

DENTSPLY INTERNATIONAL INC /DE/
Form 10-Q
May 06, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014
OR

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

For the transition period from _____ to _____

Commission File Number 0-16211

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

17405-0872
(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 April 29, 2014, DENTSPLY International Inc. had 141,792,228 shares of Common Stock outstanding, with a par value of \$.01 per share.

DENTSPLY International Inc.

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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 March 31,	
	2014	2013
Net sales	\$730,114	\$732,084
Cost of products sold	335,909	343,884
Gross profit	394,205	388,200
Selling, general and administrative expenses	287,842	293,677
Restructuring and other costs	793	665
Operating income	105,570	93,858
Other income and expenses:		
Interest expense	10,955	15,221
Interest income	(1,435	) (2,175
Other expense (income), net	388	2,918
Income before income taxes	95,662	77,894
Provision for income taxes	22,452	3,542
Equity in net loss of unconsolidated affiliated company	(290	) (1,779
Net income	72,920	72,573
Less: Net income attributable to noncontrolling interests	42	888
Net income attributable to DENTSPLY International	\$72,878	\$71,685
Earnings per common share:		
Basic	\$0.51	\$0.50
Diluted	\$0.50	\$0.49
Weighted average common shares outstanding:		
Basic	142,053	142,775
Diluted	144,453	145,099

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 March 31,	
	2014	2013
Net income	\$72,920	\$72,573
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(1,035)	(94,142)
Net gain on derivative financial instruments	1,757	28,118
Net unrealized holding (loss) gain on available-for-sale securities	(2,041)	7,640
Pension liability adjustments	318	2,776
Total other comprehensive income (loss), net of tax	(1,001)	(55,608)
Total comprehensive income	71,919	16,965
Less: Comprehensive income attributable to noncontrolling interests	114	181
Comprehensive income attributable to DENTSPLY International	\$71,805	\$16,784

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, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$55,823	\$74,954
Accounts and notes receivables-trade, net	496,221	472,802
Inventories, net	455,074	438,559
Prepaid expenses and other current assets	195,205	157,487
Total Current Assets	1,202,323	1,143,802
Property, plant and equipment, net	642,318	637,172
Identifiable intangible assets, net	785,997	795,323
Goodwill, net	2,286,715	2,281,596
Other noncurrent assets, net	172,080	220,154
Total Assets	\$5,089,433	\$5,078,047
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$141,591	\$132,789
Accrued liabilities	398,881	339,308
Income taxes payable	23,829	14,446
Notes payable and current portion of long-term debt	403,145	309,862
Total Current Liabilities	967,446	796,405
Long-term debt	1,065,463	1,166,178
Deferred income taxes	236,269	238,394
Other noncurrent liabilities	295,657	299,096
Total Liabilities	2,564,835	2,500,073
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, 2014 and December 31, 2013.	1,628	1,628
Capital in excess of par value	211,467	255,272
Retained earnings	3,159,123	3,095,721
Accumulated other comprehensive loss	(75,665)	(69,062)
Treasury stock, at cost, 21.0 million and 20.5 million shares at March 31, 2014 and December 31, 2013, respectively.	(773,520)	(748,506)

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Total DENTSPLY International Equity	2,523,033	2,535,053
Noncontrolling interests	1,565	42,921
Total Equity	2,524,598	2,577,974
Total Liabilities and Equity	\$5,089,433	\$5,078,047

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$72,920	\$72,573
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	21,370	20,416
Amortization	12,569	11,935
Amortization of deferred financing costs	1,142	1,296
Deferred income taxes	(11,505)	(11,793)
Share-based compensation expense	5,786	5,434
Stock option income tax benefit	(69)	(603)
Equity loss from unconsolidated affiliates	290	1,779
Other non-cash (income) expense	(3,405)	20,016
Changes in operating assets and liabilities, net of acquisitions:		
Accounts and notes receivable-trade, net	(22,920)	(37,637)
Inventories, net	(15,180)	(22,080)
Prepaid expenses and other current assets	(5,751)	10,638
Other noncurrent assets, net	1,465	2,232
Accounts payable	8,047	(10,928)
Accrued liabilities	(21,901)	(8,558)
Income taxes	23,423	(21,196)
Other noncurrent liabilities	(1,716)	2,562
Net cash provided by operating activities	64,565	36,086
Cash flows from investing activities:		
Capital expenditures	(25,322)	(24,032)
Cash paid for acquisitions of businesses, net of cash acquired	—	(3,939)
Cash received on derivatives	864	—
Cash paid on derivatives	(2,103)	(45,765)
Expenditures for identifiable intangible assets	(1,305)	(205)
Purchase of short-term investments	(1,144)	—
Proceeds from sale of property, plant and equipment, net	168	1,218
Net cash used in investing activities	(28,842)	(72,723)
Cash flows from financing activities:		
Net change in short-term borrowings	64,886	16,133
Cash paid for treasury stock	(40,395)	—
Cash dividends paid	(8,979)	(7,909)
Cash paid for acquisition of noncontrolling interests of consolidated subsidiary	(33)	(8,960)

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Repayments of long-term borrowings	(75,174) —	
Proceeds from exercise of stock options	4,149	13,578	
Excess tax benefits from share-based compensation	69	603	
Cash received on derivative contracts	—	464	
Cash paid on derivative contracts	—	(306)
Net cash (used in) provided by financing activities	(55,477	) 13,603
Effect of exchange rate changes on cash and cash equivalents	623	(895)
Net decrease in cash and cash equivalents	(19,131) (23,929)
Cash and cash equivalents at beginning of period	74,954	80,132	
Cash and cash equivalents at end of period	\$55,823	\$56,203	

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

(In thousands)

(unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	\$ 1,628	\$ 246,548	\$ 2,818,461	\$ (144,200)	\$ (713,739)	\$ 2,208,698	\$ 40,745	\$ 2,249,443
Net income	—	—	71,685	—	—	71,685	888	72,573
Other comprehensive expense	—	—	—	(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 RSU distributions	—	959	—	—	3,698	4,657	—	4,657
RSU dividends	—	(8,305)	—	—	4,923	(3,382)	—	(3,382)
Cash dividends (\$0.06250 per share)	—	76	(76)	—	—	—	—	—
Balance at March 31, 2013	\$ 1,628	\$ 238,945	\$ 2,881,126	\$ (199,101)	\$ (689,096)	\$ 2,233,502	\$ 35,892	\$ 2,269,394
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity
Balance at December 31,	\$ 1,628	\$ 255,272	\$ 3,095,721	\$ (69,062)	\$ (748,506)	\$ 2,535,053	\$ 42,921	\$ 2,577,974

2013

Net income	—	—	72,878	—	—	72,878	42	72,920
Other comprehensive expense	—	—	—	(1,073)	—	(1,073)	72	(1,001)
Acquisition of noncontrolling interest	—	(40,283)	—	(5,530)	—	(45,813)	(41,470)	(87,283)
Exercise of stock options	—	(533)	—	—	4,682	4,149	—	4,149
Tax benefit from stock options exercised	—	69	—	—	—	69	—	69
Share based compensation expense	—	5,786	—	—	—	5,786	—	5,786
Funding of Employee Stock Ownership Plan	—	1,535	—	—	4,418	5,953	—	5,953
Treasury shares purchased	—	—	—	—	(40,395)	(40,395)	—	(40,395)
RSU distributions	—	(10,461)	—	—	6,281	(4,180)	—	(4,180)
RSU dividends	—	82	(82)	—	—	—	—	—
Cash dividends (\$0.06625 per share)	—	—	(9,394)	—	—	(9,394)	—	(9,394)
Balance at March 31, 2014	\$1,628	\$211,467	\$3,159,123	\$(75,665)	\$(773,520)	\$2,523,033	\$1,565	\$2,524,598

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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DENTSPLY International Inc. and Subsidiaries

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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

Accounts and Notes Receivable

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

Accounts and notes receivables – trade, net are stated net of allowances for doubtful accounts and trade discounts, which were \$12.4 million at March 31, 2014 and \$14.7 million at December 31, 2013.

Marketable Securities

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

The convertible element of the bonds has not been bifurcated from the underlying bonds as the element does not contain a net-settlement feature, nor would the Company be able to achieve a hypothetical net-settlement that would substantially place the Company in a comparable cash settlement position. As such, the derivative is not accounted for separately from the bond. The cash paid by the Company was equal to the face value of the bonds issued, and therefore, the Company has not recorded any bond premium or discount on acquiring the bonds. The fair value of the bonds was \$67.2 million and \$70.0 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014 and December 31, 2013, an unrealized holding gain of \$10.7 million and \$12.7 million, respectively, on available-for-sale securities, net of tax, has been recorded in AOCI.

Revisions in Classification

Certain revisions in classification have been made to prior year's data in order to conform to current year presentation.

New Accounting Pronouncements

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 investment in a foreign entity, or step acquisition for a foreign entity. The Company adopted this accounting standard for the quarter ended March 31, 2014. The adoption of this standard did not materially impact the Company’s financial position or results of operations.

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

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, 2014 and 2013:

(in thousands)	Three Months Ended	
	2014	2013
Stock option expense	\$1,674	\$2,128
RSU expense	3,719	2,933
Total stock based compensation expense	\$5,393	\$5,061
Total related tax benefit	\$1,564	\$1,287

At March 31, 2014, the remaining unamortized compensation cost related to non-qualified stock options is \$15.6 million, which will be expensed over the weighted average remaining vesting period of the options, or approximately 2.0 years. At March 31, 2014, the unamortized compensation cost related to RSU is \$31.1 million, which will be expensed over the weighted average remaining restricted period of the RSU, or approximately 1.8 years.

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

(in thousands, except per share data)	Outstanding			Exercisable		
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance at December 31, 2013	8,295	\$35.04	\$111,450	6,225	\$33.67	\$92,200

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Granted	851	45.11				
Exercised	(125) 33.10				
Cancelled	(4) 45.15				
Forfeited	(7) 38.72				
Balance at March 31, 2014	9,010	\$36.02	\$90,324	7,092	\$34.35	\$82,916

At March 31, 2014, the weighted average remaining contractual term of all outstanding options is approximately 5.8 years and the weighted average remaining contractual term of exercisable options is approximately 4.9 years.

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

(in thousands, except per share data)	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2013	1,131	\$38.81
Granted	427	45.11
Vested	(261	) 36.61
Forfeited	(84	) 40.78
Balance at March 31, 2014	1,213	\$41.36

NOTE 3 – COMPREHENSIVE INCOME

During the quarter ended March 31, 2014, foreign currency translation adjustments included currency translation gains of \$0.8 million and losses on the Company's loans designated as hedges of net investments of \$1.9 million. During the quarter ended March 31, 2013, foreign currency translation adjustments included currency translation losses of \$101.9 million and gains of \$8.5 million on the Company's loans designated as hedges of net investments.

The cumulative foreign currency translation adjustments included translation gains of \$245.2 million and \$249.9 million at March 31, 2014 and December 31, 2013, respectively, were offset by losses of \$110.8 million and \$108.9 million, respectively, on loans designated as hedges of net investments. These foreign currency translation adjustments were partially offset by movements on derivatives financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

Changes in AOCI, net of tax, by component for the three months ended March 31, 2014 and 2013:

(in thousands)	Foreign Currency Translation Adjustments	Gain and (Loss) on Derivative Financial Instruments Designated as Cash Flow Hedges	Gain and (Loss) on Derivative Financial Instruments Designated as Net Investment Hedges	Net Unrealized Holding Gain (Loss) on Available-for-Sale Securities	Pension Liability Adjustments	Total
Balance at December 31, 2013	\$140,992	\$(21,753	) \$(151,114	) \$ 12,729	\$(49,916	) \$(69,062
Other comprehensive income (loss) before reclassifications	(1,107	) 642	(976	) (2,041	) (154	) (3,636
Amounts reclassified from accumulated other comprehensive income (loss)	—	2,091	—	—	472	2,563
Net increase (decrease) in other comprehensive income	(1,107	) 2,733	(976	) (2,041	) 318	(1,073
	(5,530	) —	—	—	—	(5,530

Foreign currency
translation related to
acquisition of
noncontrolling interests

Balance at March 31, 2014	\$134,355	\$(19,020)	\$(152,090)	\$ 10,688	\$(49,598)	\$(75,665)
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(in thousands)	Foreign Currency Translation Adjustments	Gain and (Loss) on Derivative Financial Instruments Designated as Cash Flow Hedges	Gain and (Loss) on Derivative Financial Instruments Designated as Net Investment Hedges	Net Unrealized Holding Gain (Loss) on Available-for-Sale Securities	Pension Liability Adjustments	Total
Balance at December 31, 2012	\$54,302	\$(17,481)	\$(125,661)	\$ 17,822	\$(73,182)	\$(144,200)
Other comprehensive income (loss) before reclassifications	(93,435)	3,507	24,489	7,640	1,835	(55,964)
Amounts reclassified from accumulated other comprehensive (loss) income	—	122	—	—	941	1,063
Net (decrease) increase in other comprehensive income	(93,435)	3,629	24,489	7,640	2,776	(54,901)
Balance at March 31, 2013	\$(39,133)	\$(13,852)	\$(101,172)	\$ 25,462	\$(70,406)	\$(199,101)

Reclassification out of accumulated other comprehensive income (expense) to the Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013:

(in thousands)

Details about AOCI Components	Amounts Reclassified from AOCI Three Months Ended March 31,		Affected Line Item in the Statements of Operations
	2014	2013	
Gains and (losses) on derivative financial instruments:			
Interest rate swaps	\$(926)	\$(913)	Interest expense
Foreign exchange forward contracts	(1,646)	499	Cost of products sold
Foreign exchange forward contracts	(99)	(30)	SG&A expenses
Commodity contracts	(246)	157	Cost of products sold
	(2,917)	(287)	Net (loss) gain before tax
	826	165	Tax benefit (expense)
	\$(2,091)	\$(122)	Net of tax
Amortization of defined benefit pension and other postemployment benefit items:			
Amortization of prior service benefits	\$34	\$34	(a)
Amortization of net actuarial losses	(719)	(1,368)	(a)
	(685)	(1,334)	Net loss before tax
	213	393	Tax benefit
	\$(472)	\$(941)	Net of tax

Total reclassifications for the period \$(2,563) \$(1,063)

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the three months ended March 31, 2014 and 2013 (see Note 8, Benefit Plans, for additional details).

NOTE 4 – EARNINGS PER COMMON SHARE

The dilutive effect of outstanding non-qualified stock options and RSU is reflected in diluted earnings per share by application of the treasury stock method. The following table sets forth the computation of basic and diluted earnings per common share for the three months ended March 31, 2014 and 2013:

Basic Earnings Per Common Share Computation (in thousands, except per share amounts)	Three Months Ended	
	2014	2013
Net income attributable to DENTSPLY International	\$72,878	\$71,685
Weighted average common shares outstanding	142,053	142,775
Earnings per common share - basic	\$0.51	\$0.50
Diluted Earnings Per Common Share Computation (in thousands, except per share amounts)		
Net income attributable to DENTSPLY International	\$72,878	\$71,685
Weighted average common shares outstanding	142,053	142,775
Incremental weighted average shares from assumed exercise of dilutive options from stock-based compensation awards	2,400	2,324
Total weighted average diluted shares outstanding	144,453	145,099
Earnings per common share - diluted	\$0.50	\$0.49

Options to purchase 1.5 million and 3.5 million shares of common stock that were outstanding during the three months ended March 31, 2014 and 2013, 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, 2014, the Company recorded a liability for the purchase of the remaining shares of one variable interest entity. The amount is preliminary and is based on the Company's best estimate of this obligation, which is subject to contractual adjustments. As a result, the Company recorded a reduction to additional paid in capital for the excess of the purchase price above the carrying value of the noncontrolling interest. The Company expects to finalize the transaction in 2014.

NOTE 6 – SEGMENT INFORMATION

The Company has numerous operating businesses covering a wide range of dental and certain healthcare products and geographic regions, primarily serving the professional dental market. Professional dental products represented approximately 88% and 89% of sales for the three months ended March 31, 2014 and 2013, respectively.

The operating businesses are combined into operating groups, which generally have overlapping product offerings, geographical presence, customer bases, distribution channels, and regulatory oversight. These operating groups are considered the Company's reportable segments as the Company's chief operating decision-maker regularly reviews

financial results at the operating group level and uses this information to manage the Company's operations. The accounting policies of the segments are consistent with those described in the Company's most recently filed Form 10-K in the summary of significant accounting policies. The Company's segments are measured on net third party sales, excluding precious metal content and segment income for reporting purposes. Net sales excluding precious metal content are the Company's net sales excluding the precious metal cost within the products sold, and are considered a non-US GAAP measure. The Company's exclusion of precious metal content in the measurement of net third party sales enhances comparability of performance between periods as it excludes the fluctuating

market prices of the precious metal content. The Company defines segment income 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. Generally, the Company evaluates performance of the segments based on the groups' segment income and net third party sales, excluding precious metal content. A description of the products and services provided within each of the Company's three reportable segments is provided below.

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

During the three months ended March 31, 2014, the Company realigned reporting responsibilities for multiple locations as a result of changes to the management structure. The segment information below reflects the revised structure for all periods shown.

Dental Consumable 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 and certain other European regions as well as chairside consumable, endodontic and dental laboratory products in Australia.

Dental Specialty and Laboratory Businesses

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

Healthcare and Emerging Markets Businesses

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

The following tables set forth information about the Company's segments for the three months ended March 31, 2014 and 2013:

Third Party Net Sales

(in thousands)	Three Months Ended	
	2014	2013
Dental Consumable Businesses	\$ 173,976	\$ 163,707
Dental Specialty and Laboratory Businesses	432,407	447,977
Healthcare and Emerging Markets Businesses	124,946	121,739

All Other (a)	(1,215	)	(1,339)
Total net sales	\$730,114		\$732,084	

(a) Includes amounts recorded at Corporate headquarters.

Third Party Net Sales, Excluding Precious Metal Content

(in thousands)	Three Months Ended	
	2014	2013
Dental Consumable Businesses	\$173,914	\$163,609
Dental Specialty and Laboratory Businesses	391,681	388,916
Healthcare and Emerging Markets Businesses	124,802	121,463
All Other (b)	(1,215)	(1,339)
Total net sales, excluding precious metal content	689,182	672,649
Precious metal content of sales	40,932	59,435
Total net sales, including precious metal content	\$730,114	\$732,084

(b) Includes amounts recorded at Corporate headquarters.

Inter-segment Net Sales

(in thousands)	Three Months Ended	
	2014	2013
Dental Consumable Businesses	\$28,601	\$30,230
Dental Specialty and Laboratory Businesses	50,231	42,965
Healthcare and Emerging Markets Businesses	3,306	3,114
All Other (c)	60,785	57,427
Eliminations	(142,923)	(133,736)
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	
	2014	2013
Dental Consumable Businesses	\$58,509	\$54,315
Dental Specialty and Laboratory Businesses	73,913	69,678
Healthcare and Emerging Markets Businesses	4,724	1,466
All Other (d)	(30,783)	(30,936)
Segment operating income	106,363	94,523

Reconciling Items:

Restructuring and other costs	793	665
Interest expense	10,955	15,221
Interest income	(1,435)	(2,175)
Other expense (income), net	388	2,918
Income before income taxes	\$95,662	\$77,894

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

Assets (in thousands)	March 31, 2014	December 31, 2013
Dental Consumable Businesses	\$699,477	\$699,386
Dental Specialty and Laboratory Businesses	3,380,841	3,404,604
Healthcare and Emerging Markets Businesses	932,147	869,907
All Other (e)	76,968	104,150
Total	\$5,089,433	\$5,078,047

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

NOTE 7 – INVENTORIES

Inventories are stated at the lower of cost or market. At March 31, 2014 and December 31, 2013, the cost of \$7.4 million and \$6.5 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, 2014 and December 31, 2013 by \$6.2 million and \$5.9 million, respectively.

The Company establishes reserves for inventory estimated to be obsolete or unmarketable. Assumptions about future demand and market conditions are considered when estimating these reserves. The inventory valuation reserves were \$37.6 million and \$34.2 million at March 31, 2014 and December 31, 2013, respectively.

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

(in thousands)	March 31, 2014	December 31, 2013
Finished goods	\$286,141	\$285,271
Work-in-process	72,874	67,718
Raw materials and supplies	96,059	85,570
Inventories, net	\$455,074	\$438,559

NOTE 8 – BENEFIT PLANS

The following sets forth the components of net periodic benefit cost of the Company’s defined benefit plans and for the Company’s other postemployment benefit plans for the three months ended March 31, 2014 and 2013:

Defined Benefit Plans (in thousands)	Three Months Ended	
	2014	2013
Service cost	\$3,552	\$3,723
Interest cost	2,866	2,477
Expected return on plan assets	(1,387)	(1,247)
Amortization of prior service credit	(34)	(34)
Amortization of net actuarial loss	707	1,280
Curtailments and settlement gains	—	(390)
Net periodic benefit cost	\$5,704	\$5,809

Other Postemployment Benefit Plans (in thousands)	Three Months Ended	
	2014	2013
Service cost	\$44	\$61
Interest cost	140	122
Amortization of net actuarial loss	12	88
Net periodic benefit cost	\$196	\$271

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

(in thousands)	Pension Benefits	Other Postemployment Benefits
Actual contributions through March 31, 2014	\$3,671	\$75
Projected contributions for the remainder of the year	8,940	427