DENTSPLY INTERNATIONAL INC /DE/
Form 10-Q
April 28, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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

Large accelerated filer x 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 x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: At April 25, 2011, DENTSPLY International Inc. had 140,775,468 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, 2011	Three Months Ended March 31, 2010
Net sales	$570,503	$545,944
Cost of products sold	270,519	263,906
Gross profit	299,984	282,038
Selling, general and administrative expenses	200,767	188,034
Restructuring and other costs	633	4,680
Operating income	98,584	89,324
Other income and expenses:		
Interest expense	6,343	5,720
Interest income	(1,828)	(787)
Other expense (income), net	70	945
Income before income taxes	93,999	83,446
Provision for income taxes	23,712	21,255
Equity in net loss of unconsolidated affilated company	(824)	-
Net income	69,463	62,191
Less: Net income attributable to the noncontrolling interests	379	348
Net income attributable to DENTSPLY International	$69,084	$61,843
Earnings per common share:		
Basic	$0.49	$0.42
Diluted	$0.48	$0.41
Weighted average common shares outstanding:		
Basic	141,614	146,776
Diluted	144,044	149,294

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)
(unaudited)

	March 31, 2011	December 31, 2010
Assets		
Current Assets:		
Cash and cash equivalents	$575,264	$ 540,038
Accounts and notes receivables-trade, net	385,357	344,796
Inventories, net	332,282	308,738
Prepaid expenses and other current assets	119,165	121,473
Total Current Assets	1,412,068	1,315,045
Property, plant and equipment, net	432,716	423,105
Identifiable intangible assets, net	79,468	78,743
Goodwill, net	1,350,780	1,303,055
Other noncurrent assets, net	162,017	138,003
Total Assets	$3,437,049	$ 3,257,951
Liabilities and Equity		
Current Liabilities:		
Accounts payable	$111,943	$ 114,479
Accrued liabilities	214,972	224,745
Income taxes payable	23,643	13,113
Notes payable and current portion of long-term debt	11,453	7,754
Total Current Liabilities	362,011	360,091
Long-term debt	652,290	604,015
Deferred income taxes	79,963	72,489
Other noncurrent liabilities	360,286	311,444
Total Liabilities	1,454,550	1,348,039
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, 2011 and December 31, 2010	1,628	1,628
Capital in excess of par value	223,748	204,902
Retained earnings	2,382,336	2,320,350
Accumulated other comprehensive income	88,265	24,156
Treasury stock, at cost, 21.9 million shares at March 31, 2011 and 21.0 million shares at December 31, 2010	(750,639)	(711,650)

Total DENTSPLY International Equity	1,945,338	1,839,386
Noncontrolling interests	37,161	70,526
Total Equity	1,982,499	1,909,912
Total Liabilities and Equity	$3,437,049	$ 3,257,951

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	$69,463	$62,191
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,200	15,265
Amortization	2,379	2,524
Deferred income taxes	1,220	(3,745)
Share-based compensation expense	4,668	5,223
Restructuring and other costs - noncash	-	363
Excess tax benefits from share-based compensation	(4,371)	(1,898)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts and notes receivable-trade, net	(28,706)	(15,530)
Inventories, net	(14,727)	(14,472)
Prepaid expenses and other current assets	(5,745)	(5,729)
Accounts payable	5,569	9,195
Accrued liabilities	(15,861)	(12,519)
Income taxes payable	11,516	(6,801)
Other, net	3,401	2,477
Net cash provided by operating activities	44,006	36,544
Cash flows from investing activities:		
Capital expenditures	(11,774)	(8,030)
Cash paid for acquisitions of businesses, net of cash acquired	(21,127)	(7,687)
Expenditures for identifiable intangible assets	(254)	(107)
Proceeds from sale of property, plant and equipment, net	52	113
Net cash used in investing activities	(33,103)	(15,711)
Cash flows from financing activities:		
Net change in short-term borrowings	3,403	(2,124)
Cash paid for treasury stock	(73,679)	(41,423)
Cash dividends paid	(7,131)	(7,409)
Proceeds from long-term borrowings	51,100	311,834
Repayments of long-term borrowings	(1,951)	(299,215)
Proceeds from exercise of stock options	22,171	7,403
Excess tax benefits from share-based compensation	4,371	1,898
Net cash used in financing activities	(1,716)	(29,036)

Effect of exchange rate changes on cash and cash equivalents	26,039	(37,128)
Net increase(decrease) in cash and cash equivalents	35,226	(45,331)
Cash and cash equivalents at beginning of period	540,038	450,348
Cash and cash equivalents at end of period	$575,264	$405,017

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 Income (Loss)	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2009	$ 1,628	$ 195,495	$ 2,083,459	$ 83,542	$ (532,019)	$ 1,832,105	$ 74,853	$ 1,906,958
Comprehensive Income:								
Net income	-	-	61,843	-	-	61,843	348	62,191
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustments	-	-	-	(73,422)	-	(73,422)	(3,771)	(77,193)
Net loss on derivative financial instruments	-	-	-	23,724	-	23,724	-	23,724
Pension liability adjustments	-	-	-	763	-	763	-	763
Comprehensive Income						12,908	(3,423)	9,485
Exercise of stock options	-	(4,372)	-	-	11,775	7,403	-	7,403
Tax benefit from stock options exercised	-	1,898	-	-	-	1,898	-	1,898
Share based compensation expense	-	5,223	-	-	-	5,223	-	5,223
Funding of Employee Stock Ownership Plan	-	206	-	-	1,132	1,338	-	1,338
Treasury shares purchased	-	-	-	-	(41,423)	(41,423)	-	(41,423)
RSU distributions	-	(3,678)	-	-	2,730	(948)	-	(948)
RSU dividends	-	34	(34)	-	-	-	-	-

Cash dividends ($0.05 per share)	-	-	(7,316)	-	-	(7,316)	-	(7,316)
Balance at March 31, 2010	$ 1,628	$ 194,806	$ 2,137,952	$ 34,607	$ (557,805)	$ 1,811,188	$ 71,430	$ 1,882,618

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2010	$ 1,628	$ 204,902	$ 2,320,350	$ 24,156	$ (711,650)	$ 1,839,386	$ 70,526	$ 1,909,912
Comprehensive Income:								
Net income	-	-	69,084	-	-	69,084	379	69,463
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustments	-	-	-	87,452	-	87,452	3,264	90,716
Net loss on derivative financial instruments	-	-	-	(27,012)	-	(27,012)	-	(27,012)
Net unrealized holding gains on available-for-sale adjustments	-	-	-	4,202	-	4,202	-	4,202
Pension liability adjustments	-	-	-	(533)	-	(533)	-	(533)
Comprehensive Income						133,193	3,643	136,836
Acquistion of noncontrolling interest	-	21,463	-	-	-	21,463	(37,008)	(15,545)
Exercise of stock options	-	(6,450)	-	-	28,622	22,172	-	22,172
Tax benefit from stock options exercised	-	4,371	-	-	-	4,371	-	4,371
Share based compensation expense	-	4,668	-	-	-	4,668	-	4,668
Funding of Employee Stock Ownership Plan	-	379	-	-	2,595	2,974	-	2,974

Treasury shares purchased	-	-	-	-	(73,679)	(73,679)	-	(73,679)
RSU distributions	-	(5,630)	-	-	3,473	(2,157)	-	(2,157)
RSU dividends	-	45	(45)	-	-	-	-	-
Cash dividends ($0.05 per share)	-	-	(7,053)	-	-	(7,053)	-	(7,053)
Balance at March 31, 2011	$ 1,628	$ 223,748	$ 2,382,336	$ 88,265	$ (750,639)	$ 1,945,338	$ 37,161	$ 1,982,499

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 consolidating 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, 2010.

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, 2010, except as may be indicated below:

Accounts and Notes Receivable-Trade, Net

The Company sells dental products through a worldwide network of distributors and directly to end users. For customers on credit terms, the Company performs ongoing credit evaluation 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 were $10.4 million and $9.6 million at March 31, 2011 and December 31, 2010, respectively.

Litigation

The Company and its subsidiaries are from time to time parties to lawsuits arising out of their respective operations. The Company records liabilities when a loss is probable and can be reasonably estimated. These estimates are typically in the form of ranges, and the Company records the liabilities at the low point of the ranges, when no other point within the ranges are a better estimate of the probable loss. The ranges established by management are based on analysis made by internal and external legal counsel who considers information known at the time. If the Company determines a liability to be only reasonably possible, it considers the same information to estimate the possible exposure and disclose any material potential liability. These loss contingencies are monitored regularly for a change in fact or circumstance that would require an accrual adjustment. The Company believes it has estimated liabilities for probable losses appropriately in the past; however, the unpredictability of litigation and court decisions could cause a liability to be incurred in excess of estimates. Legal costs related to these lawsuits are expensed as incurred.

Marketable Securities

The Company's marketable securities consist of debt instruments 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. Once identified, the determination of whether the impairment is temporary or other-than-temporary requires significant judgment. The primary factors that the Company considers in classifying the impairment 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.

On December 9, 2010, the Company invested $49.7 million in the corporate convertible bonds of DIO Corporation (“DIO”), which may be converted into common shares after a one year period. The bonds are designated by the Company as available-for-sale securities which are reported in, “Other noncurrent assets, net,” on the consolidated balance sheets and the changes in fair value are reported in accumulated other comprehensive income (“AOCI”). The convertible feature of the bond has not been bifurcated from the underlying bond 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 is equal to the face value of the bonds issued by DIO, and therefore, the Company has not recorded any bond premium or discount on acquiring the bonds. The fair value of the DIO bond was $75.2 million and $66.0 million at March 31, 2011 and December 31, 2010, respectively. At March 31, 2011 and December 31, 2010, $15.2 million and $11.0 million, respectively, of unrealized holding gains on available-for-sale securities, net of tax, have been recorded in AOCI. The contractual maturity of the bond is in December 2015.

Revenue Recognition

Certain of the Company’s customers are offered cash rebates based on targeted sales increases. Estimates of rebates are based on the forecasted performance of the customer and their expected level of achievement within the rebate programs. In accounting for these rebate programs, the Company records an accrual as a reduction of net sales as sales take place over the period the rebate is earned. The Company revises the accruals for these rebate programs as actual results and revised forecasts impact the estimated achievement for customers within the rebate programs.

Revisions in Classification

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

NOTE 2 – STOCK COMPENSATION

The following table represents total stock based compensation expense for stock options, restricted stock units (“RSU”) and performance restricted stock units (“PRSU”) and the tax related benefit for the three months ended March 31, 2011 and 2010:

	Three Months Ended	
(in millions)	2011	2010
Stock option expense	$ 2.3	$ 2.9
RSU and PRSU expense	2.1	2.0
Total stock based compensation expense	$ 4.4	$ 4.9
Total related tax benefit	$ 1.3	$ 1.4

The remaining unamortized compensation cost related to non-qualified stock options is $19.0 million, which will be expensed over the weighted average remaining vesting period of the options, or 2.0 years. The unamortized compensation cost related to RSU and PRSU is $15.6 million, which will be expensed over the remaining restricted period of the RSU and PRSU, or 1.8 years.

The following table reflects the non-qualified stock option transactions from December 31, 2010 through March 31, 2011:

	Outstanding			Exercisable		
(in thousands, except per share data)	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
December 31, 2010	10,636	$29.07	$66,722	8,815	$28.58	$61,450
Granted	1,371	36.61				
Exercised	(947)	23.41				
Cancelled	(9)	45.15				
Forfeited	(39)	31.51				
March 31, 2011	11,012	$30.47	$80,526	7,877	$29.18	$70,191

The weighted average remaining contractual term of all outstanding options is 6.2 years and the weighted average remaining contractual term of exercisable options is 5.1 years.

The following table summarizes the unvested RSU and PRSU transactions from December 31, 2010 through March 31, 2011:

(in thousands, except per share data)	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2010	744	$ 32.43
Granted	338	36.61
Vested	(172)	41.13
Forfeited	(12)	29.80
Unvested at March 31, 2011	898	$ 32.37

NOTE 3 – COMPREHENSIVE INCOME

The changes to balances included in AOCI, net of tax, in the consolidated balance sheets for the three months ended March 31, 2011 and 2010 are as follows:

(in thousands)	Three Months Ended 2011	2010
Net income	$ 69,463	$ 62,191
Other comprehensive income:		
Foreign currency translation adjustments	90,716	(77,193)
Net (loss) gain on derivative financial instruments	(27,012)	23,724
Net unrealized holding gains on available-for-sale securities	4,202	-
Amortization of unrecognized losses and prior year service pension cost	(533)	763
Total other comprehensive income (loss)	67,373	(52,706)
Total comprehensive income	136,836	9,485
Comprehensive loss attributable to the noncontrolling interests	3,643	(3,423)
Comprehensive income attributable to DENTSPLY International	$ 133,193	$ 12,908

During the quarter ended March 31, 2011, foreign currency translation adjustments included currency translation gains of $89.7 million and gains of $1.0 million on the Company's loans designated as hedges of net investments. During the quarter ended March 31, 2010, foreign currency translation adjustments included currency translation losses of $81.2 million partially offset by gains of $4.0 million on the Company's loans designated as hedges of net investments. These foreign currency translation adjustments were offset by net gains on derivative financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

The balances included in AOCI, net of tax, in the consolidated balance sheets are as follows:

(in thousands)	March 31, 2011	December 31, 2010
Foreign currency translation adjustments	$ 258,049	$ 170,597
Net loss on derivative financial instruments	(153,660)	(126,648)
Net unrealized holding gains on available-for-sale securities	15,231	11,029
Pension liability adjustments	(31,355)	(30,822)
	$ 88,265	$ 24,156

The cumulative foreign currency translation adjustments included translation gains of $381.0 million and $294.6 million as of March 31, 2011 and December 31, 2010, respectively, partially offset by losses of $123.0 million and $124.0 million, respectively, on loans designated as hedges of net investments. These foreign currency translation adjustments were offset by net losses on derivatives financial instruments, which are discussed in Note 10, Financial

Instruments and Derivatives.

NOTE 4 - EARNINGS PER COMMON SHARE

The dilutive effect of outstanding options and restricted stock 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, 2011 and 2010:

	Three Months Ended	
Basic Earnings Per Common Share Computation (in thousands, except per share amounts)	2011	2010
Net income attributable to DENTSPLY International	$ 69,084	$ 61,843
Common shares outstanding	141,614	146,776
Earnings per common share - basic	$ 0.49	$ 0.42
Diluted Earnings Per Common Share Computation (in thousands, except per share amounts)		
Net income attributable to DENTSPLY International	$ 69,084	$ 61,843
Common shares outstanding	141,614	146,776
Incremental shares from assumed exercise of dilutive options from stock-based compensation awards	2,430	2,518
Total shares	144,044	149,294
Earnings per common share - diluted	$ 0.48	$ 0.41

Options to purchase 4.3 million shares of common stock that were outstanding during the three months ended March 31, 2011, were not included in the computation of diluted earnings per share since the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. There were 3.0 million antidilutive shares of common stock outstanding during the three months ended March 31, 2010.

NOTE 5 – BUSINESS ACQUISITIONS

The acquisition related activity for the three months ended March 31, 2011 was $21.1 million, net of cash acquired, of which $20.2 million was related to an acquisition and the purchase of the remaining shares of a consolidated variable interest entity ("VIE") in 2011. Additionally, an earn-out payment was made on an acquisition that was completed prior to 2009. The purchase agreement for the acquisition provides for additional payments to be made based upon the operating performance of the respective business; however, the Company does not expect the additional payments to be material to the financial statements. The results of operations for these businesses have been included in the accompanying financial statements since the effective date of the respective transactions. The purchase prices have been allocated on the basis of preliminary estimates of the fair values of assets acquired and liabilities assumed. As of March 31, 2011, the Company has recorded a total of $4.4 million in goodwill related to the unallocated portions of the respective purchase price, and the goodwill is associated with the Canada/Latin America/Endodontics/Orthodontics segment.

NOTE 6 - SEGMENT INFORMATION

The Company has numerous operating businesses covering a wide range of products and geographic regions, primarily serving the professional dental market. Professional dental products represented approximately 97% of sales for both three month periods ended March 31, 2011 and 2010.

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 groups are consistent with those described in the Company's most recently filed Form10-K in the summary of significant accounting policies. The Company measures segment income for reporting purposes as operating income before restructuring and other costs, interest expense, interest income, other income and expenses and income taxes.

United States, Germany and Certain Other European Regions Consumable Businesses

This business group 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.

France, United Kingdom, Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses

This business group includes responsibility for the sales and distribution for certain small equipment, chairside consumable products, certain laboratory products and certain Endodontic products in France, United Kingdom, Italy, the Commonwealth of Independent States ("CIS"), Middle East, Africa, Asia (excluding Japan), Japan and Australia, as well as the sale and distribution of implant products and bone substitute/grafting materials in France, Italy, Asia and Australia. This business group also includes the responsibility for sales and distribution for certain laboratory products, implants products and bone substitution/grafting materials for Austria. It also is responsible for sales and distribution of certain small equipment and chairside consumable products, certain laboratory products, implant products and bone substation/grafting materials in certain other European countries. In addition this business group also includes the manufacturing and sale of Orthodontic products and certain laboratory products in Japan, and the manufacturing of certain laboratory and certain Endodontic products in Asia.

Canada/Latin America/Endodontics/Orthodontics

This business group includes responsibility for the design, manufacture, and/or sales and distribution of certain small equipment, chairside consumable products, certain laboratory products and Endodontic products in Brazil. It also has responsibility for the sales and distribution of most of the Company's dental products sold in Latin America and Canada. This business group also includes the responsibility for the design and manufacturing of Endodontic products in the United States, Switzerland and Germany and is responsible for the sales and distribution of the Company's Endodontic products in the United States, Canada, Switzerland, Benelux, Scandinavia, Austria, Latin America and Eastern Europe, and for certain Endodontic products in Germany. This business group is also responsible for the world-wide sales and distribution, excluding Japan, as well as some manufacturing of the Company's Orthodontic products. In addition, this business group is also responsible for sales and distribution in the United States of implant and bone substitute/grafting materials and the sales and distribution of implants in Brazil. This business group is also responsible for the manufacture and sale of certain products in the Company's non-dental business.

Dental Laboratory Business/Implants/Non-Dental

This business group includes the responsibility for the design, manufacture, sales and distribution of most laboratory products, excluding certain countries mentioned previously, and the design, manufacture, and/or sales and distribution of the Company's dental implant products and bone substitute/grafting materials, excluding sales and distribution of implants and bone substitute/grafting materials in the United States; France, Italy, Austria, and certain other Eastern European countries; and Australia. This business group is also responsible for most of the Company's non-dental business.

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 operating groups 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 operating groups for the three months ended March 31, 2011 and 2010:

Third Party Net Sales

(in thousands)	2011	2010
U.S., Germany and Certain Other European Regions Consumable Businesses	$ 141,067	$ 134,974
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	124,689	110,285
Canada/Latin America/Endodontics/ Orthodontics	166,859	156,620
Dental Laboratory Business/ Implants/Non-Dental	138,931	145,110
All Other (a)	(1,043)	(1,045)
Total	$ 570,503	$ 545,944

(a) Includes amounts recorded at Corporate headquarters

Third Party Net Sales, Excluding Precious Metal Content

(in thousands)	2011	2010
U.S., Germany and Certain Other European Regions Consumable Businesses	$ 141,067	$ 134,974
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	114,523	102,070
Canada/Latin America/Endodontics/ Orthodontics	166,115	156,030
Dental Laboratory Business/ Implants/Non-Dental	106,343	105,318
All Other (a)	(1,043)	(1,045)
Total excluding precious metal content	527,005	497,347
Precious mental content	43,498	48,597
Total including precious metal content	$ 570,503	$ 545,944

(a) Includes amounts recorded at Corporate headquarters

Inter-segment Net Sales

(in thousands)	2011	2010
U.S., Germany and Certain Other European Regions Consumable Businesses	$ 27,758	$ 26,217
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	4,469	3,619
Canada/Latin America/Endodontics/ Orthodontics	31,474	25,320
Dental Laboratory Business/ Implants/Non-Dental	27,787	26,680
All Other (a)	51,377	44,003
Eliminations	(142,865)	(125,839)
Total	$ -	$ -

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

Segment Operating Income

(in thousands)	2011	2010
U.S., Germany and Certain Other European Regions Consumable Businesses	$ 46,345	$ 44,861
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	(569)	(129)
Canada/Latin America/Endodontics/ Orthodontics	49,817	48,022
Dental Laboratory Business/ Implants/Non-Dental	23,950	22,463
All Other (a)	(20,326)	(21,213)
Segment operating income	99,217	94,004
Reconciling Items:		
Restructuring and other costs	(633)	(4,680)
Interest expense	(6,343)	(5,720)
Interest income	1,828	787
Other expense (income), net	(70)	(945)
Income before income taxes	$ 93,999	$ 83,446

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

Assets

(in thousands)		March 31, 2011		December 31, 2010
U.S., Germany and Certain Other European Regions Consumable Businesses	$	611,306	$	578,770
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses		400,292		390,572
Canada/Latin America/Endodontics/ Orthodontics		1,001,345		932,126
Dental Laboratory Business/ Implants/Non-Dental		1,058,476		995,090
All Other (a)		365,630		361,393
Total	$	3,437,049	$	3,257,951

(a) 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, 2011 and December 31, 2010, the cost of $8.3 million, or 2.5%, and $6.9 million, or 2.2%, respectively, of inventories 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. The Company establishes reserves for inventory in order to present the net realizable value. The inventory valuation reserves were $37.1 million and $35.5 million as of March 31, 2011 and December 31, 2010, respectively.

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, 2011 and December 31, 2010 by $4.7 million and $4.9 million, respectively.

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

(in thousands)		March 31, 2011		December 31, 2010
Finished goods	$	204,340	$	189,343
Work-in-process		60,160		57,272
Raw materials and supplies		67,782		62,123
	$	332,282	$	308,738

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 postretirement employee benefit plans for the three months ended March 31, 2011 and 2010, respectively:

Defined Benefit Plans (in thousands)	2011	2010
Service cost	$ 2,434	$ 2,015
Interest cost	2,187	2,143
Expected return on plan assets	(1,216)	(1,152)
Amortization of transition obligation	-	31
Amortization of prior service cost	20	20
Amortization of net loss	383	241
Net periodic benefit cost	$ 3,808	$ 3,298

Other Postretirement Plans (in thousands)	2011	2010
Service cost	$ 16	$ 14
Interest cost	138	153
Amortization of net loss	49	69
Net periodic benefit cost	$ 203	$ 236

The following sets forth the information related to the contributions to the Company's benefit plans for 2011:

(in thousands)	Pension Benefits	Other Postretirement Benefits
Actual at March 31, 2011	$ 2,929	$ 12
Projected for the remainder of the year	6,921	1,087
Total for year	$ 9,850	$ 1,099

NOTE 9 – RESTRUCTURING AND OTHER COSTS

Other Costs

During the three months ended March 31, 2011 and 2010, the Company recorded other costs of $0.6 million and $3.9 million, respectively, primarily related to several legal matters and acquisition related costs. These other costs are reflected in "Restructuring and other costs" in the consolidated statements of operations.

Restructuring Costs

During the three months ended March 31, 2011, the Company recorded less than $0.1 million of restructuring costs, compared to $0.8 million during the three months ended March 31, 2010. 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. These costs primarily consist of employee severance costs.

During 2010, the Company initiated several restructuring plans primarily related to the integration, reorganization and closure or consolidation of certain production and selling facilities in order to better leverage the Company's resources by minimizing costs and obtaining operational efficiencies.

As of March 31, 2011, the Company's restructuring accruals were as follows:

(in thousands)	Severance		
	2009 and Prior Plans	2010 Plans	Total
Balance at December 31, 2010	$ 2,878	$ 5,260	$ 8,138
Provisions and adjustments	-	(45)	(45)
Amounts applied	(455)	(925)	(1,380)
Balance at March 31, 2011	$ 2,423	$ 4,290	$ 6,713

(in thousands)	Lease/Contract Terminations		
	2009 and Prior Plans	2010 Plans	Total
Balance at December 31, 2010	$ 996	-	$ 996
Provisions and adjustments	-	(112)	(112)
Amounts applied	-	112	112
Balance at March 31, 2011	$ 996	-	$ 996

(in thousands)	Other Restructuring Costs		
	2009 and Prior Plans	2010 Plans	Total
Balance at December 31, 2010	$ 57	$ -	$ 57
Provisions and adjustments	105	77	182
Amounts applied	(105)	(77)	(182)
Balance at March 31, 2011	$ 57	$ -	$ 57

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

(in thousands)	December 31, 2010	Provisions and Adjustments	Amounts Applied	March 31, 2011
United States, Germany and Certain Other European Regions Consumable Businesses	$1,031	$ -	$-	$1,031
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	193	(45)	(148)	-
Canada/Latin America/ Endodontics/Orthodontics	400	-	-	400
Dental Laboratory Business/ Implants/Non-Dental	7,567	70	(1,302)	6,335
	$9,191	$ 25	$(1,450)	$7,766

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.

Certain of the Company's inventory purchases are denominated in foreign currencies, which expose the Company to market risk associated with foreign currency exchange rate movements. The Company's policy generally is to hedge major foreign currency transaction exposures through foreign exchange forward contracts. These contracts are entered into with major financial institutions thereby minimizing the risk of credit loss. In addition, the Company's investments in foreign subsidiaries are denominated in foreign currencies, which create exposures to changes in foreign currency exchange rates. The Company uses debt and derivatives denominated in the applicable foreign currency as a means of hedging a portion of this risk.

With the Company’s significant level of variable interest rate long-term debt and net investment hedges, changes in the interest rate environment can have a major impact on the Company’s earnings, depending upon its interest rate exposure. As a result, the Company manages its interest rate exposure with the use of interest rate swaps, when appropriate, based upon market conditions.

The manufacturing of some of the Company’s products requires the use of commodities, which are subject to market fluctuations. In order to limit the unanticipated impact on earnings from such market fluctuations, the Company selectively enters into commodity swaps for certain materials used in the production of its products. Additionally, the Company uses non-derivative methods, such as the precious metal consignment agreements to effectively hedge commodity risks.

Cash Flow Hedges

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, 2011, the Company has two groups of significant variable interest rate to fixed rate 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 1.6% for a term of ten years, ending in March 2012. 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 4.2% for a term of seven years, ending in March 2012. 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 enters into forward exchange contracts to hedge the foreign currency exposure of its anticipated purchases of certain inventory. In addition, exchange contracts are used by certain of the Company's subsidiaries to hedge intercompany inventory purchases, which are denominated in non-local currencies. The forward contracts that are used in these programs typically mature in eighteen months or less. For these derivatives which qualify as hedges of future anticipated cash flows, the effective portion of changes in fair value is temporarily deferred in AOCI until the hedged item is recognized in earnings.

The Company selectively enters into commodity swaps to effectively fix certain variable raw material costs. At March 31, 2011, the Company had swaps in place to purchase 472 troy ounces of platinum bullion for use in the production of its impression material products. The average fixed rate of this agreement is $1,723 per troy ounce.

The following tables summarize the fair value of the Company's cash flow hedges at March 31, 2011:

Foreign Exchange Forward Contracts (in thousands)	Notional Amounts Maturing in the Year 2011	2012	Fair Value Net Asset (Liability) March 31, 2011
Forward sale, 10.7 million Australian dollars	$ 9,732	$ 1,319	$ (536)
Forward purchase, 6.0 million British pounds	(8,920)	(795)	(126)
Forward sale, 29.2 million Canadian dollars	26,640	3,514	(1,248)
Forward sale, 5.2 million Danish krone	990	-	9
Forward sale, 2.0 million euros	2,907	-	1,022
Forward sale, 1.1 billion Japanese yen	12,712	-	594
Forward sale, 125.8 million Mexican pesos	10,571	-	(109)
Forward purchase, 2.0 million Norwegian krone	(369)	-	(1)
Forward sale, 2.2 million Singapore dollars	1,785	-	10
Forward sale, 6.1 billion South Korean won	5,524	-	(29)
Forward purchase, 12.0 million Swiss francs	(13,105)	-	93
Forward purchase, 26.4 million Taiwanese dollars	(899)	-	(26)
Total foreign exchange forward contracts	$ 47,568	$ 4,038	$ (347)

Interest Rate Swaps (in thousands)	Notional Amounts Maturing in the Year 2011	2012	2013	2014	2015 and Beyond	Fair Value Net Asset (Liability) March 31, 2011
Euro	$1,005	$1,340	$1,340	$1,025	$3,331	$(686)
Japanese yen	-	151,554	-	-	-	(1,567)
Swiss francs	-	70,980	-	-	-	(2,452)
Total interest rate swaps	$1,005	$223,874	$1,340	$1,025	$3,331	$(4,705)

Commodity Contracts (in thousands)	Notional Amounts Maturing in the Year 2011	2012	Fair Value Net Asset (Liability) March 31, 2011
Platinum swap - U.S. dollar	$ (720)	$ (119)	$ 26
Total commodity contracts	$ (720)	$ (119)	$ 26

Hedges of Net Investments in Foreign Operations

The Company has numerous investments in foreign subsidiaries. The net assets of these subsidiaries are exposed to volatility in foreign currency exchange rates. Currently, the Company uses 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.

During 2010, the Company entered into new cross currency basis swaps of 100.0 million and 55.5 million Swiss francs (collectively the “Swiss Swaps”). The Swiss Swaps mature in February 2013, and the Company pays three month Swiss franc London Inter-Bank Offered Rate (“LIBOR”) and receives three month U.S. dollar LIBOR. The new contracts were entered into to replace maturing contracts. Also during 2010, the Company entered into new cross currency basis swaps of 108.0 million euro (“Euro Swaps”). The Euro Swaps mature in December 2013, and the Company pays three month Euro Inter-Bank Offered Rate (“EURIBOR”) and receives three month U.S. dollar LIBOR. The new contracts were entered into to replace maturing contracts. The Swiss franc and euro cross currency interest rate swaps are designated as net investment hedges of the Swiss franc and euro denominated net assets. The interest rate differential is recognized in income as interest income or interest expense as it is accrued, the foreign currency translation is recorded in AOCI, net of tax.

The fair value of these cross currency interest rate swap agreements is the estimated amount the Company would either pay or receive at the reporting date, taking into consideration the effective interest rates and foreign exchange rates. As of March 31, 2011 and December 31, 2010, the estimated net fair values of the swap agreements were negative $211.8 million and negative $169.1 million, respectively, which are recorded in AOCI, net of tax, and as “Other noncurrent liabilities” and “Other noncurrent assets, net” in the consolidated balance sheets.

The following tables summarize the fair value of the Company’s cross currency basis swaps that are designated as hedges of net investments in foreign operations at March 31, 2011:

Cross Currency Basis Swaps (in thousands)	Notional Amounts Maturing in the Year 2011	2012	2013	Fair Value Net Asset (Liability) March 31, 2011
Swiss franc 592.5 million @ 1.17 pay CHF 3 mth. LIBOR receive USD 3 mth. LIBOR	$87,797	$61,807	$497,406	$(139,987)
Euro 358.0 million @ $1.22 pay EUR 3 mth. EURIBOR receive USD 3 mth. LIBOR	-	-	508,092	(71,796)
Total cross currency basis swaps	$87,797	$61,807	$1,005,498	$(211,783)

At March 31, 2011, 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. At March 31, 2011 and December 31, 2010, the accumulated translation gains on investments in foreign subsidiaries, primarily denominated in euro, Swiss franc and Japanese yen, net of these net investment hedges, were $106.7 million and $45.4 million, respectively, which are included in AOCI, net of tax.

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 Note (“Note”) 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 Note come due. These interest rate swaps are designated as fair value hedges of the interest rate risk associated with the hedged portion of the fixed rate Note. Accordingly, the Company will carry the portion of the hedged debt at fair value, with the change in debt and swap offsetting each other in the income statement.

As of March 31, 2011, deferred net losses on derivative instruments of $2.3 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 previously hedged purchases and 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.

The following tables summarize the fair value and consolidated balance sheet location of the Company's derivatives at March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011			
Designated as Hedges	Prepaid Expenses and Other Current Assets	Other Noncurrent Assets, Net	Accrued Liabilities	Other Noncurrent Liabilities
Foreign exchange forward contracts	$1,175	$1		