

DENTSPLY INTERNATIONAL INC /DE/  
Form 10-Q  
May 09, 2013

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013  
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)

17405-0872  
(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

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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 May 6, 2013, DENTSPLY International Inc. had 143,282,565 shares of Common Stock outstanding, with a par value of \$.01 per share.

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DENTSPLY International Inc.

TABLE OF CONTENTS

|                       | Page  |                  |
|-----------------------|---|------------------|
| <b><u>PART I</u></b>  | <b><u>FINANCIAL INFORMATION</u></b>   |                  |
| <b><u>Item 1</u></b>  | <b><u>Financial Statements (unaudited)</u></b>  | <b><u>3</u></b>  |
|                       | <b><u>Consolidated Statements of Operations</u></b>   | <b><u>3</u></b>  |
|                       | <b><u>Consolidated Statements of Comprehensive Income</u></b>                                       | <b><u>4</u></b>  |
|                       | <b><u>Consolidated Balance Sheets</u></b>   | <b><u>5</u></b>  |
|                       | <b><u>Consolidated Statements of Cash Flows</u></b>   | <b><u>6</u></b>  |
|                       | <b><u>Consolidated Statements of Changes in Equity</u></b>  | <b><u>7</u></b>  |
|                       | <b><u>Notes to Unaudited Interim Consolidated Financial Statements</u></b>                          | <b><u>8</u></b>  |
| <b><u>Item 2</u></b>  | <b><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b> | <b><u>30</u></b> |
| <b><u>Item 3</u></b>  | <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>                            | <b><u>39</u></b> |
| <b><u>Item 4</u></b>  | <b><u>Controls and Procedures</u></b>   | <b><u>39</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>40</u></b> |
| <b><u>Item 1A</u></b> | <b><u>Risk Factors</u></b>  | <b><u>40</u></b> |
| <b><u>Item 2</u></b>  | <b><u>Unregistered Sales of Securities and Use of Proceeds</u></b>                                  | <b><u>40</u></b> |
| <b><u>Item 6</u></b>  | <b><u>Exhibits</u></b>  | <b><u>40</u></b> |
|                       | <b><u>Signatures</u></b>  | <b><u>40</u></b> |

## 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<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2013                            | 2012      |
| Net sales   | \$732,084                       | \$716,413 |
| Cost of products sold                                     | 343,884                         | 323,663   |
| Gross profit  | 388,200                         | 392,750   |
| Selling, general and administrative expenses              | 293,677                         | 304,353   |
| Restructuring and other costs                             | 665                             | 1,237     |
| Operating income  | 93,858                          | 87,160    |
| Other income and expenses:                                |                                 |           |
| Interest expense  | 15,221                          | 15,782    |
| Interest income   | (2,175                          | ) (1,878  |
| Other expense (income), net                               | 2,918                           | 65        |
| Income before income taxes                                | 77,894                          | 73,191    |
| Provision for income taxes                                | 3,542                           | 14,715    |
| Equity in net loss of unconsolidated affiliated company   | (1,779                          | ) (4,248  |
| Net income  | 72,573                          | 54,228    |
| Less: Net income attributable to noncontrolling interests | 888                             | 944       |
| Net income attributable to DENTSPLY International         | \$71,685                        | \$53,284  |
| Earnings per common share:                                |                                 |           |
| Basic   | \$0.50                          | \$0.38    |
| Diluted   | \$0.49                          | \$0.37    |
| Weighted average common shares outstanding:               |                                 |           |
| Basic   | 142,775                         | 141,721   |
| Diluted   | 145,099                         | 143,984   |

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<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2013                            | 2012      |
| Net income  | \$72,573                        | \$54,228  |
| Other comprehensive income (loss), net of tax:                                |                                 |           |
| Foreign currency translation adjustments                                      | (94,142 )                       | 133,633   |
| Net gain (loss) on derivative financial instruments                           | 28,118                          | (32,132 ) |
| Net unrealized holding gain on available-for-sale securities                  | 7,640                           | 23,000    |
| Pension liability adjustments   | 2,776                           | (222 )    |
| Total other comprehensive income (loss)                                       | (55,608 )                       | 124,279   |
| Total comprehensive income (loss)   | 16,965                          | 178,507   |
| Less: Comprehensive income (loss) attributable<br>to noncontrolling interests | 181                             | 2,284     |
| Comprehensive income (loss) attributable to<br>DENTSPLY International         | 16,784                          | 176,223   |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

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

|  | March 31, 2013 | December 31, 2012 |
|--|----------------|-------------------|
| Assets   |                |                   |
| Current Assets:  |                |                   |
| Cash and cash equivalents  | \$56,203       | \$80,132          |
| Accounts and notes receivables-trade, net  | 468,537        | 442,412           |
| Inventories, net   | 417,094        | 402,940           |
| Prepaid expenses and other current assets  | 218,685        | 185,612           |
| Total Current Assets   | 1,160,519      | 1,111,096         |
| Property, plant and equipment, net   | 608,850        | 614,705           |
| Identifiable intangible assets, net  | 805,646        | 830,642           |
| Goodwill, net  | 2,167,241      | 2,210,953         |
| Other noncurrent assets, net   | 159,872        | 204,901           |
| Total Assets   | \$4,902,128    | \$4,972,297       |
| Liabilities and Equity   |                |                   |
| Current Liabilities:   |                |                   |
| Accounts payable   | \$148,715      | \$165,290         |
| Accrued liabilities  | 347,397        | 424,336           |
| Income taxes payable   | 14,615         | 39,191            |
| Notes payable and current portion of long-term debt  | 315,438        | 298,963           |
| Total Current Liabilities  | 826,165        | 927,780           |
| Long-term debt   | 1,207,722      | 1,222,035         |
| Deferred income taxes  | 226,100        | 232,641           |
| Other noncurrent liabilities   | 372,747        | 340,398           |
| Total Liabilities  | 2,632,734      | 2,722,854         |
| 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 March 31, 2013 and December 31, 2012. | 1,628          | 1,628             |
| Capital in excess of par value   | 238,945        | 246,548           |
| Retained earnings  | 2,881,126      | 2,818,461         |
| Accumulated other comprehensive loss   | (199,101)      | (144,200)         |
| Treasury stock, at cost, 19.7 million and 20.5 million shares at March 31, 2013 and December 31, 2012, respectively.                 | (689,096)      | (713,739)         |

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|                                     |             |             |
|-------------------------------------|-------------|-------------|
| Total DENTSPLY International Equity | 2,233,502   | 2,208,698   |
| Noncontrolling interests            | 35,892      | 40,745      |
| Total Equity                        | 2,269,394   | 2,249,443   |
| Total Liabilities and Equity        | \$4,902,128 | \$4,972,297 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

5

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DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2013                            | 2012       |
| Cash flows from operating activities:   |                                 |            |
| Net income  | \$72,573                        | \$54,228   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |            |
| Depreciation  | 20,416                          | 20,209     |
| Amortization  | 11,934                          | 15,360     |
| Amortization of deferred financing costs  | 1,296                           | 1,196      |
| Deferred income taxes   | (11,793)                        | ) 3,690    |
| Share-based compensation expense  | 5,434                           | 4,222      |
| Stock option income tax benefit   | (603)                           | ) (3,879)  |
| Equity in earnings from unconsolidated affiliates                                 | 1,779                           | 4,248      |
| Other non-cash (income) expense   | (3,912)                         | ) 3,048    |
| Changes in operating assets and liabilities, net of acquisitions:                 |                                 |            |
| Accounts and notes receivable-trade, net  | (36,209)                        | ) (25,597) |
| Inventories, net  | (22,080)                        | ) (34,006) |
| Prepaid expenses and other current assets   | 4,085                           | (24,072)   |
| Other noncurrent assets, net  | (598)                           | ) 15,954   |
| Accounts payable  | (10,928)                        | ) 11,528   |
| Accrued liabilities   | (7,559)                         | ) (21,186) |
| Income taxes  | (21,196)                        | ) 10,545   |
| Other noncurrent liabilities  | 33,447                          | (15,535)   |
| Net cash provided by operating activities   | 36,086                          | 19,953     |
| Cash flows from investing activities:   |                                 |            |
| Capital expenditures  | (24,032)                        | ) (18,642) |
| Cash paid for acquisitions of businesses, net of cash acquired                    | (3,939)                         | ) —        |
| Payments on settlements of net investment hedges                                  | (45,765)                        | ) —        |
| Expenditures for identifiable intangible assets                                   | (205)                           | ) (146)    |
| Purchase of Company-owned life insurance policies                                 | —                               | (1,577)    |
| Proceeds from sale of property, plant and equipment, net                          | 1,218                           | 166        |
| Net cash used in investing activities   | (72,723)                        | ) (20,199) |
| Cash flows from financing activities:   |                                 |            |
| Net change in short-term borrowings   | 16,133                          | 11,155     |
| Cash paid for treasury stock  | —                               | (30,869)   |
| Cash dividends paid   | (7,909)                         | ) (7,847)  |
| Cash paid for contingent consideration on prior acquisitions                      | —                               | (1,781)    |



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|   |          |          |   |
|---|----------|----------|---|
| Cash paid for acquisition of noncontrolling interests of consolidated subsidiary    | (8,960   | ) —      |   |
| Proceeds from long-term borrowings  | —        | 4,571    |   |
| Repayments of long-term borrowings  | —        | (5,171   | ) |
| Proceeds from exercise of stock options   | 13,578   | 14,483   |   |
| Excess tax benefits from share-based compensation                                   | 603      | 3,879    |   |
| Interest received on derivatives with an other-than-insignificant financing element | 464      | 613      |   |
| Interest paid on derivatives with an other-than-insignificant financing element     | (306     | ) (1,413 | ) |
| Net cash provided by (used in) financing activities                                 | 13,603   | (12,380  | ) |
| Effect of exchange rate changes on cash and cash equivalents                        | (895     | ) 2,844  |   |
| Net decrease in cash and cash equivalents   | (23,929  | ) (9,782 | ) |
| Cash and cash equivalents at beginning of period                                    | 80,132   | 77,128   |   |
| Cash and cash equivalents at end of period  | \$56,203 | \$67,346 |   |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

(In thousands)

(unaudited)

|   | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total DENTSPLY<br>International<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|---|-----------------|--------------------------------------|----------------------|---|-------------------|---|-----------------------------|-----------------|
| Balance at<br>December 31,<br>2011                | \$1,628         | \$229,687                            | \$2,535,709          | \$(190,970 )                                  | \$(727,977)       | \$1,848,077                               | \$36,074                    | \$1,884,151     |
| Net income  | —               | —                                    | 53,284               | —   | —                 | 53,284                                    | 944                         | 54,228          |
| Other<br>comprehensive<br>income                  | —               | —                                    | —                    | 122,939                                       | —                 | 122,939                                   | 1,340                       | 124,279         |
| Exercise of<br>stock options                      | —               | (5,227 )                             | —                    | —   | 19,709            | 14,482                                    | —                           | 14,482          |
| Tax benefit<br>from stock<br>options<br>exercised | —               | 3,879                                | —                    | —   | —                 | 3,879                                     | —                           | 3,879           |
| Share based<br>compensation<br>expense            | —               | 4,222                                | —                    | —   | —                 | 4,222                                     | —                           | 4,222           |
| Funding of<br>Employee Stock<br>Ownership Plan    | —               | 370                                  | —                    | —   | 3,272             | 3,642                                     | —                           | 3,642           |
| Treasury shares<br>purchased                      | —               | —                                    | —                    | —   | (30,869 )         | (30,869 )                                 | —                           | (30,869 )       |
| RSU<br>distributions                              | —               | (8,147 )                             | —                    | —   | 4,910             | (3,237 )                                  | —                           | (3,237 )        |
| RSU dividends                                     | —               | 57                                   | (57 )                | —   | —                 | —   | —                           | —               |
| Cash dividends<br>(\$0.0550 per<br>share)         | —               | —                                    | (7,802 )             | —   | —                 | (7,802 )                                  | —                           | (7,802 )        |
| Balance at<br>March 31, 2012                      | \$1,628         | \$224,841                            | \$2,581,134          | \$(68,031 )                                   | \$(730,955)       | \$2,008,617                               | \$38,358                    | \$2,046,975     |
|   | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total DENTSPLY<br>International<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
| Balance at<br>December 31,<br>2012                | \$1,628         | \$246,548                            | \$2,818,461          | \$(144,200 )                                  | \$(713,739)       | \$2,208,698                               | \$40,745                    | \$2,249,443     |

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|  |         |           |             |              |             |             |          |             |
|--|---------|-----------|-------------|--------------|-------------|-------------|----------|-------------|
| Net income                               | —       | —         | 71,685      | —            | —           | 71,685      | 888      | 72,573      |
| Other comprehensive loss                 | —       | —         | —           | (54,901 )    | —           | (54,901 )   | (707 )   | (55,608 )   |
| Acquisition of noncontrolling interest   | —       | (3,926 )  | —           | —            | —           | (3,926 )    | (5,034 ) | (8,960 )    |
| Exercise of stock options                | —       | (2,444 )  | —           | —            | 16,022      | 13,578      | —        | 13,578      |
| Tax benefit from stock options exercised | —       | 603       | —           | —            | —           | 603         | —        | 603         |
| Share based compensation expense         | —       | 5,434     | —           | —            | —           | 5,434       | —        | 5,434       |
| Funding of Employee Stock Ownership Plan | —       | 959       | —           | —            | 3,698       | 4,657       | —        | 4,657       |
| RSU distributions                        | —       | (8,305 )  | —           | —            | 4,923       | (3,382 )    | —        | (3,382 )    |
| RSU dividends                            | —       | 76        | (76 )       | —            | —           | —           | —        | —           |
| Cash dividends (\$0.0625 per share)      | —       | —         | (8,944 )    | —            | —           | (8,944 )    | —        | (8,944 )    |
| Balance at March 31, 2013                | \$1,628 | \$238,945 | \$2,881,126 | \$(199,101 ) | \$(689,096) | \$2,233,502 | \$35,892 | \$2,269,394 |

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, 2012.

### 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, 2012, 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.”

Accounts and notes receivables – trade, net are stated net of allowances for doubtful accounts and trade discounts, which was \$15.0 million at March 31, 2013 and \$14.5 million at December 31, 2012.

#### 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 feature of the bonds has not been bifurcated from the underlying bonds as the feature 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 \$84.7 million and \$75.1 million at March 31, 2013 and December 31, 2012, respectively. At March 31, 2013 and December 31, 2012, an unrealized holding gain of \$25.5 million and \$17.8 million, respectively, on available-for-sale securities, net of tax, had been recorded in AOCI.

#### New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." The standard requires entities to disclose both gross and net information about instruments and transactions that are offset in the Consolidated Balance Sheet, as well as instruments and transactions that are subject to an enforceable master netting agreement or similar agreement. In January 2013,

The FASB issued ASU No. 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The standard clarifies the scope of the disclosure to apply only to derivatives, including bifurcated embedded derivatives, repurchase and reverse repurchase agreements as well as securities lending and borrowing transactions. The standard was effective January 1, 2013, with retrospective application required. The adoption of this standard did not have a material impact to the Company's financial statements. The Company adopted this accounting standard for the quarter ended March 31, 2013.

In July 2012, the FASB issued ASU No. 2012-02, "Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." This newly issued accounting standard is intended to reduce the cost and complexity of the annual indefinite-lived intangible asset impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. Under the revised standard, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step impairment test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that an indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required; otherwise, no further testing is required. Prior to the issuance of the revised standard, an entity was required to perform step one of the impairment test at least annually by calculating and comparing the fair value of an indefinite-lived intangible asset to its carrying amount. Under the revised standard, if an entity determines that step one is necessary and the indefinite-lived intangible asset is less than its carrying amount, then step two of the test will continue to be required to measure the amount of the impairment loss, if any. This ASU is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this standard will not materially impact the Company's financial position or results of operations. The Company adopted this accounting standard for the quarter ended March 31, 2013.

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This newly issued accounting standard requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income in its entirety in the same period. For other amounts not required to be reclassified to net income in the same reporting period, a cross reference to other disclosures that provide additional detail about the reclassification amounts is required. Since the standard only impacts the disclosure requirements of AOCI and does not impact the accounting for accumulated comprehensive income, the standard did not have an impact on the Company's consolidated financial statements. The Company adopted this standard during the quarter ended March 31, 2013.

In March 2013, the FASB issued 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 investments in a foreign entity, or step acquisition for a foreign entity. The adoption of this standard will not materially impact the Company's financial position or results of operations. The Company expects to adopt this accounting standard for the quarter ending March 31, 2014.

#### 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 months ended March 31, 2013 and 2012:

| (in thousands)                         | Three Months Ended March 31, |         |
|--|------------------------------|---------|
|  | 2013                         | 2012    |
| Stock option expense                   | \$2,128                      | \$2,381 |
| RSU expense                            | 2,933                        | 1,546   |
| Total stock based compensation expense | \$5,061                      | \$3,927 |
| Total related tax benefit              | \$1,287                      | \$1,231 |

At March 31, 2013, the remaining unamortized compensation cost related to non-qualified stock options is \$18.5 million, which will be expensed over the weighted average remaining vesting period of the options, or 1.9 years. At March 31, 2013, the

unamortized compensation cost related to RSU is \$30.4 million, which will be expensed over the remaining restricted period of the RSU, or 1.9 years.

The following table reflects the non-qualified stock option transactions from December 31, 2012 through March 31, 2013:

| (in thousands,<br>except per share data) | Outstanding |  | Aggregate<br>Intrinsic<br>Value | Exercisable |  |                                 |
|--|-------------|--|---------------------------------|-------------|--|---------------------------------|
|  | Shares      | Weighted<br>Average<br>Exercise<br>Price |                                 | Shares      | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
| Balance at December 31, 2012             | 9,906       | \$33.18                                  | \$69,079                        | 7,599       | \$31.79                                  | \$64,819                        |
| Granted                                  | 844         | 40.86                                    |                                 |             |  |                                 |
| Exercised                                | (506)       | ) 26.83                                  |                                 |             |  |                                 |
| Cancelled                                | (4)         | ) 43.91                                  |                                 |             |  |                                 |
| Forfeited                                | (16)        | ) 37.82                                  |                                 |             |  |                                 |
| Balance at March 31, 2013                | 10,224      | \$34.12                                  | \$87,676                        | 7,923       | \$32.72                                  | \$79,643                        |

At March 31, 2013, the weighted average remaining contractual term of all outstanding options is 6.0 years and the weighted average remaining contractual term of exercisable options is 5.1 years.

The following table summarizes the unvested RSU transactions from December 31, 2012 through March 31, 2013:

| (in thousands, except per share data) | Shares | Weighted Average<br>Grant Date<br>Fair Value |
|---------------------------------------|--------|--|
| Balance at December 31, 2012          | 1,034  | \$36.34                                      |
| Granted                               | 480    | 40.86  |
| Vested                                | (232)  | ) 32.49                                      |
| Forfeited                             | (69)   | ) 38.64                                      |
| Balance at March 31, 2013             | 1,213  | \$38.74                                      |

### NOTE 3 – COMPREHENSIVE INCOME

During the three months ended March 31, 2013, foreign currency translation adjustments included currency translation losses of \$101.9 million and gains on the Company's loans designated as hedges of net investments of \$8.5 million. During the three months ended March 31, 2012, foreign currency translation adjustments included currency translation gains of \$127.0 million and gains on the Company's loans designated as hedges of net investments of \$5.3 million. These foreign currency translation adjustments were 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 \$75.8 million and \$177.7 million at March 31, 2013 and December 31, 2012, respectively, were offset by losses of \$114.9 million and \$123.4 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 three months ended March 31, 2013 and 2012:

| (in thousands)  | Foreign<br>Currency<br>Translation<br>Adjustments | Gains and<br>(Loss) on<br>Derivative<br>Financial<br>Instruments | Net Unrealized<br>Holding Gain on<br>Available-for-Sale<br>Securities           | Pension<br>Liability<br>Adjustments | Total        |
|---|---|--|---|-------------------------------------|--------------|
| Balance at December 31, 2012  | \$54,302  | \$(143,142 )   | \$ 17,822   | \$(73,182 )                         | \$(144,200 ) |
| Other comprehensive income (loss) before reclassifications              | (93,435 )   | 27,996   | 7,640   | 1,835                               | (55,964 )    |
| Amounts reclassified from accumulated other comprehensive income (loss) | —   | 122  | —   | 941                                 | 1,063        |
| Net (decrease) increase in other comprehensive income                   | (93,435 )   | 28,118   | 7,640   | 2,776                               | (54,901 )    |
| Balance at March 31, 2013   | \$(39,133 )                                       | \$(115,024 )   | \$ 25,462   | \$(70,406 )                         | \$(199,101 ) |
| (in thousands)  | Foreign<br>Currency<br>Translation<br>Adjustments | Gains and<br>(Loss) on<br>Derivative<br>Financial<br>Instruments | Net Unrealized<br>Holding (Loss)<br>Gain on<br>Available-for-Sale<br>Securities | Pension<br>Liability<br>Adjustments | Total        |
| Balance at December 31, 2011  | \$(39,078 )                                       | \$(117,390 )   | \$ (516 )   | \$(33,986 )                         | \$(190,970 ) |
| Other comprehensive income (loss) before reclassifications              | 132,293   | (31,593 )  | 23,000  | (591 )                              | 123,109      |
| Amounts reclassified from accumulated other comprehensive income (loss) | —   | (539 )   | —   | 369                                 | (170 )       |
| Net increase (decrease) in other comprehensive income                   | 132,293   | (32,132 )  | 23,000  | (222 )                              | 122,939      |
| Balance at March 31, 2012   | \$93,215  | \$(149,522 )   | \$ 22,484   | \$(34,208 )                         | \$(68,031 )  |



Reclassification out of accumulated other comprehensive income (expense) for the three months ended March 31, 2013 and 2012:

(in thousands)

| Details about AOCI Components                             | Amounts Reclassified from AOCI    |                 | Affected Line Item in the Statements of Operations |
|---|-----------------------------------|-----------------|--|
|   | Three Months Ended March 31, 2013 | 2012            |  |
| <b>Gains and loss on derivative financial instruments</b> |                                   |                 |  |
| Interest rate swaps                                       | \$ (913                           | ) \$ (905       | ) Interest expense                                 |
| Foreign exchange forward contracts                        | 499                               | 1,150           | Cost of products sold                              |
| Foreign exchange forward contracts                        | (30                               | ) 231           | SG&A expenses                                      |
| Commodity contracts                                       | 157                               | (46             | ) Cost of products sold                            |
|   | (287                              | ) 430           | Net (loss) gain before tax                         |
|   | 165                               | 109             | Tax benefit  |
|   | \$ (122                           | ) \$ 539        | Net of tax   |
| <b>Amortization of defined benefit pension items</b>      |                                   |                 |  |
| Prior service costs                                       | \$ 34                             | \$ 37           | (a)  |
| Actuarial gains (losses)                                  | (1,368                            | ) (556          | ) (a)  |
|   | (1,334                            | ) (519          | ) Net loss before tax                              |
|   | 393                               | 150             | Tax benefit  |
|   | \$ (941                           | ) \$ (369       | ) Net of tax                                       |
| <b>Total reclassifications for the period</b>             | <b>\$ (1,063</b>                  | <b>) \$ 170</b> |  |

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (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 months ended March 31, 2013 and 2012:

| Basic Earnings Per Common Share Computation<br>(in thousands, except per share amounts)              | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2013                         | 2012     |
| Net income attributable to DENTSPLY International  | \$71,685                     | \$53,284 |
| Common shares outstanding  | 142,775                      | 141,721  |
| Earnings per common share - basic  | \$0.50                       | \$0.38   |
| Diluted Earnings Per Common Share Computation<br>(in thousands, except per share amounts)            |                              |          |
| Net income attributable to DENTSPLY International  | \$71,685                     | \$53,284 |
| Common shares outstanding  | 142,775                      | 141,721  |
| Incremental shares from assumed exercise of dilutive options from<br>stock-based compensation awards | 2,324                        | 2,263    |
| Total diluted shares outstanding   | 145,099                      | 143,984  |
| Earnings per common share - diluted  | \$0.49                       | \$0.37   |

Options to purchase 3.5 million and 4.1 million shares of common stock that were outstanding during the three months ended March 31, 2013 and 2012, respectively, were not included in the computation of diluted earnings per common share since the options' exercise price were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

#### NOTE 5 – BUSINESS ACQUISITIONS

During the three months ended March 31, 2013, the Company paid \$9.0 million to purchase the remaining outstanding shares of a consolidated subsidiary. As a result of the transaction, the Company recorded a decrease in noncontrolling interest of \$5.0 million and a reduction to additional paid in capital of \$3.9 million for the excess of the purchase price above the carrying value of the noncontrolling interest.

#### 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 89% of sales for both three months ended March 31, 2013 and 2012.

The operating businesses are combined into operating groups, which 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 measures segment income for reporting purposes as net operating income before restructuring and other costs, interest expense, interest income, other expense (income), net and provision for income taxes. Additionally, the operating segments are measured on net third party sales, excluding precious metal content. A description of the services provided within each of the Company's four reportable segments is provided below.

During the first quarter of 2013, the Company realigned certain implant and implant related businesses for multiple locations as a result of changes to the business structure. The segment information below reflects the revised structure for all periods shown.

#### Dental Consumable and Laboratory Businesses

This segment includes responsibility for the design, manufacturing, sales and distribution of certain small equipment and chairside consumable products in the United States, Germany and certain other European regions. It also has responsibility for the sales and distribution of certain Endodontic products in Germany. This segment also includes the responsibility for the design, manufacture, sales and distribution of most dental laboratory products, excluding certain countries. This segment is also responsible for most of the Company's non-dental business excluding medical products.

#### Orthodontics/Canada/Mexico/Japan

This segment is responsible for the world-wide manufacturing, sales and distribution of the Company's Orthodontic products. It also has responsibility for the sales and distribution of most of the Company's dental products sold in Japan, Canada and Mexico.

#### Select Distribution Businesses

This segment includes responsibility for the sales and distribution for most of the Company's dental products sold in France, United Kingdom, Italy, Austria and certain other European countries, Middle Eastern countries, India and Africa. Operating margins of the segment are reflective of the intercompany transfer price of products manufactured by other operating segments.

#### Implants/Endodontics/Healthcare/Pacific Rim

This segment includes the responsibility for the design, manufacture, sales and distribution of most of the Company's dental implant and related products. This segment also includes the responsibility for the design and manufacturing of Endodontic products and is responsible for the sales and distribution of the Company's Endodontic products in the United States, Switzerland, and locations not covered by other selling divisions. In addition, this segment is also responsible for sales and distribution of certain Endodontic products in Germany, Asia and other parts of the world. Additionally, this segment is responsible for the design and manufacture of certain dental consumables and dental laboratory products and the sales and distribution of most dental products sold in Brazil, Latin America (excluding Mexico), Australia and most of Asia (excluding India and Japan). This segment is also responsible for the world-wide design, manufacturing, sales and distribution of the Company's healthcare products (non-dental) throughout most of the world.

Significant interdependencies exist among the Company's operations in certain geographic areas. Inter-group 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.

Generally, the Company evaluates performance of the segments based on the groups' operating income, excluding restructuring and other costs, and net third party sales, excluding precious metal content.

The following tables set forth information about the Company's segments for the three months ended March 31, 2013 and 2012:

#### Third Party Net Sales

| (in thousands) | Three Months Ended March 31, |      |
|----------------|------------------------------|------|
|                | 2013                         | 2012 |

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|   |           |           |
|---|-----------|-----------|
| Dental Consumable and Laboratory Businesses | \$264,629 | \$255,134 |
| Orthodontics/Canada/Mexico/Japan            | 71,335    | 70,355    |
| Select Distribution Businesses              | 60,815    | 59,093    |
| Implants/Endodontics/Healthcare/Pacific Rim | 336,644   | 333,146   |
| All Other (a)                               | (1,339)   | ) (1,315) |
| Total                                       | \$732,084 | \$716,413 |

(a) Includes amounts recorded at Corporate headquarters.



Third Party Net Sales, Excluding Precious Metal Content

| (in thousands)                              | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 2013                         | 2012      |
| Dental Consumable and Laboratory Businesses | \$212,030                    | \$212,109 |
| Orthodontics/Canada/Mexico/Japan            | 64,972                       | 63,293    |
| Select Distribution Businesses              | 60,717                       | 58,933    |
| Implants/Endodontics/Healthcare/Pacific Rim | 336,269                      | 332,605   |
| All Other (b)                               | (1,339                       | ) (1,315  |
| Total excluding precious metal content      | 672,649                      | 665,625   |
| Precious metal content                      | 59,435                       | 50,788    |
| Total including precious metal content      | \$732,084                    | \$716,413 |

(b) Includes amounts recorded at Corporate headquarters.

Inter-segment Net Sales

| (in thousands)                              | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2013                         | 2012       |
| Dental Consumable and Laboratory Businesses | \$51,832                     | \$52,469   |
| Orthodontics/Canada/Mexico/Japan            | 829                          | 1,179      |
| Select Distribution Businesses              | 1,291                        | 394        |
| Implants/Endodontics/Healthcare/Pacific Rim | 34,023                       | 34,039     |
| All Other (c)                               | 57,427                       | 53,980     |
| Eliminations                                | (145,402                     | ) (142,061 |
| 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 March 31, |           |
|---|------------------------------|-----------|
|   | 2013                         | 2012      |
| Dental Consumable and Laboratory Businesses | \$61,750                     | \$63,345  |
| Orthodontics/Canada/Mexico/Japan            | 1,863                        | (268      |
| Select Distribution Businesses              | (1,626                       | ) (1,440  |
| Implants/Endodontics/Healthcare/Pacific Rim | 63,851                       | 65,383    |
| All Other (d)                               | (31,315                      | ) (38,623 |
| Segment operating income                    | 94,523                       | 88,397    |

Reconciling Items:

|                               |          |          |
|-------------------------------|----------|----------|
| Restructuring and other costs | 665      | 1,237    |
| Interest expense              | 15,221   | 15,782   |
| Interest income               | (2,175   | ) (1,878 |
| Other expense (income), net   | 2,918    | 65       |
| Income before income taxes    | \$77,894 | \$73,191 |

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



| Assets<br>(in thousands)                    | March 31, 2013 | December 31, 2012 |
|---|----------------|-------------------|
| Dental Consumable and Laboratory Businesses | \$967,097      | \$1,007,307       |
| Orthodontics/Canada/Mexico/Japan            | 282,711        | 294,348           |
| Select Distribution Businesses              | 164,753        | 192,684           |
| Implants/Endodontics/Healthcare/Pacific Rim | 3,177,893      | 3,195,382         |
| All Other (e)                               | 309,674        | 282,576           |
| Total                                       | \$4,902,128    | \$4,972,297       |

(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. At March 31, 2013 and December 31, 2012, the cost of \$7.6 million and \$6.3 million, respectively, was determined by the last-in, first-out (“LIFO”) method. 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 March 31, 2013 and December 31, 2012 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 \$33.6 million and \$32.6 million at March 31, 2013 and December 31, 2012, respectively.

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

| (in thousands)             | March 31, 2013 | December 31, 2012 |
|----------------------------|----------------|-------------------|
| Finished goods             | \$255,768      | \$248,870         |
| Work-in-process            | 72,622         | 72,533            |
| Raw materials and supplies | 88,704         | 81,537            |
|                            | \$417,094      | \$402,940         |

#### 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 months ended March 31, 2013 and 2012:

| Defined Benefit Plans<br>(in thousands) | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2013                         | 2012     |
| Service cost                            | \$3,723                      | \$2,978  |
| Interest cost                           | 2,477                        | 2,691    |
| Expected return on plan assets          | (1,247                       | ) (1,225 |
| Amortization of prior service cost      | (34                          | ) (37    |
| Amortization of net loss                | 1,280                        | 498      |
| Curtailements and settlement gains      | (390                         | ) —      |
| Net periodic benefit cost               | \$5,809                      | \$4,905  |



| Other Postemployment Benefit Plans<br>(in thousands) | Three Months Ended March 31, |       |
|--|------------------------------|-------|
|  | 2013                         | 2012  |
| Service cost   | \$61                         | \$19  |
| Interest cost  | 122                          | 117   |
| Amortization of net loss                             | 88                           | 58    |
| Net periodic benefit cost                            | \$271                        | \$194 |

The following sets forth the information related to the contributions to the Company's benefit plans for 2013:

| (in thousands)                              | Pension<br>Benefits | Other<br>Postretirement<br>Benefits |
|---|---------------------|-------------------------------------|
| Actual contributions through March 31, 2013 | \$3,543             | \$88                                |
| Projected for the remainder of the year     | 9,011               | 577                                 |
| Total projected contributions               | \$12,554            | \$665                               |

#### NOTE 9 – RESTRUCTURING AND OTHER COSTS

##### Restructuring Costs

During the three months ended March 31, 2013 and 2012, the Company recorded restructuring costs of \$0.7 million and \$1.3 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 March 31, 2013, the Company's restructuring accruals were as follows:

| (in thousands)               | Severance               |            |            |          |   |
|------------------------------|-------------------------|------------|------------|----------|---|
|                              | 2011 and<br>Prior Plans | 2012 Plans | 2013 Plans | Total    |   |
| Balance at December 31, 2012 | \$1,495                 | \$11,412   | \$—        | \$12,907 |   |
| Provisions and adjustments   | —                       | (12        | ) 58       | 46       |   |
| Amounts applied              | (333                    | ) (1,507   | ) —        | (1,840   | ) |
| Change in estimates          | —                       | (516       | ) —        | (516     | ) |
| Balance at March 31, 2013    | \$1,162                 | \$9,377    | \$58       | \$10,597 |   |

  

| (in thousands)               | Lease/Contract Terminations |            |            |         |   |
|------------------------------|-----------------------------|------------|------------|---------|---|
|                              | 2011 and<br>Prior Plans     | 2012 Plans | 2013 Plans | Total   |   |
| Balance at December 31, 2012 | \$792                       | \$682      | \$—        | \$1,474 |   |
| Provisions and adjustments   | —                           | 28         | 331        | 359     |   |
| Amounts applied              | (35                         | ) (511     | ) (140     | ) (686  | ) |
| Balance at March 31, 2013    | \$757                       | \$199      | \$191      | \$1,147 |   |



| (in thousands)               | Other Restructuring Costs |            |       |
|------------------------------|---------------------------|------------|-------|
|                              | 2012 Plans                | 2013 Plans | Total |
| Balance at December 31, 2012 | \$94                      | \$—        | \$94  |
| Provisions and adjustments   | 507                       | 266        | 773   |
| Amounts applied              | (520                      | ) —        | (520  |
| Balance at March 31, 2013    | \$81                      | \$266      | \$347 |

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

| (in thousands)                                 | December 31,<br>2012 | Provisions<br>and<br>Adjustments | Amounts<br>Applied | Change in<br>Estimate | March 31,<br>2013 |
|--|----------------------|----------------------------------|--------------------|-----------------------|-------------------|
| Dental Consumable and Laboratory<br>Businesses | \$9,132              | \$532                            | \$(900             | ) \$(516              | ) \$8,248         |
| Orthodontics/Canada/Mexico/Japan               | 361                  | 123                              | (308               | ) —                   | 176               |
| Select Distribution Businesses                 | 222                  | —                                | —                  | —                     | 222               |
| Implants/Endodontics/Healthcare/Pacific<br>Rim | 4,760                | 523                              | (1,838             | ) —                   | 3,445             |
|  | \$14,475             | \$1,178                          | \$(3,046           | ) \$(516              | ) \$12,091        |

## 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 Not Designated as Hedging

The Company enters into derivative financial instruments to hedge 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 forward foreign exchange contracts and cross currency basis swaps to hedge these risks. The Company's significant contracts outstanding as of March 31, 2013 are summarized in the tables that follow.

On December 20, 2012, the Company dedesignated 160.0 million Swiss francs of its net investment hedges and entered into 81.4 million Swiss francs of new cross currency basis swaps maturing December 27, 2013. The combination of these trades total 241.4 million Swiss francs and offset an inter-company Swiss franc note receivable at a U.S. dollar functional entity that was created by a net dividend of 241.4 million Swiss francs. The new 81.4 million Swiss franc swap has an original exchange rate of approximately .91 Swiss franc per U.S. dollar. The

Company will pay three-month Swiss franc LIBOR minus 34.0 basis points and receive three-month U.S. dollar LIBOR. The dedesignated cross currency swaps mature in April 2013. On January 17, 2013, the Company extended the hedge to June 2015 with two new forward starting swaps totaling 160.0 million Swiss francs. These hedges were traded at an exchange rate of approximately .93 Swiss franc per U.S. dollar, which will result in net cash payments totaling \$37.0 million in the second quarter of 2013. The Company will pay three-month Swiss franc LIBOR minus 22.1 basis points and receive three-month U.S. dollar LIBOR. The hedges amortize and are intended to offset currency revaluation of the Swiss franc note receivable for as long as it is outstanding. The change in the value of the swaps will be recorded in "Other expense (income), net" on the Consolidated Statements of Operations.

On January 10, 2013, the Company entered into 347.8 million euros of cross currency basis swaps maturing at various times between 2015 and 2018 to hedge a balance sheet liability resulting from a legal entity restructuring pursuant to the Company's



acquisitions integration plans. The hedges have an original exchange rate of approximately 1.32 U.S. dollar per euro and will offset currency revaluation of a euro denominated note payable by a U.S. dollar functional company for as long as it is outstanding. The Company will receive three-month Euro Inter-Bank Offered Rate ("EURIBOR") minus 33.2 basis points and pay three-month U.S. dollar LIBOR. The change in the value of the swaps will be recorded in "Other expense (income), net" on the Consolidated Statements of Operations.

#### Cash Flow Hedges

#### 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 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 operations in accordance with the Company's policy of classifying the cash flows from these instruments in the same category as the cash flows from the items being hedged.

These foreign exchange forward contracts generally have maturities up to eighteen months and the counterparties to the transactions are typically large international financial institutions. The Company's significant contracts outstanding as of March 31, 2013 are summarized in the tables that follow.

#### 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. As of March 31, 2013, the Company has two groups of significant interest rate swaps. One of the groups of swaps has notional amounts totaling 12.6 billion Japanese yen, and effectively converts the underlying variable interest rates to an average fixed interest rate of 0.2% for a term of three years, ending in September 2014. Another swap has a notional amount of 65.0 million Swiss francs, and effectively converts the underlying variable interest rates to a fixed interest rate of 0.7% for a 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. The Company's significant contracts outstanding as of March 31, 2013 are summarized in the tables that follow.

#### Commodity Risk Management

The Company selectively enters into commodity swaps to effectively fix certain variable raw material costs. These swaps are used purely 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 operations in accordance with the Company's policy of classifying the cash flows from these instruments in the same category as the cash flows from the items being hedged.

The following tables summarize the notional amounts and fair value of the Company's cash flow hedges and non-designated derivatives at March 31, 2013:

| Foreign Exchange Forward Contracts<br>(in thousands) | Notional Amounts Maturing in the Year |           | Fair Value Net<br>Asset (Liability)<br>March 31, 2013 |
|--|---------------------------------------|-----------|---|
|  | 2013                                  | 2014      |   |
| Forward sale, 20.1 million Australian dollars        | \$ 17,806                             | \$ 2,816  | \$(620 )  |
| Forward purchase, 7.6 million British pounds         | (11,518                               | ) —       | 210   |
| Forward sale, 44.8 million Canadian dollars          | 30,028                                | 14,056    | 250   |
| Forward purchase, 19.2 million Danish kroner         | (3,299                                | ) —       | (14 )   |
| Forward sale, 200.1 million euros                    | 180,007                               | 76,927    | (398 )  |
| Forward purchase, 531.5 million Japanese yen         | (461                                  | ) (5,222  | ) (2,625 )  |
| Forward sale, 171.9 million Mexican pesos            | 13,924                                | —         | (336 )  |
| Forward purchase, 2.3 million Norwegian kroner       | (394                                  | ) —       | (1 )  |
| Forward sale, 16.4 million Polish zlotys             | 5,051                                 | —         | (62 )   |
| Forward sale, 3.0 million Singapore dollars          | 2,389                                 | —         | (23 )   |
| Forward sale, 7.8 billion South Korean won           | 7,042                                 | —         | 15  |
| Forward purchase, 1.4 billion Swedish kronor         | (162,414                              | ) (45,595 | ) 6,133   |
| Forward purchase, 49.8 million Swiss francs          | (64,159                               | ) 12,613  | 1,597   |
| Forward sale, 50.6 million Taiwanese dollars         | 1,694                                 | —         | (12 )   |
| Total foreign exchange forward contracts             | \$ 15,696                             | \$ 55,595 | \$ 4,114  |

| Interest Rate Swaps<br>(in thousands) | Notional Amounts Maturing in the Year |            |        |           |                    | Fair Value Net<br>Asset (Liability)<br>March 31, 2013 |
|---------------------------------------|---------------------------------------|------------|--------|-----------|--------------------|---|
|                                       | 2013                                  | 2014       | 2015   | 2016      | 2017 and<br>Beyond |   |
| Euro                                  | \$ 908                                | \$ 926     | \$ 926 | \$ 926    | \$ 1,158           | \$(454 )  |
| Japanese yen                          | —                                     | 133,360    | —      | —         | —                  | 204   |
| Swiss francs                          | —                                     | —          | —      | 68,497    | —                  | (1,137 )  |
| Total interest rate swaps             | \$ 908                                | \$ 134,286 | \$ 926 | \$ 69,423 | \$ 1,158           | \$(1,387 )  |

| Commodity Swap Contracts<br>(in thousands) | Notional Amounts Maturing<br>in the Year |        | Fair Value Net<br>Asset (Liability)<br>March 31, 2013 |
|--|--|--------|---|
|  | 2013                                     | 2014   |   |
| Silver swap - U.S. dollar                  | \$ 1,469                                 | \$ 165 | \$(160 )  |
| Platinum swap - U.S. dollar                | 895                                      | —      | (3 )  |
| Total commodity swap contracts             | \$ 2,364                                 | \$ 165 | \$(163 )  |

| Cross Currency Basis Swap<br>(in thousands)  | Notional Amounts Maturing in the Year |            |            |            |                    | Fair Value Net<br>Asset (Liability)<br>March 31, 2013 |
|--|---------------------------------------|------------|------------|------------|--------------------|---|
|  | 2013                                  | 2014       | 2015       | 2016       | 2017 and<br>Beyond |   |
| 797.6 million euro at \$1.39 pay U.S.<br>dollar three-month LIBOR receive<br>three-month EURIBOR | \$—                                   | \$ 576,778 | \$ 111,346 | \$ 111,569 | \$ 223,138         | \$(87,613 )   |
|  | 79,035                                | 105,380    | 43,611     | —          | —                  | (31,556 )   |

216.4 million Swiss franc at 1.10 pay

Swiss franc three-month LIBOR receive

U.S. dollar three-month LIBOR

|                                 |          |           |           |           |           |             |   |
|---------------------------------|----------|-----------|-----------|-----------|-----------|-------------|---|
| Total cross currency basis swap | \$79,035 | \$682,158 | \$154,957 | \$111,569 | \$223,138 | \$(119,169) | ) |
|---------------------------------|----------|-----------|-----------|-----------|-----------|-------------|---|

20

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At March 31, 2013, deferred net gains on derivative instruments of \$0.1 million, which were recorded in AOCI, are expected to be reclassified to current earnings during the next twelve months. This reclassification is primarily due to the sale of inventory that includes hedged purchases and recognized interest expense on interest rate swaps. The maximum 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 eighteen months. Overall, the derivatives designated as cash flow hedges are highly effective. Any cash flows associated with these instruments are included in cash from operations in accordance with the Company's policy of classifying the cash flows from these instruments in the same category as the cash flows from the items being hedged.

#### Hedges of Net Investments in Foreign Operations

The Company has significant investments in foreign subsidiaries. The net assets of these subsidiaries are exposed to volatility in currency exchange rates. Currently, the Company uses both non-derivative financial instruments, including foreign currency denominated debt held at the parent company level and derivative financial instruments to hedge some of this exposure. Translation gains and losses related to the net assets of the foreign subsidiaries are offset by gains and losses in the non-derivative and derivative financial instruments designated as hedges of net investments, which are included in AOCI.

At March 31, 2013 and December 31, 2012, the Company had Swiss franc-denominated and Japanese yen-denominated debt and cross currency basis swaps denominated in euro and Swiss franc to hedge the currency exposure related to a designated portion of the net assets of its European, Swiss and Japanese subsidiaries. The fair value of the cross currency interest rate swap agreements is the estimated amount the Company would (pay) receive at the reporting date, taking into account the effective interest rates, currency swap basis rates and foreign exchange rates. At March 31, 2013 and December 31, 2012, the estimated net fair values of the cross currency interest rate swap agreements was a liability of \$7.5 million and a liability of \$90.7 million, respectively, which are recorded in AOCI, net of tax effects. At March 31, 2013 and December 31, 2012, the accumulated translation gain (loss) on investments in foreign subsidiaries, primarily denominated in euros, Swiss francs, Japanese yen and Swedish kronor, net of these net investment hedges, were losses of \$140.3 million and \$71.4 million, respectively, which were included in AOCI, net of tax effects.

On January 17, 2013, the Company extended 295.5 million Swiss francs of cross currency basis swaps maturing in February, March and April 2013 with five new swaps totaling 295.5 million Swiss francs maturing in February 2016, March 2017 and April 2018. These net investment hedges were traded at an exchange rate of approximately .93 Swiss franc per U.S. dollar which results in net cash payments totaling \$45.8 million in the first quarter of 2013 and \$9.4 million in the second quarter of 2013. The Company will receive three-month U.S. dollar LIBOR and pay three-month Swiss franc LIBOR minus 31.6 basis points.

The following tables summarize the notional amounts and fair value of the Company's cross currency basis swaps that are designated as hedges of net investments in foreign operations at March 31, 2013:

| Cross Currency Basis Swaps<br>(in thousands)   | Notional Amounts Maturing in the Year |          |          |           |                    | Fair Value Net<br>Asset (Liability)<br>March 31, 2013 |
|--|---------------------------------------|----------|----------|-----------|--------------------|---|
|  | 2013                                  | 2014     | 2015     | 2016      | 2017 and<br>Beyond |   |
| 432.5 million Swiss franc at 0.95<br>pay Swiss franc three-month<br>LIBOR receive U.S. dollar<br>three-month LIBOR | \$—                                   | \$84,725 | \$59,645 | \$105,380 | \$206,017          | \$(1,593 )  |

|   |           |          |          |           |           |          |   |
|---|-----------|----------|----------|-----------|-----------|----------|---|
| 618.0 million euro at \$1.27 pay<br>three-month EURIBOR receive | 792,523   | —        | —        | —         | —         | (5,905   | ) |
| U.S. dollar three-month LIBOR                                   |           |          |          |           |           |          |   |
| Total cross currency basis swaps                                | \$792,523 | \$84,725 | \$59,645 | \$105,380 | \$206,017 | \$(7,498 | ) |

#### Fair Value Hedges

Effective April 4, 2011, the Company entered into 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 a 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 in the income statement. At March 31, 2013, the estimated net fair value of these interest rate swaps was an asset of \$4.0 million.

The following tables summarize the notional amounts and fair value of the Company's fair value hedges at March 31, 2013:

| Interest Rate Swap<br>(in thousands) | Notional Amounts Maturing in the Year |          |          | Fair Value Net<br>Asset (Liability)<br>March 31, 2013 |
|--------------------------------------|---------------------------------------|----------|----------|---|
|                                      | 2014                                  | 2015     | 2016     |   |
| U.S. dollar                          | \$45,000                              | \$60,000 | \$45,000 | \$3,964   |
| Total interest rate swap             | \$45,000                              | \$60,000 | \$45,000 | \$3,964   |

The following tables summarize the fair value and consolidated balance sheet location of the Company's derivatives at March 31, 2013 and December 31, 2012:

| (in thousands)                     | March 31, 2013                                     |                                    |                        |                                    |
|------------------------------------|--|------------------------------------|------------------------|------------------------------------|
|                                    | Prepaid<br>Expenses<br>and Other<br>Current Assets | Other<br>Noncurrent<br>Assets, Net | Accrued<br>Liabilities | Other<br>Noncurrent<br>Liabilities |
| Designated as Hedges               |  |                                    |                        |                                    |
| Foreign exchange forward contracts | \$5,291  | \$945                              | \$2,980                | \$457                              |
| Commodity contracts                | —  | —                                  | 163                    | —                                  |
| Interest rate swaps                | 2,251  | 2,015                              | 532                    | 703                                |
| Cross currency basis swaps         | 22,447   | 7,983                              | 37,928                 | —                                  |
| Total                              | \$29,989   | \$10,943                           | \$41,603               | \$1,160                            |
| Not Designated as Hedges           |  |                                    |                        |                                    |
| Foreign exchange forward contracts | \$3,949  | \$—                                | \$2,634                | \$—                                |
| DIO equity option contracts        | —  | —                                  | —                      | 180                                |
| Interest rate swaps                | —  | —                                  | 103                    | 351                                |
| Cross currency basis swaps         | 7,012  | 2,811                              | 42,256                 | 86,736                             |
| Total                              | \$10,961   | \$2,811                            | \$44,993               | \$87,267                           |
| (in thousands)                     | December 31, 2012                                  |                                    |                        |                                    |
|                                    | Prepaid<br>Expenses<br>and Other<br>Current Assets | Other<br>Noncurrent<br>Assets, Net | Accrued<br>Liabilities | Other<br>Noncurrent<br>Liabilities |
| Designated as Hedges               |  |                                    |                        |                                    |
| Foreign exchange forward contracts | \$2,353  | \$65                               | \$2,243                | \$844                              |
| Commodity contracts                | —  | —                                  | 95                     | —                                  |
| Interest rate swaps                | 2,192  | 2,535                              | 525                    | 948                                |
| Cross currency basis swaps         | 8,191  | —                                  | 97,281                 | 1,588                              |
| Total                              | \$12,736   | \$2,600                            | \$100,144              | \$3,380                            |
| Not Designated as Hedges           |  |                                    |                        |                                    |
| Foreign exchange forward contracts | \$6,652  | \$—                                | \$1,353                | \$—                                |
| DIO equity option contracts        | —  | —                                  | —                      | 153                                |
| Interest rate swaps                | —  | —                                  | 114                    | 416                                |
| Cross currency basis swaps         | 537  | —                                  | 40,026                 | 55,858                             |
| Total                              | \$7,189  | \$—                                | \$41,493               | \$56,427                           |

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

22

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contain the enforceable right to offset through netting arrangements, the Company elects to present them on a gross basis in the Consolidated Balance Sheets.

Offsetting of financial assets and liabilities under netting arrangements at March 31, 2013 and December 31, 2012:

| (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 |            |
| Balance at March 31, 2013    |                          |  |  |   |                                  |            |
| Assets                       |                          |  |  |   |                                  |            |
| Derivative contracts         | \$54,704                 | \$—  | \$54,704   | \$(41,634)  | \$—                              | \$13,070   |
| Liabilities                  |                          |  |  |   |                                  |            |
| Derivative contracts         | \$175,023                | \$—  | \$175,023  | \$(41,634)  | \$—                              | \$133,389  |
| Balance at December 31, 2012 |                          |  |  |   |                                  |            |
| Assets                       |                          |  |  |   |                                  |            |
| Derivative contracts         | \$22,525                 | \$—  | \$22,525   | \$(17,098)  | \$—                              | \$5,427    |
| Liabilities                  |                          |  |  |   |                                  |            |
| Derivative contracts         | \$201,444                | \$—  | \$201,444  | \$(17,098)  | \$—                              | \$184,346  |

The following tables summarize the statements of operations impact of the Company's cash flow hedges for the three months ended March 31, 2013 and 2012:

Three Months Ended March 31, 2013

Derivatives in Cash Flow Hedging

| (in thousands)                     | Gain (Loss) in AOCI | Classification of Gains (Losses) | Effective Portion Reclassified from AOCI into Income |
|------------------------------------|---------------------|----------------------------------|--|
| Interest rate swaps                | \$191               | Interest expense                 | \$(913)  |
| Foreign exchange forward contracts | 4,022               | Cost of products sold            | 499  |
| Foreign exchange forward contracts | 187                 | SG&A expenses                    | (30)   |
| Commodity contracts                | (16)                | ) Cost of products sold          | 157  |
| Total                              | \$4,384             |                                  | \$(287)  |

Derivatives in Cash Flow Hedging

| (in thousands)                     | Classification of Gains (Losses) | Ineffective Portion Recognized in Income |
|------------------------------------|----------------------------------|--|
| Foreign exchange forward contracts | Other expense (income), net      | \$(13)                                   |
| Commodity contracts                | Interest expense                 | (14)                                     |

Total \$(27 )

23

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Three Months Ended March 31, 2012

Derivatives in Cash Flow Hedging

| (in thousands)                     | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Effective Portion<br>Reclassified from<br>AOCI into Income |
|------------------------------------|------------------------|-------------------------------------|--|
| Interest rate swaps                | \$ (672)               | ) Interest expense                  | \$ (905)   |
| Foreign exchange forward contracts | (1,434)                | ) Cost of products sold             | 1,150  |
| Foreign exchange forward contracts | (89)                   | ) SG&A expenses                     | 231  |
| Commodity contracts                | 839                    | Cost of products sold               | (46)   |
| Total                              | \$ (1,356)             | )                                   | \$ 430   |

Derivatives in Cash Flow Hedging

| (in thousands)                     | Classification of Gains<br>(Losses) | Ineffective Portion<br>Recognized in<br>Income |
|------------------------------------|-------------------------------------|--|
| Foreign exchange forward contracts | Other expense (income), net         | 200  |
| Commodity contracts                | Interest expense                    | (17)   |
| Total                              |                                     | \$ 183   |

The following tables summarize the statements of operations impact of the Company's hedges of net investments for the three months ended March 31, 2013 and 2012:

Three Months Ended March 31, 2013

Derivatives in Net Investment Hedging

| (in thousands)             | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Gain (Loss)<br>Recognized<br>in Income |
|----------------------------|------------------------|-------------------------------------|--|
| Cross currency basis swaps | \$ 39,885              | Interest income                     | \$ 1,387                               |
|                            |                        | Interest expense                    | (1,603)                                |
| Total                      | \$ 39,885              |                                     | \$ (216)                               |

Three Months Ended March 31, 2012

Derivatives in Net Investment Hedging

| (in thousands)             | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Gain (Loss)<br>Recognized<br>in Income |
|----------------------------|------------------------|-------------------------------------|--|
| Cross currency basis swaps | \$ (50,369)            | ) Interest income                   | \$ 771                                 |
|                            |                        | Interest expense                    | (1,206)                                |
| Total                      | \$ (50,369)            | )                                   | \$ (435)                               |

The following tables summarize the statements of operations impact of the Company's hedges of fair value for the three and three months ended March 31, 2013 and 2012:

Derivatives in Fair Value Hedging

| (in thousands) | Classification<br>of Gains (Losses) | Three Months Ended<br>March 31,<br>2013 | 2012 |
|----------------|-------------------------------------|---|------|
|----------------|-------------------------------------|---|------|

|                     |                  |      |       |
|---------------------|------------------|------|-------|
| Interest rate swaps | Interest expense | \$62 | \$839 |
| Total               |                  | \$62 | \$839 |

The following table summarizes the statements of operations impact of the Company's hedges not designated as hedging for the three months ended March 31, 2013 and 2012:

Derivatives Not Designated as Hedging

| (in thousands)                         | Classification<br>of Gains (Losses) | Three Months Ended<br>March 31, |          |
|--|-------------------------------------|---------------------------------|----------|
|  |                                     | 2013                            | 2012     |
| Foreign exchange forward contracts (a) | Other expense (income), net         | \$2,515                         | \$2,851  |
| DIO equity option contracts            | Other expense (income), net         | (33 )                           | (273 )   |
| Interest rate swaps                    | Interest expense                    | 10                              | (41 )    |
| Cross currency basis swaps (a)         | Other expense (income), net         | (25,432 )                       | 18,545   |
| Total                                  |                                     | \$(22,940 )                     | \$21,082 |

(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 and are recorded in "Other expense (income), net" on the Consolidated Statements of Operations.

Amounts recorded in AOCI related to cash flow hedging instruments for the three months ended March 31, 2013 and 2012:

| (in thousands, net of tax)                | Three Months Ended March 31, |             |
|---|------------------------------|-------------|
|   | 2013                         | 2012        |
| Beginning balance                         | \$(17,481 )                  | \$(12,737 ) |
| Changes in fair value of derivatives      | 3,507                        | (668 )      |
| Reclassifications to earnings from equity | 122                          | (539 )      |
| Total activity                            | 3,629                        | (1,207 )    |
| Ending balance                            | \$(13,852 )                  | \$(13,944 ) |

Amounts recorded in AOCI related to hedges of net investments in foreign operations for the three months ended March 31, 2013 and 2012:

| (in thousands, net of tax)              | Three Months Ended March 31, |              |
|---|------------------------------|--------------|
|   | 2013                         | 2012         |
| Beginning balance                       | \$(71,358 )                  | \$(143,730 ) |
| Foreign currency translation adjustment | (101,939 )                   | 126,808      |
| Changes in fair value of:               |                              |              |
| Foreign currency debt                   | 8,504                        | 5,324        |
| Derivative hedge instruments            | 24,489                       | (30,926 )    |
| Total activity                          | (68,946 )                    | 101,206      |
| Ending balance                          | \$(140,304 )                 | \$(42,524 )  |

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 \$1,501.0 million and \$1,458.4 million, respectively, at March 31, 2013. At December 31, 2012, the Company estimated the fair value and carrying value, including the current portion, was \$1,515.2 million and \$1,472.9 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 4.1%, 2.8% and 4.1%, respectively, and their fair value is based on the interest rates as of March 31, 2013. 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 March 31, 2013 and December 31, 2012, which are classified as "Cash and cash equivalents," "Prepaid expenses and other current assets," "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)                       | March 31, 2013 |         |           |          |
|--------------------------------------|----------------|---------|-----------|----------|
|                                      | Total          | Level 1 | Level 2   | Level 3  |
| <b>Assets</b>                        |                |         |           |          |
| Interest rate swaps                  | \$4,266        | \$—     | \$4,266   | \$—      |
| Cross currency basis swaps           | 40,253         | —       | 40,253    | —        |
| Foreign exchange forward contracts   | 10,185         | —       | 10,185    | —        |
| DIO Corporate convertible bonds      | 84,695         | —       | —         | 84,695   |
| Total assets                         | \$139,399      | \$—     | \$54,704  | \$84,695 |
| <b>Liabilities</b>                   |                |         |           |          |
| Interest rate swaps                  | \$1,689        | \$—     | \$1,689   | \$—      |
| Commodity forward purchase contracts | 163            | —       | 163       | —        |
| Cross currency basis swaps           | 166,920        | —       | 166,920   | —        |
| Foreign exchange forward contracts   | 6,071          | —       | 6,071     | —        |
| Long term debt                       | 153,992        | —       | 153,992   | —        |
| DIO equity option contracts          | 180            | —       | —         | 180      |
| Total liabilities                    | \$329,015      | \$—     | \$328,835 | \$180    |
| <b>December 31, 2012</b>             |                |         |           |          |
| (in thousands)                       | Total          | Level 1 | Level 2   | Level 3  |
| <b>Assets</b>                        |                |         |           |          |
| Interest rate swaps                  | \$4,727        | \$—     | \$4,727   | \$—      |
| Cross currency basis swaps           | 8,728          | —       | 8,728     | —        |
| Foreign exchange forward contracts   | 9,070          | —       | 9,070     | —        |
| DIO Corporate convertible bonds      | 75,143         | —       | —         | 75,143   |
| Total assets                         | \$97,668       | \$—     | \$22,525  | \$75,143 |
| <b>Liabilities</b>                   |                |         |           |          |
| Interest rate swaps                  | \$2,003        | \$—     | \$2,003   | \$—      |
| Commodity contracts                  | 95             | —       | 95        | —        |
| Cross currency basis swaps           | 194,753        | —       | 194,753   | —        |
| Foreign exchange forward contracts   | 4,440          | —       | 4,440     | —        |

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|                             |           |     |           |       |
|-----------------------------|-----------|-----|-----------|-------|
| Long term debt              | 154,560   | —   | 154,560   | —     |
| DIO equity option contracts | 153       | —   | —         | 153   |
| Total liabilities           | \$356,004 | \$— | \$355,851 | \$153 |

26

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Derivative valuations are based on observable inputs to the valuation model including interest rates, foreign currency exchange rates, future commodities prices and credit risks. The commodity contracts, certain interest rate swaps and foreign exchange forward contracts are considered cash flow hedges and certain cross currency interest rate swaps are considered hedges of net investments in foreign operations as discussed in Note 10, Financial Instruments and Derivatives.

The Company uses the income method valuation technique to estimate the fair value of the DIO corporate 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 an approximately 15% 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 reconciliation of the Company's Level 3 holdings measured at fair value on a recurring basis using unobservable inputs:

| (in thousands)                          | DIO Corporate<br>Convertible<br>Bonds | DIO Equity<br>Options<br>Contracts |   |
|---|---------------------------------------|------------------------------------|---|
| Balance at December 31, 2012            | \$75,143                              | \$(153                             | ) |
| Unrealized gain:                        |                                       |                                    |   |
| Reported in AOCI, pretax                | 12,016                                | —                                  |   |
| Unrealized loss:                        |                                       |                                    |   |
| Reported in other expense (income), net | —                                     | (32                                | ) |
| Effects of exchange rate changes        | (2,464                                | ) 5                                |   |
| Balance at March 31, 2013               | \$84,695                              | \$(180                             | ) |

For the three months ended March 31, 2013, 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 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 twelve months of the reporting date of the Company's 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 \$0.3 million. In addition, expiration of statutes of limitation in various jurisdictions during the next twelve months could include unrecognized tax benefits of approximately \$0.8 million.



## NOTE 13 – GOODWILL AND INTANGIBLE ASSETS

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

| (in thousands)                   | Dental<br>Consumable<br>and<br>Laboratory<br>Businesses | Orthodontics/Canada/Medical<br>Distribution | Select<br>Businesses | Implants/Endodontics/Healthcare/Pacific<br>Rim | Total       |
|----------------------------------|---|---|----------------------|--|-------------|
| Balance at December 31, 2012     | \$488,206   | \$ 102,065                                  | \$92,473             | \$ 1,528,209                                   | \$2,210,953 |
| Business unit transfer           | —   | (4,364 )                                    | (13,770 )            | 18,134   | —           |
| Effects of exchange rate changes | (6,008 )  | (2,765 )                                    | (2,085 )             | (32,854 )                                      | (43,712 )   |
| Balance at March 31, 2013        | \$482,198   | \$ 94,936                                   | \$76,618             | \$ 1,513,489                                   | \$2,167,241 |

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

| (in thousands)                          | March 31, 2013              |                             |                           | December 31, 2012           |                             |                           |
|---|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Patents                                 | \$178,917                   | \$(83,749 )                 | \$95,168                  | \$179,512                   | \$(81,390 )                 | \$98,122                  |
| Trademarks                              | 81,627                      | (33,744 )                   | 47,883                    | 83,073                      | (33,129 )                   | 49,944                    |
| Licensing agreements                    | 30,677                      | (19,294 )                   | 11,383                    | 30,695                      | (18,966 )                   | 11,729                    |
| Customer relationships                  | 479,087                     | (57,030 )                   | 422,057                   | 491,859                     | (50,632 )                   | 441,227                   |
| Total definite-lived                    | \$770,308                   | \$(193,817 )                | \$576,491                 | \$785,139                   | \$(184,117 )                | \$601,022                 |
| Trademarks and<br>In-process R&D        | \$229,155                   | \$—                         | \$229,155                 | \$229,620                   | \$—                         | \$229,620                 |
| Total identifiable<br>intangible assets | \$999,463                   | \$(193,817 )                | \$805,646                 | \$1,014,759                 | \$(184,117 )                | \$830,642                 |

## NOTE 14 – 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 at sale by Directions for Use that “Indicated” Cavitron® use for “periodontal debridement

for all types of periodontal disease.” The case is pending in the San Francisco County Court. A Class Notice was mailed beginning September 14, 2012.

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 dismissal of the case for lack of jurisdiction, the plaintiffs filed a second complaint under the name of Dr. Hildebrand's corporate practice. The Company's motion to dismiss this new complaint was denied and the case will now proceed under the name “Center City Periodontists.”

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 has 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 ongoing 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, 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, 2012 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

### Quarter Highlights

DENTSPLY achieved record net sales for the first quarter ended March 31, 2013. Net sales grew 2.2% on a reported basis, and 1.1% excluding precious metal content. The sales growth, excluding precious metal content, was primarily internal growth as currency translation was negative by 0.6%. Sales growth was negatively impacted by two fewer selling days during the quarter compared with the first quarter of 2012.

First quarter 2013 earnings per diluted share was \$0.49 compared with \$0.38 in the prior year quarter. The increase was due in large part to the inclusion of acquisition related expenses in the prior year quarter. Adjusted earnings per share, a non-GAAP measure, were \$0.52 in both the 2013 and 2012 periods.

The Company is proceeding with the integration of its dental implant businesses, with two additional selling organizations, Germany and France, combined in the first quarter. Investments made in combining and training the sales force in these two markets reduced sales during the quarter, but is expected to have a favorable impact on sales force execution in the future. Integration of country sales force organizations is now nearly complete, with only two additional countries remaining which are expected to be combined in the second quarter of 2013.

DENTSPLY's balance sheet improved compared to the same period in the prior year, reflecting a net debt to total capitalization ratio of 39% at March 31, 2013 compared to 45% at March 31, 2012.

Operating cash flow in the first quarter 2013 was \$36.1 million versus \$20.0 million for the first quarter 2012.

### 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 sundries and small equipment used in dental offices in the treatment of patients. The Company manufactures a wide variety of different dental sundry consumable products marketed under more than one hundred brand names. DENTSPLY's dental sundry 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 high and low speed 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 machining (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 implantology, dental lasers and orthodontic appliances and accessories.

Consumable medical device products consist mainly of urological products including 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 growth by geographic region; (2) constant currency 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) growth through acquisition.

The Company defines "internal 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 growth. The Company defines "net acquisition growth" as the net sales for a period of twelve months following the transaction date of businesses that have been acquired, less the net sales for a period of twelve months prior to the transaction date of businesses that have been divested. The Company defines "constant currency growth" as internal growth plus net acquisition growth.

Management believes that internal growth in the range of 3% to 6% is a long-term targeted rate for the Company. The internal growth rate may vary outside of this range based on economic conditions. Historical trends show that growth in the dental industry generally performs better than the overall economy; however, it typically lags the economic trend going into and coming out of slower growth or recessionary periods. Over the past several years, growth in the global dental markets has been restrained by lower market growth in Western Europe compared to historical averages. There can be no assurance that the Company's assumptions concerning the growth rates in its markets will continue in the future. If such rates are less than expected, the Company's projected growth rates and results of operations may be adversely affected.

Price changes, other marketing and promotional programs offered to customers from time to time, the management of inventory levels by distributors and the implementation of strategic initiatives may impact sales and inventory levels in a given period.

The Company has a focus on minimizing costs and achieving 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.

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 has experienced consolidation, it is still a fragmented industry. Management believes that there will continue to be adequate opportunities to participate as a consolidator in the industry for the foreseeable future, however it will be very focused in the near-term on the integration of its recent acquisitions and associated debt reduction.

### Impact of Foreign Currencies

Due to the international nature of DENTSPLY's business, movements in foreign exchange rates may impact the consolidated statements of operations. With approximately two-thirds of the Company's sales located in regions outside the United States, the Company's consolidated net sales are impacted negatively by the strengthening or positively by the weakening of the U.S. dollar against various foreign currencies. Additionally, movements in certain foreign exchange rates may unfavorably or favorably impact the Company's results of operations, financial condition and liquidity.

### Reclassification of Prior Year Amounts

During the first quarter of 2013, the Company realigned certain implant and implant related businesses for multiple locations as a result of changes to the business structure. The segment information below reflects the revised structure for all periods shown.

### RESULTS OF OPERATIONS, QUARTER ENDED MARCH 31, 2013 COMPARED TO QUARTER ENDED MARCH 31, 2012

#### 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 |         |           |          |   |
|---|--------------------|---------|-----------|----------|---|
|   | March 31, 2013     | 2012    | \$ Change | % Change |   |
| Net sales                                   | \$732.1            | \$716.4 | \$15.7    | 2.2      | % |
| Less: precious metal content of sales       | 59.5               | 50.8    | 8.7       | 17.1     | % |
| Net sales, excluding precious metal content | \$672.6            | \$665.6 | \$7.0     | 1.1      | % |

Net sales, excluding precious metal content, for the three months ended March 31, 2013 was \$672.6 million, an increase of 1.1% over the first quarter of 2012. The change in net sales, excluding precious metal content, was primarily a result of the 1.6% of internal growth partially offset by foreign currency translation.

#### Constant Currency and Internal Sales Growth

The following table includes growth rates for net sales, excluding precious metal content, for the three months ended March 31, 2013 compared with the three months ended March 31, 2012.

|                                | Three Months Ended March 31, 2013 |        |                   |           |   |
|--------------------------------|-----------------------------------|--------|-------------------|-----------|---|
|                                | United States                     | Europe | All Other Regions | Worldwide |   |
| Internal sales growth          | 1.9                               | % 0.8  | % 2.9             | % 1.6     | % |
| Acquisition sales growth       | —                                 | % 0.2  | % —               | % 0.1     | % |
| Constant currency sales growth | 1.9                               | % 1.0  | % 2.9             | % 1.7     | % |

#### United States

Net sales, excluding precious metal content, increased by 1.9% in the first quarter of 2013 as compared to the first quarter of 2012 on a constant currency basis, led by internal sales growth in dental specialty, consumable medical device and dental laboratory products.

#### Europe

Net sales, excluding precious metal content, increased by 1.0% in the first quarter of 2013 on a constant currency basis, including 0.8% of internal sales growth. The internal growth was driven by increased demand for dental specialty, dental consumable and consumable medical device products partially offset by decreased sales of dental laboratory products and lower implant volumes in Germany due to the integration of the implant businesses.

#### All Other Regions

Net sales, excluding precious metal content, in the other regions of the world increased by 2.9% in the first quarter of 2013 on a constant currency basis, as a result of internal sales growth primarily due to the increased demand for dental specialty, dental laboratory and consumable medical device products.

#### Gross Profit

| (in millions)   | Three Months Ended March 31, |         |           |          |
|---|------------------------------|---------|-----------|----------|
|   | 2013                         | 2012    | \$ Change | % Change |
| Gross profit  | \$388.2                      | \$392.8 | \$(4.6)   | (1.2%)   |
| Gross profit as a percentage of net sales, including precious metal content | 53.0                         | % 54.8  | %         |          |
| Gross profit as a percentage of net sales, excluding precious metal content | 57.7                         | % 59.0  | %         |          |

Gross profit as a percentage of net sales, excluding precious metal content, decreased by 1.3 percentage points for the three months ended March 31, 2013 compared to the same quarter of 2012. The margin rate was primarily impacted by the medical device federal excise tax as implemented by the Affordable Care Act, unfavorable sales mix, including lower implant sales, and higher manufacturing costs including the effect of foreign currency changes, partially offset by pricing and efficiency improvements.

#### Operating Expenses

| (in millions) | Three Months Ended March 31, |      |           |          |
|---------------|------------------------------|------|-----------|----------|
|               | 2013                         | 2012 | \$ Change | % Change |

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|   |         |         |         |        |    |
|---|---------|---------|---------|--------|----|
| Selling, general and administrative expenses (“SG&A”)               | \$293.7 | \$304.4 | \$(10.7 | ) (3.5 | %) |
| Restructuring and other costs                                       | \$0.7   | \$1.2   | \$(0.5  | ) NM   |    |
| SG&A as a percentage of net sales, including precious metal content | 40.1    | % 42.5  | %       |        |    |
| SG&A as a percentage of net sales, excluding precious metal content | 43.7    | % 45.7  | %       |        |    |
| NM – Not meaningful   |         |         |         |        |    |

33

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## SG&amp;A Expenses

SG&A expenses as a percentage of net sales, excluding precious metal content, decreased in the quarter ended March 31, 2013 by 2.0 percentage points when compared to the same quarter of 2012. This was primarily due to higher expenses recorded in the first quarter of 2012 relating to the integration of acquisitions as well as expense controls across all businesses.

## Restructuring and Other Costs

During the three months ended March 31, 2013, the Company recorded net restructuring and other costs of \$0.7 million. In the same period of 2012, the Company incurred costs of \$1.2 million. (See also Note 9, Restructuring and Other Costs, of the Notes to Unaudited Interim Consolidated Financial Statements).

## Other Income and Expense

| (in millions)                  | Three Months Ended<br>March 31, |        |          |
|--------------------------------|---------------------------------|--------|----------|
|                                | 2013                            | 2012   | Change   |
| Net interest expense           | \$13.0                          | \$13.9 | \$(0.9 ) |
| Other expense (income), net    | 2.9                             | 0.1    | 2.8      |
| Net interest and other expense | \$15.9                          | \$14.0 | \$1.9    |

## Net Interest Expense

Net interest expense for the three months ended March 31, 2013 was \$0.9 million lower compared to the three months ended March 31, 2012. The net decrease is a result of lower average debt levels in 2013 compared to the prior year period, partially offset by non-cash fair value adjustments of \$2.7 million related to cross currency basis swaps designated as net investment hedges and credit risk adjustment on the total hedge portfolio fair value.

## Other Expense (Income), Net

Other expense (income), net in the three months ended March 31, 2013 was \$2.9 million, comprised primarily of \$1.1 million of net interest and \$1.8 million of fair value adjustments on cross currency basis swaps hedging intercompany loans. Other expense (income), net in the three months ended March 31, 2012 was \$0.1 million including \$0.4 million of currency transaction losses.

## Income Taxes and Net Income

| (in millions, except per share data)                    | Three Months Ended<br>March 31, |          |           |
|---|---------------------------------|----------|-----------|
|   | 2013                            | 2012     | \$ Change |
| Effective income tax rate                               | 4.5                             | % 20.1   | %         |
| Equity in net loss of unconsolidated affiliated company | \$(1.8 )                        | \$(4.2 ) | \$2.4     |
| Net income attributable to noncontrolling interests     | \$0.9                           | \$0.9    | \$—       |

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|   |        |        |        |
|---|--------|--------|--------|
| Net income attributable to DENTSPLY International | \$71.7 | \$53.3 | \$18.4 |
| Earnings per common share - diluted               | \$0.49 | \$0.37 |        |

NM – Not meaningful



#### Provision for Income Taxes

The Company's effective tax rate for the first three months of 2013 and 2012 were 4.5% and 20.1%, respectively. During the first three months of 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, a benefit of \$1.4 million related to the settlement of various tax matters and a benefit of \$1.9 million related to prior year tax matters.

The Company's effective income tax rate for 2013 includes the 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 \$19.3 million and \$17.7 million, respectively.

In 2012, the Company's effective income tax rate included the impact of amortization on purchased intangibles assets, integration and restructuring and other costs and various income tax adjustments which impacted income before income taxes and the provision for income taxes by \$25.5 million and \$8.0 million, respectively.

#### Equity in net (loss) income of unconsolidated affiliated company

The Company's 17% ownership investment of DIO Corporation resulted in a net loss of \$1.8 million and \$4.2 million on an after-tax basis for the three months ended March 31, 2013 and 2012, respectively. The equity earnings of DIO includes 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 net loss incurred by DIO for the three months ended March 31, 2013 and 2012 was approximately \$1.9 million and \$4.5 million, respectively.

#### 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. These adjusted amounts consist of US GAAP amounts excluding, net of tax (1) acquisition related costs, (2) restructuring and other costs, including legal settlements, (3) amortization of purchased intangible assets, (4) Orthodontic business continuity costs, (5) income related to credit risk and fair value adjustments, (6) certain fair value adjustments at an unconsolidated affiliated company, and (7) income tax related adjustments. 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 Company believes that the presentation of adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share provides important supplemental information to management and investors seeking to understand the Company's financial condition and results of operations. 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<br>March 31, 2013 |                                   |
|--|--------------------------------------|-----------------------------------|
|  | Net<br>Income                        | Per<br>Diluted<br>Common<br>Share |
| Net income attributable to DENTSPLY International                                  | \$71,685                             | \$0.49                            |
| Amortization of purchased intangible assets, net of tax                            | 8,376                                | 0.06                              |
| Credit risk and fair value adjustments to outstanding derivatives, net of tax      | 2,734                                | 0.02                              |
| Loss on fair value adjustments at an unconsolidated affiliated company, net of tax | 1,928                                | 0.01                              |
| Acquisition related activities, net of tax   | 1,353                                | 0.01                              |
| Restructuring and other costs, including legal settlements, net of tax             | 539                                  | —                                 |
| Income tax related adjustments   | (11,388 )                            | (0.08 )                           |
| Rounding   | —                                    | 0.01                              |
| Adjusted non-US GAAP earnings  | \$75,227                             | \$0.52                            |

| (in thousands, except per share amounts)   | Three Months Ended<br>March 31, 2012 |                                   |
|--|--------------------------------------|-----------------------------------|
|  | Net<br>Income                        | Per<br>Diluted<br>Common<br>Share |
| Net income attributable to DENTSPLY International                                  | \$53,284                             | \$0.37                            |
| Amortization of purchased intangible assets, net of tax                            | 10,982                               | 0.08                              |
| Acquisition related activities, net of tax   | 4,797                                | 0.03                              |
| Loss on fair value adjustments at an unconsolidated affiliated company, net of tax | 4,655                                | 0.03                              |
| Restructuring and other costs, net of tax  | 1,164                                | 0.01                              |
| Orthodontics business continuity costs, net of tax                                 | 408                                  | —                                 |
| Income tax related adjustments   | (35 )                                | —                                 |
| Adjusted non-US GAAP earnings  | \$75,255                             | \$0.52                            |

#### Operating Segment Results

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

| (in millions)                               | Three Months Ended<br>March 31, |         |           |          |
|---|---------------------------------|---------|-----------|----------|
|   | 2013                            | 2012    | \$ Change | % Change |
| Dental Consumable and Laboratory Businesses | \$212.0                         | \$212.1 | \$(0.1 )  | — %      |
| Orthodontics/Canada/Mexico/Japan            | \$65.0                          | \$63.3  | \$1.7     | 2.7 %    |
| Select Distribution Businesses              | \$60.7                          | \$58.9  | \$1.8     | 3.1 %    |
| Implants/Endodontics/Healthcare/Pacific Rim | \$336.3                         | \$332.6 | \$3.7     | 1.1 %    |



## Segment Operating Income

| (in millions)                               | Three Months Ended |         |           |          |
|---|--------------------|---------|-----------|----------|
|   | March 31,<br>2013  | 2012    | \$ Change | % Change |
| Dental Consumable and Laboratory Businesses | \$61.8             | \$63.3  | \$(1.5)   | (2.4 %)  |
| Orthodontics/Canada/Mexico/Japan            | \$1.9              | \$(0.3) | ) \$2.2   | NM       |
| Select Distribution Businesses              | \$(1.6)            | \$(1.4) | ) \$(0.2) | (14.3 %) |
| Implants/Endodontics/Healthcare/Pacific Rim | \$63.9             | \$65.4  | \$(1.5)   | (2.3 %)  |
| NM – Not meaningful                         |                    |         |           |          |

## Dental Consumable and Laboratory Businesses

Net sales, excluding precious metal content, decreased \$0.1 million during the three months ended March 31, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, was flat as compared to the same period in 2012. Growth in dental consumables was offset as a result of lower sales in the dental laboratory businesses primarily in Europe.

Operating income decreased \$1.5 million for the three months ended March 31, 2013 compared to 2012 due to higher SG&A expenses primarily due to lower than expected sales growth in the dental laboratory businesses in Europe.

## Orthodontics/Canada/Mexico/Japan

Net sales, excluding precious metal content, increased \$1.7 million, or 2.7% during the three months ended March 31, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 5.6% due to stronger dental specialty product sales primarily in the orthodontic businesses, partially offset by decreased sales in Canada.

Operating income increased \$2.2 million compared to the same year ago period primarily due to improved operating leverage in the orthodontic business as it recovered from a supply outage in 2011 and 2012.

## Select Distribution Businesses

Net sales, excluding precious metal content, increased \$1.8 million, or 3.1% during the three months ended March 31, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 3.7% when compared to the same period of 2012. The growth was primarily related to increased demand in dental specialty and dental consumable products.

Operating income decreased \$0.2 million during the three months ended March 31, 2013 compared to 2012. Gross profit increased \$0.5 million due to sales volume which was offset by higher SG&A expenses in emerging markets during the three months ended March 31, 2013 compared to 2012.

## Implants/Endodontics/Healthcare/Pacific Rim

Net sales, excluding precious metal content, increased \$3.7 million, or 1.1%, during the three months ended March 31, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 1.7%

primarily driven by sales growth across the segment except for implants, which was impacted by lower implant volumes in Germany due to the integration of the implant businesses.

Operating income for the three months ended March 31, 2013 decreased \$1.5 million or 2.3%, compared to 2012. Gross profit decreased \$7.0 million as result of product mix, which was mostly driven by lower implant sales partially offset by lower SG&A expenses including synergies from recent acquisitions.

## CRITICAL ACCOUNTING POLICIES

There have been no significant material changes to the critical accounting policies as disclosed in the Company's Form 10-K for the year ended December 31, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

Three months ended March 31, 2013

Cash flow from operating activities during the three months ended March 31, 2013 was \$36.1 million compared to \$20.0 million during the three months ended March 31, 2012. Net income during the quarter increased by \$18.3 million to \$72.6 million in the period ended March 31, 2013. Depreciation and amortization expense for the quarter was \$3.2 million lower than the prior year period. Working capital improved by \$5.8 million in the current quarter versus the prior year first quarter as reductions in inventory of \$11.9 million were offset by higher accounts receivable of \$10.6 million and higher net accruals of \$4.5 million. On a constant currency basis, as of March 31, 2013, reported days for inventory increased by 4 days to 110 days and accounts receivable increased by 6 days to 59 days, respectively, as compared to December 31, 2012.

Investing activities during the first three months of 2013 include capital expenditures of \$24.0 million and the settlement and renewal of Swiss franc net investment hedges totaling \$45.8 million. The Company expects capital expenditures to be approximately \$120.0 million for the full year 2013. Financing activities included the buyout of minority shareholders of a consolidated subsidiary for \$9.0 million.

At March 31, 2013, 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. As of March 31, 2013, the Company held 19.7 million shares of treasury stock. The Company received proceeds of \$13.6 million as a result of the exercise of 0.5 million of stock options during the three months ended March 31, 2013.

The Company's total borrowings increased by a net of \$2.1 million during the three months ended March 31, 2013. This change included an increase of \$16.0 million in short-term commercial paper and a decrease of \$13.9 million due to exchange rate fluctuations on debt denominated in foreign currencies. At March 31, 2013, the Company's ratio of total net debt to total capitalization was 39.3% compared to 39.0% at December 31, 2012. 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.

Under its five-year multi-currency revolving credit agreement, the Company is able to borrow up to \$500.0 million through July 27, 2016. 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 March 31, 2013, 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 serve 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 March 31, 2013, outstanding borrowings were \$60.0 million under the multi-currency revolving facility.

The Company also has access to \$75.7 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 March 31, 2013, the Company had \$4.8 million outstanding under these short-term lines of credit. At March 31, 2013, the Company had total unused lines of credit related to the revolving

credit agreement and the uncommitted short-term lines of credit of \$511.0 million.

At March 31, 2013, the Company held \$112.3 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 March 31, 2013, 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 finance the current portion of long-term debt due in 2013 utilizing the available commercial paper and the revolving credit facilities.

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, 2012.

#### 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, 2012.

#### 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 14, Commitments and Contingencies, to the Unaudited Interim Consolidated Financial Statements.

## Item 1A – Risk Factors

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, 2012.

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

At March 31, 2013, 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 March 31, 2013, 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 |
|---------------------------------------|----------------------------------|------------------------------|--------------------------------|---|
| January 1, 2013 to January 31, 2013   | —                                | \$—                          | \$—                            | 13,836.0  |
| February 1, 2013 to February 28, 2013 | —                                | —                            | —                              | 14,121.0  |
| March 1, 2013 to March 31, 2013       | —                                | —                            | —                              | 14,330.0  |
|                                       | —                                | \$—                          | \$—                            |   |

## Item 6 – Exhibits

| Exhibit Number | Description  |
|----------------|--|
| 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 registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DENTSPLY International Inc.

/s/ Bret W. Wise  
Bret W. Wise  
Chairman of the Board and  
Chief Executive Officer

May 9, 2013  
Date

40

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/s/ Christopher T. Clark  
Christopher T. Clark  
President and  
Chief Financial Officer

May 9, 2013  
Date

41