$109.5 million was primarily the result of substantially lower cash taxes paid and lower working capital increases in accounts receivable and inventory as compared to the year ago period. The Company's cash and cash equivalents increased by \$22.7 million to \$97.7 million during the nine months ended September 30, 2014.

For the nine months ended September 30, 2014, the number of days for sales outstanding in accounts receivable increased by six days to 62 days as compared to 56 days at December 31, 2013 and decreased by two days compared to the same period in 2013. On a constant currency basis, the number of days of sales in inventory were 119 days at September 30, 2014 as compared to 123 days at June 30, 2014, 114 days at December 31, 2013 and 118 days at September 30, 2013. Through midyear 2014, the Company strategically increased inventory in a few businesses as part of transition plans associated with anticipated operational changes. The Company anticipates that inventory levels will continue to gradually return to more normal levels by the end of 2015.

The cash outflows for investing activities during the first nine months of 2014 were \$76.4 million, including capital expenditures of \$73.0 million. The Company expects capital expenditures to be approximately \$110.0 million for the full year 2014.

At September 30, 2014, the Company had authorization to maintain up to 34.0 million shares of treasury stock under the stock repurchase program as approved by the Board of Directors. Under this program, the Company repurchased 1.5 million shares during the first nine months of 2014 for \$70.8 million. As of September 30, 2014, the Company held 21.1 million shares of treasury stock. The Company received proceeds of \$18.7 million as a result of the exercise of 0.6 million of stock options during the nine months ended September 30, 2014.

The Company's total borrowings decreased by a net \$195.2 million during the nine months ended September 30, 2014, which includes a decrease of \$9.5 million due to exchange rate fluctuations on debt denominated in foreign currencies. At September 30, 2014, the Company's ratio of total net debt to total capitalization was 32.2% compared to 35.2% at December 31, 2013. The Company defines net debt as total debt, including current and long-term portions, less cash and cash equivalents and total capitalization as the sum of net debt plus equity.

On February 19, 2014, the Company refinanced a portion of the first required payment of \$75.0 million under the Private Placement Notes due February 2016 by issuing commercial paper. The second required payment of \$100.0 million under the Private Placement Notes is due in February 2015 and has been classified as current on the balance sheet.

On July 23, 2014, the Company entered into an Amended and Extended Revolving Credit Agreement to replace the 2011 Revolving Credit Agreement dated August 27, 2011, that had provided for a multi-currency revolving credit facility in an aggregate amount of up to \$500.0 million through July 27, 2016. The new Credit Agreement provides for a new five year, \$500.0 million multi-currency revolving credit facility through July 23, 2019 (the "Facility") to provide working capital from time to time for the Company.

On August 26, 2014, the Company repaid the first annual principal amortization of \$8.8 million representing a 5% mandatory principal amortization due in each of the first six years under the terms of the PNC Term Loan with a final maturity of August 26, 2020. The second annual installment in the amount of \$8.8 million will be due in August 2015 and has been classified as current on the balance sheet.

On September 29, 2014, the Company entered into a new Samurai Loan Agreement to replace the maturing Samurai Loan Agreement dated August 27, 2011, in an aggregate amount of 12.6 billion Japanese yen. The new Samurai Loan Agreement ("Samurai Loan") provides for a new five-year, 12.6 billion Japanese yen term loan through September 30, 2019. The Samurai Loan is designated as a net investment hedge. The Samurai Loan is unsecured and contains certain affirmative and negative covenants relating to the Company's operations and financial condition, including prescribed leverage and interest coverage ratios. The Samurai Loan contains customary events of default. Upon the occurrence of an event of default, all outstanding borrowings under the Samurai Loan may be accelerated and become immediately due and payable.

Under its five-year multi-currency revolving credit agreement, the Company is able to borrow up to \$500.0 million through July 23, 2019. The facility is unsecured and contains certain affirmative and negative covenants relating to the operations and financial condition of the Company. The most restrictive of these covenants pertain to asset dispositions and prescribed ratios of indebtedness to total capital and operating income plus depreciation and amortization to interest expense. At September 30, 2014, the Company was in compliance with these covenants. The Company also has available an aggregate \$500.0 million under a U.S. dollar commercial paper facility. The five-year revolver serves as a back-up to the commercial paper facility, thus the total available credit under the commercial paper facility and the multi-currency revolving credit facilities in the aggregate is \$500.0 million. At September 30, 2014, the Company had no outstanding borrowings under the multi-currency revolving facility.

The Company also has access to \$72.9 million in uncommitted short-term financing under lines of credit from various financial institutions. The lines of credit have no major restrictions and are provided under demand notes between the Company and the lending institutions. At September 30, 2014, the Company had \$5.2 million outstanding under these short-term lines of credit. At September 30, 2014, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of \$567.7 million.

At September 30, 2014, the Company held \$62.3 million of precious metals on consignment from several financial institutions. The consignment agreements allow the Company to acquire the precious metal at market rates at a point in time which is approximately the same time and for the same price as alloys are sold to the Company's customers. In the event that the financial institutions would discontinue offering these consignment arrangements, and if the Company could not obtain other comparable arrangements, the Company may be required to obtain third party financing to fund an ownership position in the required precious metal inventory levels.

At September 30, 2014, the majority of the Company's cash and cash equivalents were held outside of the United States. Most of these balances could be repatriated to the United States, however, under current law, would potentially be subject to U.S. federal income tax, less applicable foreign tax credits. Historically, the Company has generated more than sufficient operating cash flows in the United States to fund domestic operations. Further, the Company expects on an ongoing basis, to be able to finance domestic and international cash requirements, including capital expenditures, stock repurchases, debt service, operating leases and potential future acquisitions, from the funds generated from operations and amounts available under its existing credit facilities. The Company intends to retire or refinance the current portion of long-term debt due in the next year utilizing available cash flow, available commercial paper and the revolving credit facilities as well as other sources of credit.

There have been no material changes to the Company's scheduled contractual cash obligations disclosed in its Form 10-K for the year ended December 31, 2013.

## NEW ACCOUNTING PRONOUNCEMENTS

Refer to Part 1, Item 1, Note 1, Significant Accounting Policies, to the Unaudited Interim Consolidated Financial Statements for a discussion of recent accounting standards and pronouncements.

### Item 3 – Quantitative and Qualitative Disclosures about Market Risk

There have been no significant material changes to the market risks as disclosed in the Company's Form 10-K for the year ended December 31, 2013.

### Item 4 – Controls and Procedures

#### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that it is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the most recent quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

## Item 1 – Legal Proceedings

Reference to Part I, Item 1, Note 15, Commitments and Contingencies, to the Unaudited Interim Consolidated Financial Statements.

## Item 1A – Risk Factors

Except as noted below, there have been no significant material changes to the risk factors as disclosed in the Company's Form 10-K for the year ended December 31, 2013.

## Item 2 – Unregistered Sales of Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

At September 30, 2014, the Company had authorization to maintain up to 34.0 million shares of treasury stock under the stock repurchase program as approved by the Board of Directors. During the quarter ended September 30, 2014, the Company had the following activity with respect to this repurchase program:

(in thousands, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Cost of Shares Purchased	Number of Shares that May be Purchased Under the Share Repurchase Program
July 1, 2014 to July 31, 2014	61.2	\$47.41	\$2,902.4	13,002.2
August 1, 2014 to August 31, 2014	108.5	47.80	5,184.0	13,002.2
September 1, 2014 to September 30, 2014	175.2	46.14	8,085.3	12,854.3
	344.9	\$46.89	\$16,171.7	



Item 6 – Exhibits

Exhibit Number	Description
4.15	United States Commercial Paper issuing and paying Agency Agreement dated as of November 4, 2014 between the Company and U. S. Bank N. A.
31	Section 302 Certification Statements
32	Section 906 Certification Statements
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the duly authorized undersigned.

DENTSPLY International Inc.

/s/	Bret W. Wise	October 29, 2014
	Bret W. Wise	Date
	Chairman of the Board and	
	Chief Executive Officer	

/s/	Christopher T. Clark	October 29, 2014
	Christopher T. Clark	Date
	President and	
	Chief Financial Officer	