

DENTSPLY INTERNATIONAL INC /DE/  
Form 10-Q  
October 29, 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 September 30, 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 October 22, 2013, DENTSPLY International Inc.had 142,652,236 shares of Common Stock outstanding, with a par value of \$.01 per share.

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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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales	\$704,018	\$695,734	\$2,197,112	\$2,175,141
Cost of products sold	327,601	331,619	1,017,539	1,010,807
Gross profit	376,417	364,115	1,179,573	1,164,334
Selling, general and administrative expenses	269,165	260,352	852,763	860,740
Restructuring and other costs	2,231	15,097	5,065	18,862
Operating income	105,021	88,666	321,745	284,732
Other income and expenses:				
Interest expense	11,442	13,948	38,170	44,053
Interest income	(2,138)	) (2,342)	) (6,556)	) (6,204)
Other expense (income), net	1,581	1,279	8,723	2,324
Income before income taxes	94,136	75,781	281,408	244,559
Provision for income taxes	13,187	18,960	39,599	48,550
Equity in net (loss) earnings of unconsolidated affiliated company	(83)	) (2,529)	) 320	(5,448)
Net income	80,866	54,292	242,129	190,561
Less: Net income attributable to noncontrolling interests	1,015	928	3,366	3,148
Net income attributable to DENTSPLY International	\$79,851	\$53,364	\$238,763	\$187,413
Earnings per common share:				
Basic	\$0.56	\$0.38	\$1.67	\$1.32
Diluted	\$0.55	\$0.37	\$1.65	\$1.30
Weighted average common shares outstanding:				
Basic	142,421	141,843	142,705	141,767
Diluted	144,698	143,884	144,952	143,885

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$80,866	\$54,292	\$242,129	\$190,561
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	140,374	104,168	52,118	58,893
Net (loss) gain on derivative financial instruments	(31,997 )	(11,214 )	(17,241 )	3,743
Net unrealized holding (loss) gain on available-for-sale securities	(1,916 )	15,373	(10,905 )	30,419
Pension liability adjustments	(1,692 )	44	1,624	1,710
Total other comprehensive income (loss), net of tax	104,769	108,371	25,596	94,765
Total comprehensive income	185,635	162,663	267,725	285,326
Less: Comprehensive income attributable to noncontrolling interests	2,666	1,366	4,866	2,722
Comprehensive income attributable to DENTSPLY International	\$182,969	\$161,297	\$262,859	\$282,604

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

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

	September 30, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$ 50,658	\$ 80,132
Accounts and notes receivables-trade, net	502,370	442,412
Inventories, net	448,277	402,940
Prepaid expenses and other current assets	151,840	185,612
<b>Total Current Assets</b>	<b>1,153,145</b>	<b>1,111,096</b>
Property, plant and equipment, net	628,509	614,705
Identifiable intangible assets, net	800,470	830,642
Goodwill, net	2,218,136	2,210,953
Other noncurrent assets, net	209,719	204,901
<b>Total Assets</b>	<b>\$ 5,009,979</b>	<b>\$ 4,972,297</b>
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 136,945	\$ 165,290
Accrued liabilities	335,745	424,336
Income taxes payable	33,923	39,191
Notes payable and current portion of long-term debt	270,948	298,963
<b>Total Current Liabilities</b>	<b>777,561</b>	<b>927,780</b>
Long-term debt	1,164,794	1,222,035
Deferred income taxes	226,668	232,641
Other noncurrent liabilities	361,938	340,398
<b>Total Liabilities</b>	<b>2,530,961</b>	<b>2,722,854</b>
Commitments and contingencies		
Equity:		
Preferred stock, \$.01 par value; .25 million shares authorized; no shares issued	—	—
Common stock, \$.01 par value; 200.0 million shares authorized; 162.8 million shares issued at September 30, 2013 and December 31, 2012.	1,628	1,628
Capital in excess of par value	250,153	246,548
Retained earnings	3,030,252	2,818,461
Accumulated other comprehensive loss	(120,104	) (144,200
Treasury stock, at cost, 20.6 million and 20.5 million shares at September 30, 2013 and December 31, 2012, respectively.	(723,488	) (713,739

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Total DENTSPLY International Equity	2,438,441	2,208,698
Noncontrolling interests	40,577	40,745
Total Equity	2,479,018	2,249,443
Total Liabilities and Equity	\$5,009,979	\$4,972,297

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)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$242,129	\$190,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	61,545	59,509
Amortization	34,700	37,289
Amortization of deferred financing costs	3,842	5,749
Deferred income taxes	(32,096)	(2,702)
Share-based compensation expense	18,027	17,248
Restructuring and other costs - noncash	843	14,207
Stock option income tax benefit	(2,262)	(11,201)
Equity in (earnings) loss from unconsolidated affiliates	(320)	5,448
Other non-cash expense (income)	3,422	(8,354)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts and notes receivable-trade, net	(65,455)	(41,943)
Inventories, net	(45,284)	(54,329)
Prepaid expenses and other current assets	26,137	(23,798)
Other noncurrent assets, net	992	(2,743)
Accounts payable	(25,099)	(11,557)
Accrued liabilities	706	9,488
Income taxes	29,544	17,802
Other noncurrent liabilities	6,895	1,391
Net cash provided by operating activities	258,266	202,065
Cash flows from investing activities:		
Capital expenditures	(73,500)	(64,859)
Cash paid for acquisitions of businesses, net of cash acquired	(3,939)	—
Cash received on derivatives	9,172	—
Cash paid on derivatives	(95,667)	(14,221)
Expenditures for identifiable intangible assets	(1,049)	(196)
Purchase of Company-owned life insurance policies	—	(1,577)
Proceeds from sale of property, plant and equipment, net	3,092	553
Net cash used in investing activities	(161,891)	(80,300)
Cash flows from financing activities:		
Net change in short-term borrowings	8,789	(115,468)
Cash paid for treasury stock	(72,381)	(38,839)



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Cash dividends paid	(25,895	) (23,561	)
Cash paid for contingent consideration on prior acquisitions	—	(2,519	)
Cash paid for acquisition of noncontrolling interests of consolidated subsidiary	(8,960	) —	
Proceeds from long-term borrowings	174,628	—	
Repayments of long-term borrowings	(251,335	) —	
Proceeds from exercise of stock options	48,350	24,830	
Excess tax benefits from share-based compensation	2,262	11,201	
Cash received on derivative contracts	21	—	
Cash paid on derivative contracts	(129	) (1,229	)
Net cash used in financing activities	(124,650	) (145,585	)
Effect of exchange rate changes on cash and cash equivalents	(1,199	) 2,767	
Net decrease in cash and cash equivalents	(29,474	) (21,053	)
Cash and cash equivalents at beginning of period	80,132	77,128	
Cash and cash equivalents at end of period	\$50,658	\$56,075	

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, 2011	\$ 1,628	\$ 229,687	\$ 2,535,709	\$ (190,970 )	\$ (727,977)	\$ 1,848,077	\$ 36,074	\$ 1,884,151
Net income	—	—	187,413	—	—	187,413	3,148	190,561
Other comprehensive income (expense)	—	—	—	95,191	—	95,191	(426 )	94,765
Exercise of stock options	—	(8,449 )	—	—	33,279	24,830	—	24,830
Tax benefit from stock options exercised	—	11,201	—	—	—	11,201	—	11,201
Share based compensation expense	—	17,248	—	—	—	17,248	—	17,248
Funding of Employee Stock Ownership Plan	—	370	—	—	3,272	3,642	—	3,642
Treasury shares purchased	—	—	—	—	(38,839 )	(38,839 )	—	(38,839 )
RSU distributions	—	(8,386 )	—	—	5,097	(3,289 )	—	(3,289 )
RSU dividends	—	173	(173 )	—	—	—	—	—
Cash dividends (\$0.1650 per share)	—	—	(23,403 )	—	—	(23,403 )	—	(23,403 )
Balance at September 30, 2012	\$ 1,628	\$ 241,844	\$ 2,699,546	\$ (95,779 )	\$ (725,168)	\$ 2,122,071	\$ 38,796	\$ 2,160,867
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity
	\$ 1,628	\$ 246,548	\$ 2,818,461	\$ (144,200 )	\$ (713,739)	\$ 2,208,698	\$ 40,745	\$ 2,249,443

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Balance at  
December 31,  
2012

Net income	—	—	238,763	—	—	238,763	3,366	242,129
Other comprehensive income	—	—	—	24,096	—	24,096	1,500	25,596
Acquisition of noncontrolling interest	—	(3,926 )	—	—	—	(3,926 )	(5,034 )	(8,960 )
Exercise of stock options	—	(5,569 )	—	—	53,919	48,350	—	48,350
Tax benefit from stock options exercised	—	2,262	—	—	—	2,262	—	2,262
Share based compensation expense	—	18,027	—	—	—	18,027	—	18,027
Funding of Employee Stock Ownership Plan	—	959	—	—	3,698	4,657	—	4,657
Treasury shares purchased	—	—	—	—	(72,381 )	(72,381 )	—	(72,381 )
RSU distributions	—	(8,378 )	—	—	5,015	(3,363 )	—	(3,363 )
RSU dividends	—	230	(230 )	—	—	—	—	—
Cash dividends (\$0.1875 per share)	—	—	(26,742 )	—	—	(26,742 )	—	(26,742 )
Balance at September 30, 2013	\$ 1,628	\$ 250,153	\$ 3,030,252	\$ (120,104 )	\$ (723,488)	\$ 2,438,441	\$ 40,577	\$ 2,479,018

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 \$14.9 million at September 30, 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 \$60.7 million and \$75.1 million at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013 and December 31, 2012, an unrealized holding gain of \$6.9 million and \$17.8 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 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 during 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 c