DENTSPLY INTERNATIONAL INC /DE/
Form 10-Q
October 29, 2013

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 September 30, 2013
OR

o 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 o

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 o

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 o Non-accelerated filer o Smaller reporting company o

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

Yes o 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 October 22, 2013, DENTSPLY International Inc.had 142,652,236 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 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
Total Current Assets	1,153,145	1,111,096
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
Total Assets	$5,009,979	$4,972,297
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
Total Current Liabilities	777,561	927,780
Long-term debt	1,164,794	1,222,035
Deferred income taxes	226,668	232,641
Other noncurrent liabilities	361,938	340,398
Total Liabilities	2,530,961	2,722,854
Commitments and contingencies		
Equity:		
Preferred stock, $.01 par value; .25 million shares authorized; no shares issued	—	—
Common stock, $.01 par value; 200.0 million shares authorized; 162.8 million shares issued at 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)

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.

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)

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

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 continue to be required to measure the amount of the impairment loss, if any. This ASU is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this standard did not materially impact the Company’s financial position or results of operations. The Company adopted this accounting standard during the quarter ended March 31, 2013.

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

In March 2013, the FASB issued ASU No. 2013-05, “Foreign Currency Matters (Topic 830): Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.” This newly issued accounting standard requires a cumulative translation adjustment (“CTA”)attached to the parent’s investment in a foreign entity should be released in a manner consistent with the derecognition guidance on investment entities. Thus the entire amount of CTA associated with the foreign entity would be released when there has been a sale of a subsidiary or group of net assets within a foreign entity and the sale represents a complete liquidation of the investment in the foreign entity, a loss of a controlling financial interest in an investment in a foreign entity, or step acquisition for a foreign entity. The adoption of this standard is not expected to materially impact the Company’s financial position or results of operations. The Company expects to adopt this accounting standard for the quarter ending March 31, 2014.

In July 2013, the FASB issued ASU No. 2013-11, “Income Taxes (Topic 740): Presentation of a 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 adoption of this standard is not expected to materially impact the Company’s financial position or results of operations. The Company expects to adopt this accounting standard for the quarter ending March 31, 2014.

NOTE 2 – STOCK COMPENSATION

The following table represents total stock based compensation expense for non-qualified stock options, restricted stock units ("RSU") and the tax related benefit for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended		Nine Months Ended	
(in thousands)	2013	2012	2013	2012
Stock option expense	$2,565	$3,027	$7,570	$8,706
RSU expense	3,077	2,839	8,637	7,480
Total stock based compensation expense	$5,642	$5,866	$16,207	$16,186
Total related tax benefit	$1,590	$1,692	$4,250	$4,406

At September 30, 2013, the remaining unamortized compensation cost related to non-qualified stock options is $13.1 million, which will be expensed over the weighted average remaining vesting period of the options, or 1.5 years. At September 30, 2013, the unamortized compensation cost related to RSU is $20.8 million, which will be expensed over the weighted average remaining restricted period of the RSU, or 1.5 years.

The following table reflects the non-qualified stock option transactions from December 31, 2012 through September 30, 2013:

	Outstanding			Exercisable		
(in thousands, except per share data)	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance at December 31, 2012	9,906	$33.18	$69,079	7,599	$31.79	$64,819
Granted	922	40.93				
Exercised	(1,707)	28.32				
Cancelled	(34)	42.82				
Forfeited	(133)	38.88				
Balance at September 30, 2013	8,954	$34.79	$78,895	6,810	$33.41	$69,780

At September 30, 2013, the weighted average remaining contractual term of all outstanding options is 5.8 years and the weighted average remaining contractual term of exercisable options is 4.9 years.

The following table summarizes the unvested RSU transactions from December 31, 2012 through September 30, 2013:

(in thousands, except per share data)	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2012	1,034	$36.34
Granted	505	40.91
Vested	(243)	32.71
Forfeited	(128)	38.82
Balance at September 30, 2013	1,168	$38.80

NOTE 3 – COMPREHENSIVE INCOME

During the quarter ended September 30, 2013, foreign currency translation adjustments included currency translation gains of $141.4 million and losses on the Company’s loans designated as hedges of net investments of $2.7 million. During the quarter ended September 30, 2012, foreign currency translation adjustments included currency translation losses of $106.5 million and gains of $2.8 million on the Company’s loans designated as hedges of net investments. During the nine months ended September 30, 2013, foreign currency translation adjustments included currency gains of $40.8 million and gains on the Company’s loans designated as hedges of net investments of $9.8 million. During the nine months ended September 30, 2012, foreign currency translation adjustments included currency translation gains of $58.0 million and gains on the Company’s loans designated as hedges of net investments of $1.3 million. These foreign currency translation adjustments were offset by movements on derivative financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

The cumulative foreign currency translation adjustments included translation gains of $218.5 million and $177.7 million at September 30, 2013 and December 31, 2012, respectively, were offset by losses of $113.6 million and $123.4 million, respectively, on loans designated as hedges of net investments. These foreign currency translation adjustments were partially offset by movements on derivatives financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

Changes in AOCI, net of tax, by component for the nine months ended September 30, 2013 and 2012:

(in thousands)	Foreign Currency Translation Adjustments	Gains and (Loss) on Derivative Financial Instruments	Net Unrealized Holding Gain (Loss) on Available-for-Sale Securities	Pension Liability Adjustments	Total
Balance at December 31, 2012	$54,302	$(143,142)	$ 17,822	$(73,182)	$(144,200)
Other comprehensive income (loss) before reclassifications	50,618	(17,970)	(10,905)	(1,195)	20,548
Amounts reclassified from accumulated other comprehensive income (loss)	—	729	—	2,819	3,548
Net increase (decrease) in other comprehensive income	50,618	(17,241)	(10,905)	1,624	24,096
Balance at September 30, 2013	$104,920	$(160,383)	$ 6,917	$(71,558)	$(120,104)

(in thousands)	Foreign Currency Translation Adjustments	Gains and (Loss) on Derivative Financial Instruments	Net Unrealized Holding (Loss) Gain on Available-for-Sale Securities	Pension Liability Adjustments	Total
Balance at December 31, 2011	$(39,078)	$(117,390)	$ (516)	$(33,986)	$(190,970)
Other comprehensive income before reclassifications	59,319	6,702	30,419	610	97,050
Amounts reclassified from accumulated other comprehensive (loss) income	—	(2,959)	—	1,100	(1,859)
Net increase in other comprehensive income	59,319	3,743	30,419	1,710	95,191
Balance at September 30, 2012	$20,241	$(113,647)	$ 29,903	$(32,276)	$(95,779)

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Reclassification out of accumulated other comprehensive income (expense) for the three and nine months ended September 30, 2013 and 2012:
(in thousands)

Details about AOCI Components	Amounts Reclassified from AOCI Three Months Ended September 30, 2013		2012		Affected Line Item in the Statements of Operations
Gains and (loss) on derivative financial instruments:					
Interest rate swaps	$(924	)	$(899	)	Interest expense
Foreign exchange forward contracts	460		1,976		Cost of products sold
Foreign exchange forward contracts	(27	)	264		SG&A expenses
Commodity contracts	(190	)	40		Cost of products sold
	(681	)	1,381		Net (loss) gain before tax
	156		(137	)	Tax benefit (expense)
	$(525	)	$1,244		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	(1,380	)	(544	)	(a)
	(1,346	)	(510	)	Net loss before tax
	394		148		Tax benefit
	$(952	)	$(362	)	Net of tax
Total reclassifications for the period	$(1,477	)	$882		

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the three months ended September 30, 2013 and 2012 (see Note 8, Benefit Plans, for additional details)

(in thousands)

Details about AOCI Components	Amounts Reclassified from AOCI Nine Months Ended September 30, 2013	2012	Affected Line Item in the Statements of Operations
Gains and (loss) on derivative financial instruments:			
Interest rate swaps	$(2,755)	$(2,701)	Interest expense
Foreign exchange forward contracts	1,589	4,968	Cost of products sold
Foreign exchange forward contracts	(67)	721	SG&A expenses
Commodity contracts	12	90	Cost of products sold
	(1,221)	3,078	Net (loss) gain before tax
	492	(119)	Tax benefit (expense)
	$(729)	$2,959	Net of tax
Amortization of defined benefit pension and other postemployment benefit items:			
Amortization of prior service benefits	$101	$104	(b)
Amortization of net actuarial losses	(4,104)	(1,651)	(b)
	(4,003)	(1,547)	Net loss before tax
	1,184	447	Tax benefit
	$(2,819)	$(1,100)	Net of tax
Total reclassifications for the period	$(3,548)	$1,859	

(b) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the nine months ended September 30, 2013 and 2012 (see Note 8, Benefit Plans, for additional details)

NOTE 4 – EARNINGS PER COMMON SHARE

The dilutive effect of outstanding non-qualified stock options and RSU is reflected in diluted earnings per share by application of the treasury stock method. The following table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2013 and 2012:

Basic Earnings Per Common Share Computation (in thousands, except per share amounts)	Three Months Ended 2013	2012	Nine Months Ended 2013	2012
Net income attributable to DENTSPLY International	$79,851	$53,364	$238,763	$187,413
Weighted average common shares outstanding	142,421	141,843	142,705	141,767
Earnings per common share - basic	$0.56	$0.38	$1.67	$1.32
Diluted Earnings Per Common Share Computation (in thousands, except per share amounts)				
Net income attributable to DENTSPLY International	$79,851	$53,364	$238,763	$187,413
Weighted average common shares outstanding	142,421	141,843	142,705	141,767
Incremental weighted average shares from assumed exercise of dilutive options from stock-based compensation awards	2,277	2,041	2,247	2,118
Total weighted average diluted shares outstanding	144,698	143,884	144,952	143,885

Earnings per common share - diluted	$0.55	$0.37	$1.65	$1.30

Options to purchase 2.1 million and 2.7 million shares of common stock that were outstanding during the three and nine months ended September 30, 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. There were 3.8 million and 4.1 million antidilutive shares of common stock outstanding during the three and nine months ended September 30, 2012, respectively.

NOTE 5 – BUSINESS ACQUISITIONS

During the nine months ended September 30, 2013, the Company paid $9.0 million to purchase the remaining outstanding shares of a consolidated subsidiary. As a result of the transaction, the Company recorded a decrease in noncontrolling interest of $5.0 million and a reduction to additional paid in capital of $3.9 million for the excess of the purchase price above the carrying value of the noncontrolling interest.

NOTE 6 – SEGMENT INFORMATION

The Company has numerous operating businesses covering a wide range of dental and certain healthcare products and geographic regions, primarily serving the professional dental market. Professional dental products represented approximately 88% of sales for both the three months ended September 30, 2013 and 2012, and 88% and 89% of sales for the nine months ended September 30, 2013 and 2012, respectively.

The operating businesses are combined into operating groups, which have overlapping product offerings, geographical presence, customer bases, distribution channels, and regulatory oversight. These operating groups are considered the Company's reportable segments as the Company's chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company's operations. The accounting policies of the segments are consistent with those described in the Company's most recently filed Form 10-K in the summary of significant accounting policies. The Company measures segment income for reporting purposes as net operating income before restructuring and other costs, interest expense, interest income, other expense (income), net and provision for income taxes. Additionally, the operating segments are measured on net third party sales, excluding precious metal content. A description of the services provided within each of the Company's four reportable segments is provided below.

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

Dental Consumable and Laboratory Businesses

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

Orthodontics/Canada/Mexico/Japan

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

Select Distribution Businesses

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

Implants/Endodontics/Healthcare/Pacific Rim

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

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

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

The following tables set forth information about the Company's segments for the three and nine months ended September 30, 2013 and 2012:

Third Party Net Sales

	Three Months Ended		Nine Months Ended	
(in thousands)	2013	2012	2013	2012
Dental Consumable and Laboratory Businesses	$242,281	$244,215	$761,691	$765,186
Orthodontics/Canada/Mexico/Japan	71,298	78,761	224,712	232,310
Select Distribution Businesses	66,012	59,498	192,941	182,344
Implants/Endodontics/Healthcare/Pacific Rim	325,542	313,729	1,021,082	999,939
All Other (a)	(1,115)	(469)	(3,314)	(4,638)
Total	$704,018	$695,734	$2,197,112	$2,175,141

(a) Includes amounts recorded at Corporate headquarters.

Third Party Net Sales, Excluding Precious Metal Content

	Three Months Ended		Nine Months Ended	
(in thousands)	2013	2012	2013	2012
Dental Consumable and Laboratory Businesses	$214,634	$204,230	$645,015	$627,536
Orthodontics/Canada/Mexico/Japan	64,758	70,675	203,629	207,883
Select Distribution Businesses	65,914	59,387	192,612	181,911
Implants/Endodontics/Healthcare/Pacific Rim	325,233	313,295	1,020,086	998,532
All Other (b)	(1,115)	(467)	(3,313)	(4,637)
Total excluding precious metal content	669,424	647,120	2,058,029	2,011,225
Precious metal content	34,594	48,614	139,083	163,916
Total including precious metal content	$704,018	$695,734	$2,197,112	$2,175,141

(b) Includes amounts recorded at Corporate headquarters.

Inter-segment Net Sales

(in thousands)	Three Months Ended 2013	Three Months Ended 2012	Nine Months Ended 2013	Nine Months Ended 2012
Dental Consumable and Laboratory Businesses	$21,413	$23,049	$128,153	$132,370
Orthodontics/Canada/Mexico/Japan	1,022	989	2,788	3,221
Select Distribution Businesses	311	345	1,816	1,139
Implants/Endodontics/Healthcare/Pacific Rim	36,328	34,059	102,739	106,283
All Other (c)	121,453	109,138	178,880	163,118
Eliminations	(180,527)	(167,580)	(414,376)	(406,131)
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 2013	Three Months Ended 2012	Nine Months Ended 2013	Nine Months Ended 2012
Dental Consumable and Laboratory Businesses	$62,575	$58,975	$183,508	$181,261
Orthodontics/Canada/Mexico/Japan	1,901	4,678	8,792	7,639
Select Distribution Businesses	833	(790)	(1,463)	(3,250)
Implants/Endodontics/Healthcare/Pacific Rim	65,211	65,546	213,972	214,333
All Other (d)	(23,268)	(24,646)	(77,999)	(96,389)
Segment operating income	107,252	103,763	326,810	303,594
Reconciling Items:				
Restructuring and other costs	2,231	15,097	5,065	18,862
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

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

Assets

(in thousands)	September 30, 2013	December 31, 2012
Dental Consumable and Laboratory Businesses	$879,460	$1,007,307
Orthodontics/Canada/Mexico/Japan	306,699	294,348
Select Distribution Businesses	183,987	192,684
Implants/Endodontics/Healthcare/Pacific Rim	3,424,913	3,195,382
All Other (e)	214,920	282,576
Total	$5,009,979	$4,972,297

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

NOTE 7 – INVENTORIES

Inventories are stated at the lower of cost or market. At September 30, 2013 and December 31, 2012, the cost of $8.1 million and $6.3 million, respectively, was determined by the last-in, first-out (“LIFO”) method. The cost of other inventories was determined by the first-in, first-out (“FIFO”) or average cost methods. If the FIFO method had been used to determine the cost of LIFO inventories, the amounts at which net inventories are stated would be higher than reported at September 30, 2013 and December 31, 2012 by $6.0 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 $35.3 million and $32.6 million at September 30, 2013 and December 31, 2012, respectively.

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

(in thousands)	September 30, 2013	December 31, 2012
Finished goods	$281,363	$248,870
Work-in-process	72,909	72,533
Raw materials and supplies	94,005	81,537
	$448,277	$402,940

NOTE 8 – BENEFIT PLANS

The following sets forth the components of net periodic benefit cost of the Company's defined benefit plans and for the Company's other postemployment benefit plans for the three and nine months ended September 30, 2013 and 2012:

Defined Benefit Plans	Three Months Ended		Nine Months Ended	
(in thousands)	2013	2012	2013	2012
Service cost	$3,728	$3,004	$11,113	$9,014
Interest cost	2,486	2,608	7,408	7,926
Expected return on plan assets	(1,252)	(1,180)	(3,729)	(3,594)
Amortization of prior service benefit	(34)	(34)	(101)	(104)
Amortization of net actuarial loss	1,292	486	3,840	1,478
Curtailments and settlement gains	(680)	—	(1,305)	—
Net periodic benefit cost	$5,540	$4,884	$17,226	$14,720

Other Postemployment Benefit Plans	Three Months Ended		Nine Months Ended	
(in thousands)	2013	2012	2013	2012
Service cost	$61	$18	$184	$55
Interest cost	122	117	364	352
Amortization of net actuarial loss	88	58	264	173
Net periodic benefit cost	$271	$193	$812	$580

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

(in thousands)	Pension Benefits	Other Postretirement Benefits
Actual contributions through September 30, 2013	$9,744	$203
Projected contributions for the remainder of the year	3,167	462
Total projected contributions	$12,911	$665

NOTE 9 – RESTRUCTURING AND OTHER COSTS

Restructuring Costs

During the three and nine months ended September 30, 2013, the Company recorded restructuring costs of $2.4 million and $5.2 million, respectively. These costs related primarily to closing locations as a result of integration activities. During the three and nine months ended September 30, 2012, the Company recorded restructuring costs of $10.0 million and $13.4 million, respectively. During 2012 , 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. These costs are recorded in "Restructuring and other costs" in the Consolidated Statements of Operations and the associated liabilities are recorded in "Accrued liabilities" in the Consolidated Balance Sheets.

At September 30, 2013, the Company's restructuring accruals were as follows:

(in thousands)	Severance 2011 and Prior Plans	2012 Plans	2013 Plans	Total
Balance at December 31, 2012	$1,495	$11,412	$—	$12,907
Provisions and adjustments	—	856	2,756	3,612
Amounts applied	(873)	(6,202)	(856)	(7,931)
Change in estimates	(24)	(1,959)	—	(1,983)
Balance at September 30, 2013	$598	$4,107	$1,900	$6,605

(in thousands)	Lease/Contract Terminations 2011 and Prior Plans	2012 Plans	2013 Plans	Total
Balance at December 31, 2012	$792	$682	$—	$1,474
Provisions and adjustments	—	23	2,003	2,026
Amounts applied	(102)	(657)	(1,745)	(2,504)
Change in estimate	—	(48)	—	(48)
Balance at September 30, 2013	$690	$—	$258	$948

(in thousands)	Other Restructuring Costs 2012 Plans	2013 Plans	Total
Balance at December 31, 2012	$94	$—	$94
Provisions and adjustments	570	990	1,560
Amounts applied	(664)	(271)	(935)
Balance at September 30, 2013	$—	$719	$719

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

(in thousands)	December 31, 2012	Provisions and Adjustments	Amounts Applied	Change in Estimate	September 30, 2013
Dental Consumable and Laboratory Businesses	$9,132	$1,140	$(3,780)	$(1,821)	$4,671
Orthodontics/Canada/Mexico/Japan	361	164	(415)	(4)	106
Select Distribution Businesses	222	331	(264)	—	289
Implants/Endodontics/Healthcare/Pacific Rim	4,760	5,563	(6,911)	(206)	3,206
	$14,475	$7,198	$(11,370)	$(2,031)	$8,272

NOTE 10 – FINANCIAL INSTRUMENTS AND DERIVATIVES

Derivative Instruments and Hedging Activities

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

Derivative Instruments Not Designated as Hedging

The Company enters into derivative financial instruments to hedge the foreign exchange revaluation risk associated with recorded assets and liabilities that are denominated in a non-functional currency. The gains and losses on these derivative transactions offset the gains and losses generated by the revaluation of the underlying non-functional currency balances and are recorded in "Other expense (income), net" on the Consolidated Statements of Operations. The Company primarily uses forward foreign exchange contracts and cross currency basis swaps to hedge these risks. The Company's significant contracts outstanding as of September 30, 2013 are summarized in the tables that follow.

On June 19, 2013, the Company terminated 347.8 million euros of cross currency basis swaps that had been used to offset the revaluation of a euro denominated intercompany note receivable at a U.S. dollar functional entity.

On June 27, 2013 and September 16, 2013, the Company dedesignated 36.0 million euros and 48.0 million euros, respectively, of its net investment hedges. The change in the value of the dedesignated hedges will be recorded in "Other expense (income), net" on the Consolidated Statement of Operations and going forward it will offset the change in the value of a euro denominated intercompany note receivable held at a U.S. dollar functional entity.

Cash Flow Hedges

Foreign Exchange Risk Management

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

These foreign exchange forward contracts generally have maturities up to eighteen months and the counterparties to the transactions are typically large international financial institutions. The Company's significant contracts outstanding as of September 30, 2013 are summarized in the tables that follow.

Interest Rate Risk Management

The Company uses interest rate swaps to convert a portion of its variable interest rate debt to fixed interest rate debt. As of September 30, 2013, the Company has two groups of significant interest rate swaps. One of the groups of swaps has notional amounts totaling 12.6 billion Japanese yen, and effectively converts the underlying variable interest rates to an average fixed interest rate of 0.2% for a term of three years, ending in September 2014. Another swap has a notional amount of 65.0 million Swiss francs, and effectively converts the underlying variable interest rates to a fixed interest rate of 0.7% for a term of five years, ending in September 2016.

The Company enters into interest rate swap contracts infrequently as they are only used to manage interest rate risk on long-term debt instruments and not for speculative purposes. Any cash flows associated with these instruments are included in cash from financing activities in the Consolidated Statements of Cash Flows 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 Company's significant contracts outstanding as of September 30, 2013 are summarized in the tables that follow.

Commodity Risk Management

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

The following tables summarize the notional amounts and fair value of the Company's cash flow hedges and non-designated derivatives at September 30, 2013:

Foreign Exchange Forward Contracts	Notional Amounts Maturing in the Year			Fair Value Net Asset (Liability)
(in thousands)	2013	2014	2015	September 30, 2013
Forward sale, 17.7 million Australian dollars	$10,854	$5,356	$778	$477
Forward purchase, 11.4 million British pounds	(18,485)	—	—	315
Forward sale, 46.3 million Canadian dollars	14,891	26,127	3,923	327
Forward purchase, 23.2 million Danish kroner	(4,204)	—	—	(4)
Forward sale, 159.2 million euros	40,879	149,922	23,137	(2,513)
Forward sale, 376.6 million Japanese yen	10,238	(6,417)	—	(1,070)
Forward sale, 177.5 million Mexican pesos	13,513	—	—	194
Forward purchase, 10.3 million Norwegian kroner	(1,718)	—	—	(55)
Forward sale, 17.6 million Polish zlotys	5,635	—	—	(39)
Forward sale, 3.0 million Singapore dollars	2,385	—	—	21
Forward sale, 7.7 billion South Korean won	7,144	—	—	66
Forward purchase, 1.4 billion Swedish kronor	(115,715)	(89,865)	(13,691)	(554)
Forward purchase, 57.3 million Swiss francs	(91,982)	24,108	3,444	(137)
Forward sale, 10.0 million Taiwanese dollars	337	—	—	5
Total foreign exchange forward contracts	$(126,228)	$109,231	$17,591	$(2,967)

Interest Rate Swaps	Notional Amounts Maturing in the Year					Fair Value Net Asset (Liability)
(in thousands)	2013	2014	2015	2016	2017 and Beyond	September 30, 2013
Euro	$319	$977	$977	$977	$1,221	$(373)
Japanese yen	—	127,793	—	—	—	217
Swiss francs	—	—	—	71,903	—	(865)
Total interest rate swaps	$319	$128,770	$977	$72,880	$1,221	$(1,021)

Commodity Swap Contracts	Notional Amounts Maturing in the Year		Fair Value Net Asset (Liability)
(in thousands)	2013	2014	September 30, 2013
Silver swap - U.S. dollar	$615	$1,279	$(396)
Platinum swap - U.S. dollar	514	1,074	(97)
Total commodity swap contracts	$1,129	$2,353	$(493)

Cross Currency Basis Swap	Notional Amounts Maturing in the Year			Fair Value Net Asset (Liability)
(in thousands)	2013	2014	2015 and Beyond	September 30, 2013
449.8 million euro at $1.45 pay U.S. dollar three-month LIBOR receive three-month EURIBOR	$—	$608,697	$—	$(43,752)
84.0 million euro at $1.34 pay three-month EURIBOR receive U.S. dollar three-month LIBOR	113,627	—	—	(1,129)
166.4 million Swiss franc at 0.93 pay Swiss franc three-month LIBOR receive U.S. dollar three-month LIBOR	27,655	110,619	45,780	(5,359)
Total cross currency basis swap	$141,282	$719,316	$45,780	$(50,240)

At September 30, 2013, deferred net losses on derivative instruments of $5.7 million, which were recorded in AOCI, are expected to be reclassified to current earnings during the next twelve months. This reclassification is primarily due to the sale of inventory that includes hedged purchases and recognized interest expense on interest rate swaps. The maximum term over which the Company is hedging exposures to variability of cash flows (for all forecasted transactions, excluding interest payments on variable interest rate debt) is eighteen months. Overall, the derivatives designated as cash flow hedges are highly effective. Any cash flows associated with these instruments are included in cash from operating activities in the Consolidated Statements of Cash Flows in accordance with the Company’s policy of classifying the cash flows from these instruments in the same category as the cash flows from the items being hedged.

Hedges of Net Investments in Foreign Operations

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

At September 30, 2013 and December 31, 2012, the Company had Swiss franc-denominated and Japanese yen-denominated debt and cross currency basis swaps denominated in euro and Swiss franc to hedge the currency exposure related to a designated portion of the net assets of its European, Swiss and Japanese subsidiaries. The fair value net asset (liability) of the cross currency interest rate swap agreements is the estimated amount the Company would receive (pay) at the reporting date, taking into account the effective interest rates, currency swap basis rates and foreign exchange rates. At September 30, 2013 and December 31, 2012, the estimated net fair values of the cross currency interest rate swap agreements was a liability of $60.5 million and a liability of $90.7 million, respectively, which are recorded in AOCI, net of tax effects. At September 30, 2013 and December 31, 2012, the accumulated translation gain (loss) on investments in foreign subsidiaries, primarily denominated in euros, Swiss francs, Japanese yen and Swedish kronor, net of these net investment hedges, were losses of $35.1 million and $71.4 million, respectively, which were included in AOCI, net of tax effects.

The following tables summarize the notional amounts and fair value of the Company's cross currency basis swaps that are designated as hedges of net investments in foreign operations at September 30, 2013:

Cross Currency Basis Swaps	Notional Amounts Maturing in the Year					Fair Value Net Asset (Liability)
(in thousands)	2013	2014	2015	2016	2017 and Beyond	September 30, 2013
432.5 million Swiss franc at 0.93 pay Swiss franc three-month LIBOR receive U.S. dollar three-month LIBOR	$—	$88,938	$62,611	$110,619	$216,261	$(12,891)
534.0 million euro at $1.26 pay three-month EURIBOR receive U.S. dollar three-month LIBOR	722,342	—	—	—	—	(47,597)
Total cross currency basis swaps	$722,342	$88,938	$62,611	$110,619	$216,261	$(60,488)

Fair Value Hedges

The Company uses interest rate swaps to convert a portion of its fixed interest rate debt to variable interest rate debt. The Company has a group of U.S. dollar denominated interest rate swaps with an initial total notional value of $150.0 million to effectively convert the underlying fixed interest rate of 4.1% on the Company's $250.0 million Private Placement Notes ("PPN") to variable rate for a term of five years, ending February 2016. The notional value of the swaps will decline proportionately as portions of the PPN mature. These interest rate swaps are designated as fair value hedges of the interest rate risk associated with the hedged portion of the fixed rate PPN. Accordingly, the Company will carry the portion of the hedged debt at fair value, with the change in debt and swaps offsetting each other in the Consolidated Statement of Operations. At September 30, 2013, the estimated net fair value of these interest rate swaps was an asset of $2.8 million.

The following tables summarize the notional amounts and fair value of the Company's fair value hedges at September 30, 2013:

Interest Rate Swap	Notional Amounts Maturing in the Year			Fair Value Net Asset (Liability)
(in thousands)	2014	2015	2016	September 30, 2013
U.S. dollar	$45,000	$60,000	$45,000	$2,825
Total interest rate swap	$45,000	$60,000	$45,000	$2,825

The following tables summarize the fair value and consolidated balance sheet location of the Company's derivatives at September 30, 2013 and December 31, 2012:

(in thousands)	September 30, 2013			
Designated as Hedges	Prepaid Expenses and Other Current Assets	Other Noncurrent Assets, Net	Accrued Liabilities	Other Noncurrent Liabilities
Foreign exchange forward contracts	$479	$132	$3,502	$803
Commodity contracts	—	—	472	21
Interest rate swaps	2,491	551	463	402
Cross currency basis swaps	489	—	47,604	13,373

Total	$3,459	$683	$52,041	$14,599
Not Designated as Hedges				
Foreign exchange forward contracts	$2,790	$—	$2,063	$—
DIO equity option contracts	—	—	—	137
Interest rate swaps	—	—	88	285
Cross currency basis swaps	1,797	—	4,743	47,294
Total	$4,587	$—	$6,894	$47,716

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(in thousands)	December 31, 2012			
Designated as Hedges	Prepaid Expenses and Other Current Assets	Other Noncurrent Assets, Net	Accrued Liabilities	Other Noncurrent Liabilities
Foreign exchange forward contracts	$2,353	$65	$2,243	$844
Commodity contracts	—	—	95	—
Interest rate swaps	2,192	2,535	525	948
Cross currency basis swaps	8,191	—	97,281	1,588
Total	$12,736	$2,600	$100,144	$3,380
Not Designated as Hedges				
Foreign exchange forward contracts	$6,652	$—	$1,353	$—
DIO equity option contracts	—	—	—	153
Interest rate swaps	—	—	114	416
Cross currency basis swaps	537	—	40,026	55,858
Total	$7,189	$—	$41,493	$56,427

Balance Sheet Offsetting

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

Offsetting of financial assets and liabilities under netting arrangements at September 30, 2013:

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
(in thousands)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received/Pledged	Net Amount
Assets						
Derivative contracts						
Counterparty A	$—	$—	$—	$—	$ —	$—
Counterparty B	1,073	—	1,073	(1,073)	—	—
Counterparty C	3,483	—	3,483	(3,483)	—	—
Counterparty D	1,083	—	1,083	(1,083)	—	—
Counterparty E	—	—	—	—	—	—
Counterparty F	155	—	155	(155)	—	—
Counterparty G	1,070	—	1,070	(1,070)	—	—
Counterparty H	—	—	—	—	—	—
All Other	1,865	—	1,865	(472)	—	1,393
Total Assets	$8,729	$—	$8,729	$(7,336)	$ —	$1,393

(in thousands)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received/Pledged	
Liabilities						
Derivative contracts						
Counterparty A	$18,119	$—	$18,119	$—	$ —	$18,119
Counterparty B	5,858	—	5,858	(1,073)	—	4,785
Counterparty C	15,077	—	15,077	(3,483)	—	11,594
Counterparty D	12,642	—	12,642	(1,083)	—	11,559
Counterparty E	14,052	—	14,052	—	—	14,052
Counterparty F	35,989	—	35,989	(155)	—	35,834
Counterparty G	2,792	—	2,792	(1,070)	—	1,722
Counterparty H	9,044	—	9,044	—	—	9,044
All Other	7,677	—	7,677	(472)	—	7,205
Total Liabilities	$121,250	$—	$121,250	$(7,336)	$ —	$113,914

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

(in thousands)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received/Pledged	
Assets						
Derivative contracts						
Counterparty A	$—	$—	$—	$—	$ —	$—
Counterparty B	2,110	—	2,110	(1,142)	—	968
Counterparty C	9,682	—	9,682	(9,682)	—	—
Counterparty D	1,618	—	1,618	(1,618)	—	—
Counterparty E	1,579	—	1,579	(1,579)	—	—
Counterparty F	183	—	183	(183)	—	—
Counterparty G	2,843	—	2,843	(1,057)	—	1,786
Counterparty H	—	—	—	—	—	—
All Other	4,510	—	4,510	(1,837)	—	2,673
Total Assets	$22,525	$—	$22,525	$(17,098)	$ —	$5,427

(in thousands)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments	Cash Collateral Received/Pledged	Net Amount
Liabilities						
Derivative contracts						
Counterparty A	$40,176	$—	$40,176	$—	$ —	$40,176
Counterparty B	1,142	—	1,142	(1,142)	—	—
Counterparty C	38,019	—	38,019	(9,682)	—	28,337
Counterparty D	10,432	—	10,432	(1,618)	—	8,814
Counterparty E	17,802	—	17,802	(1,579)	—	16,223
Counterparty F	84,260	—	84,260	(183)	—	84,077
Counterparty G	1,057	—	1,057	(1,057)	—	—
Counterparty H	7,378	—	7,378	—	—	7,378
All Other	1,178	—	1,178	(1,837)	—	(659)
Total Liabilities	$201,444	$—	$201,444	$(17,098)	$ —	$184,346

The following tables summarize the statements of operations impact of the Company's cash flow hedges for the three and nine months ended September 30, 2013 and 2012:
Three Months Ended September 30, 2013
Derivatives in Cash Flow Hedging

(in thousands)	Gain (Loss) in AOCI	Classification of Gains (Losses)	Effective Portion Reclassified from AOCI into Income
Interest rate swaps	$(414)	Interest expense	$(924)
Foreign exchange forward contracts	(2,488)	Cost of products sold	460
Foreign exchange forward contracts	(273)	SG&A expenses	(27)
Commodity contracts	457	Cost of products sold	(190)
Total	$(2,718)		$(681)

Derivatives in Cash Flow Hedging

(in thousands)	Classification of Gains (Losses)	Ineffective Portion Recognized in Income
Foreign exchange forward contracts	Other expense (income), net	$134
Commodity contracts	Interest expense	(13)
Total		$121

Three Months Ended September 30, 2012

Derivatives in Cash Flow Hedging (in thousands)	Gain (Loss) in AOCI	Classification of Gains (Losses)	Effective Portion Reclassified from AOCI into Income
Interest rate swaps	$(448)	Interest expense	$(899)
Foreign exchange forward contracts	1,603	Cost of products sold	1,976
Foreign exchange forward contracts	(47)	SG&A expenses	264
Commodity contracts	572	Cost of products sold	40
Total	$1,680		$1,381

Derivatives in Cash Flow Hedging (in thousands)	Classification of Gains (Losses)	Ineffective Portion Recognized in Income
Foreign exchange forward contracts	Other expense (income), net	$114
Commodity contracts	Interest expense	(14)
Total		$100

Nine Months Ended September 30, 2013

Derivatives in Cash Flow Hedging (in thousands)	Gain (Loss) in AOCI	Classification of Gains (Losses)	Effective Portion Reclassified from AOCI into Income
Interest rate swaps	$180	Interest expense	$(2,755)
Foreign exchange forward contracts	(3,790)	Cost of products sold	1,589
Foreign exchange forward contracts	(184)	SG&A expenses	(67)
Commodity contracts	(802)	Cost of products sold	12
Total	$(4,596)		$(1,221)

Derivatives in Cash Flow Hedging (in thousands)	Classification of Gains (Losses)	Ineffective Portion Recognized in Income
Foreign exchange forward contracts	Other expense (income), net	$323
Commodity contracts	Interest expense	(54)
Total		$269

Nine Months Ended September 30, 2012

Derivatives in Cash Flow Hedging (in thousands)	Gain (Loss) in AOCI	Classification of Gains (Losses)	Effective Portion Reclassified from AOCI into Income
Interest rate swaps	$(1,848)	Interest expense	$(2,701)
Foreign exchange forward contracts	4,955	Cost of products sold	4,968

Foreign exchange forward contracts	255	SG&A expenses	721
Commodity contracts	829	Cost of products sold	90
Total	$4,191		$3,078

Derivatives in Cash Flow Hedging

(in thousands)	Classification of Gains (Losses)	Ineffective Portion Recognized in Income
Foreign exchange forward contracts	Other expense (income), net	$592
Commodity contracts	Interest expense	(20)
Total		$572

The following tables summarize the statements of operations impact of the Company's hedges of net investments for the three and nine months ended September 30, 2013 and 2012:

Three Months Ended September 30, 2013
Derivatives in Net Investment Hedging

(in thousands)	Gain (Loss) in AOCI	Classification of Gains (Losses)	Gain (Loss) Recognized in Income
Cross currency basis swaps	$(49,614)	Interest income	$1,331
		Interest expense	755
Total	$(49,614)		$2,086

Three Months Ended September 30, 2012
Derivatives in Net Investment Hedging

(in thousands)	Gain (Loss) in AOCI	Classification of Gains (Losses)	Gain (Loss) Recognized in Income
Cross currency basis swaps	$(18,055)	Interest income	$1,167
		Interest expense	(182)
Total	$(18,055)		$985

Nine Months Ended September 30, 2013
Derivatives in Net Investment Hedging

(in thousands)	Gain (Loss) in AOCI	Classification of Gains (Losses)	Gain (Loss) Recognized in Income
Cross currency basis swaps	$(23,464)	Interest income	$3,988
		Interest expense	497
Total	$(23,464)		$4,485

Nine Months Ended September 30, 2012
Derivatives in Net Investment Hedging

(in thousands)	Gain (Loss) in AOCI	Classification of Gains (Losses)	Gain (Loss) Recognized in Income
Cross currency basis swaps	$5,360	Interest income	$2,800
		Interest expense	(1,800)

Total	$5,360	$1,000

The following tables summarize the statements of operations impact of the Company's hedges of fair value for the three and nine months ended September 30, 2013 and 2012:

Derivatives in Fair Value Hedging

(in thousands)	Classification of Gains (Losses)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Interest rate swaps	Interest expense	$251	$789	$163	$2,274
Total		$251	$789	$163	$2,274

The following table summarizes the statements of operations impact of the Company's hedges not designated as hedging for the three and nine months ended September 30, 2013 and 2012:

Derivatives Not Designated as Hedging

(in thousands)	Classification of Gains (Losses)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Foreign exchange forward contracts (a)	Other expense (income), net	$3,110	$(5,033)	$6,193	$(4,727)
DIO equity option contracts	Other expense (income), net	8	406	20	229
Interest rate swaps	Interest expense	(7)	(49)	14	(136)
Cross currency basis swaps (a)	Other expense (income), net	10,625	8,275	9,250	(3,841)
Total		$13,736	$3,599	$15,477	$(8,475)

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

Amounts recorded in AOCI related to cash flow hedging instruments for the three and nine months ended September 30, 2013 and 2012:

(in thousands, net of tax)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Beginning balance	$(18,781)	$(12,157)	$(17,481)	$(12,737)
Changes in fair value of derivatives	(2,059)	1,099	(3,562)	3,411
Reclassifications to earnings from equity	526	(1,228)	729	(2,960)
Total activity	(1,533)	(129)	(2,833)	451
Ending balance	$(20,314)	$(12,286)	$(20,314)	$(12,286)

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Amounts recorded in AOCI related to hedges of net investments in foreign operations for the three and nine months ended September 30, 2013 and 2012:

(in thousands, net of tax)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Beginning balance	$(143,407)	$(173,764)	$(71,358)	$(143,730)
Foreign currency translation adjustment	141,410	106,541	40,787	58,068
Changes in fair value of:				
Foreign currency debt	(2,687)	(2,811)	9,831	1,251
Derivative hedge instruments	(30,464)	(11,086)	(14,408)	3,291
Total activity	108,259	92,644	36,210	62,610
Ending balance	$(35,148)	$(81,120)	$(35,148)	$(81,120)

NOTE 11 – FAIR VALUE MEASUREMENT

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

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Company believes the carrying amounts of cash and cash equivalents, accounts receivable (net of allowance for doubtful accounts), prepaid expenses and other current assets, accounts payable, accrued liabilities, income taxes payable and notes payable approximate fair value due to the short-term nature of these instruments. The Company estimated the fair value and carrying value of total long-term debt, including the current portion, was $1,404.9 million and $1,379.0 million, respectively, at September 30, 2013. At December 31, 2012, the Company estimated the fair value and carrying value, including the current portion, was $1,515.2 million and $1,472.9 million respectively. The interest rate on the $450.0 million Senior Notes, the $300.0 million Senior Notes, and the $250.0 million PPN are fixed rates of 4.1%, 2.8% and 4.1%, respectively, and their fair value is based on the interest rates as of September 30, 2013. The interest rates on variable rate term loan debt and commercial paper are consistent with current market conditions, therefore the fair value of these instruments approximates their carrying values.

The following tables set forth by level within the fair value hierarchy the Company’s financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2013 and December 31, 2012, which are classified as “Cash and cash equivalents,” “Prepaid expenses and other current assets,” “Other noncurrent assets, net,” “Accrued liabilities,” and “Other noncurrent liabilities” in the Consolidated Balance Sheets. Financial assets and liabilities that are recorded at fair value as of the balance sheet date are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	September 30, 2013			
(in thousands)	Total	Level 1	Level 2	Level 3
Assets				
Interest rate swaps	$3,042	$—	$3,042	$—
Cross currency basis swaps	2,286	—	2,286	—
Foreign exchange forward contracts	3,401	—	3,401	—
DIO Corporate convertible bonds	60,749	—	—	60,749
Total assets	$69,478	$—	$8,729	$60,749
Liabilities				
Interest rate swaps	$1,238	$—	$1,238	$—
Commodity contracts	493	—	493	—
Cross currency basis swaps	113,014	—	113,014	—
Foreign exchange forward contracts	6,368	—	6,368	—
Long term debt	152,843	—	152,843	—
DIO equity option contracts	137	—	—	137
Total liabilities	$274,093	$—	$273,956	$137

	December 31, 2012			
(in thousands)	Total	Level 1	Level 2	Level 3
Assets				
Interest rate swaps	$4,727	$—	$4,727	$—
Cross currency basis swaps	8,728	—	8,728	—
Foreign exchange forward contracts	9,070	—	9,070	—
DIO Corporate convertible bonds	75,143	—	—	75,143
Total assets	$97,668	$—	$22,525	$75,143
Liabilities				
Interest rate swaps	$2,003	$—	$2,003	$—
Commodity contracts	95	—	95	—
Cross currency basis swaps	194,753	—	194,753	—
Foreign exchange forward contracts	4,440	—	4,440	—
Long term debt	154,560	—	154,560	—
DIO equity option contracts	153	—	—	153
Total liabilities	$356,004	$—	$355,851	$153

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

The Company uses the income method valuation technique to estimate the fair value of the DIO corporate bonds. The significant unobservable inputs for valuing the corporate bonds are DIO Corporation's stock volatility factor of approximately 40% and corporate bond rating which implies approximately a 15% discount rate on the valuation model. Significant observable inputs used to value the corporate bonds include foreign exchange rates and DIO Corporation's period-ending market stock price.

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

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

(in thousands)	DIO Corporate Convertible Bonds	DIO Equity Options Contracts
Balance at December 31, 2012	$75,143	$(153)
Unrealized loss:		
Reported in AOCI, pretax	(15,876)	—
Unrealized gain:		
Reported in other expense (income), net	—	20
Effects of exchange rate changes	1,482	(4)
Balance at September 30, 2013	$60,749	$(137)

For the nine months ended September 30, 2013, there were no purchases, issuances or transfers of Level 3 financial instruments.

NOTE 12 – INCOME TAXES

Uncertainties in Income Taxes

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

It is reasonably possible that certain amounts of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date of the Company's consolidated financial statements. Expiration of statutes of limitation in various jurisdictions during the next twelve months could include unrecognized tax benefits of approximately $1.6 million.

Other Tax Matters

The Company's effective tax rate for the nine months of 2013 was favorably impacted by the Company's recording of tax benefits of $9.4 million related to U.S. federal legislative changes enacted in January 2013, relating to 2012, and $9.3 million of benefits related to prior year tax matters.

NOTE 13 – FINANCING ARRANGEMENTS

On August 15, 2013, the Company's $250.0 million two-year floating rate note matured. The note repayment was financed with available commercial paper. On August 26, 2013, the Company entered into a $175.0 million seven-year variable rate term loan maturing in August 2020. The variable interest rate is reset quarterly at three-month U.S. dollar LIBOR plus 1.125%. The term loan requires annual principle repayments of $8.8 million with the balance due at maturity. The proceeds were used to repay outstanding commercial paper. The debt agreement includes covenants that are similar to the covenants include in the Company's five-year multi-currency revolving credit agreement.

NOTE 14 – GOODWILL AND INTANGIBLE ASSETS

The Company performed the required annual impairment tests of goodwill as of April 30, 2013 on thirteen reporting units. To determine the fair value of the Company's reporting units, the Company uses a discounted cash flow model with market-based support as its valuation technique to measure the fair value for its reporting units. The discounted cash flow model uses five-year forecasted cash flows plus a terminal value based on a multiple of earnings. In addition, the Company applies gross margin and operating expense assumptions consistent with historical trends. The total cash flows were discounted based on a range between 8.4% to 11.5%, which included assumptions regarding the Company's weighted-average cost of capital. The Company considered the current market conditions both in the U.S. and globally, when determining its assumptions. Lastly, the Company reconciled the aggregated fair values of its reporting units to its market capitalization, which included a reasonable control premium based on market conditions. As a result of the annual impairment tests of goodwill, no impairment was identified.

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

(in thousands)	Dental Consumable and Laboratory Businesses	Orthodontics/Canada/Mexico/Japan	Select Distribution Businesses	Implants/Endodontics/Healthcare/Pacific Rim	Total
Balance at December 31, 2012	$488,206	$ 102,065	$92,473	$ 1,528,209	$2,210,953
Business unit transfer (a)	(118,874)	(4,365)	(12,192)	135,431	—
Effects of exchange rate changes	913	(1,725)	1,604	6,391	7,183
Balance at September 30, 2013	$370,245	$ 95,975	$81,885	$ 1,670,031	$2,218,136

(a) Goodwill moved represents the business unit's relative fair value within the segment from which it was moved from as required by US GAAP.

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

	September 30, 2013			December 31, 2012		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	$180,288	$(89,182)	$91,106	$179,512	$(81,390)	$98,122
Trademarks	83,082	(35,445)	47,637	83,073	(33,129)	49,944
Licensing agreements	31,740	(20,397)	11,343	30,695	(18,966)	11,729
Customer relationships	492,621	(74,072)	418,549	491,859	(50,632)	441,227
Total definite-lived	$787,731	$(219,096)	$568,635	$785,139	$(184,117)	$601,022
Trademarks and In-process R&D	$231,835	$—	$231,835	$229,620	$—	$229,620
Total identifiable intangible assets	$1,019,566	$(219,096)	$800,470	$1,014,759	$(184,117)	$830,642

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Litigation

On June 18, 2004, Marvin Weinstat, DDS and Richard Nathan, DDS filed a class action suit in San Francisco County, California alleging that the Company misrepresented that its Cavitron® ultrasonic scalers are suitable for use in oral surgical procedures. The Complaint seeks a recall of the product and refund of its purchase price to dentists who have purchased it for use in oral surgery. The Court certified the case as a class action in June 2006 with respect to the breach of warranty and unfair business practices claims. The class that was certified is defined as California dental professionals who, at any time during the period beginning June 18, 2000 through September 14, 2012, purchased and used one or more Cavitron® ultrasonic scalers for the performance of oral surgical procedures on their patients, which Cavitrons® were accompanied by Directions for Use that "Indicated" Cavitron® use for "periodontal debridement for all types of periodontal disease." A Class Notice was mailed on September 14, 2012. The case went to trial in September 2013 and a decision has not yet been issued by the Court.

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

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

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

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

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

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

Purchase Commitments

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

DENTSPLY International Inc. and Subsidiaries

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

This report contains information that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, the use of terms such as “may,” “could,” “expect,” “intend,” “believe,” “plan,” “estimate,” “forecast,” “project,” “anticipate,” and similar expressions identify forward-looking statements. All statements that address operating performance, events or developments that DENTSPLY International Inc. (“DENTSPLY” or the “Company”) expects or anticipates will occur in the future are forward-looking statements. Forward-looking statements are based on management's current expectations and beliefs, and are inherently susceptible to uncertainty, risks, and changes in circumstances that could cause actual results to differ materially from the Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part I, Item 1A (“Risk Factors”) of the Company's Form 10-K for the year ended December 31, 2012 and those described from time to time in our future reports filed with the Securities and Exchange Commission. The Company undertakes no duty and has no obligation to update forward-looking statements as a result of future events or developments.

OVERVIEW

Highlights

- For the quarter ended September 30, 2013, worldwide internal sales growth, excluding precious metal content, was 2.7%, led by the rest of world category with internal sales growth of 4.6% for the quarter, followed by the United States with 4.3%, and Europe with 0.3%. For the first nine months of 2013, internal growth was 2.3%, with the United States growing at 4.1%, the rest of world regions up 2.7%, and Europe up 0.7%.

- Operating margins for the three month period ended September 30, 2013 increased 200 basis points to 15.7% from 13.7% in the same period in the prior year. On a non-GAAP basis operating margins increased 60 basis points to 17.9% from 17.3% during the same period.

- Net income attributable to DENTSPLY International for the third quarter of 2013 was $80 million, or $0.55 per diluted share, reflecting growth of 50% compared to $53 million, or $0.37 per diluted share in the third quarter of 2012. On a non-GAAP basis, excluding certain items, earnings grew 10% to $82 million or $0.57 per diluted share for the third quarter of 2013 from $74 million or $0.51 in the same period in 2012.

- Operating cash flow in the first nine months of 2013 was $258 million, a 28% increase versus $202 million for the first nine months 2012.

Company Profile

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

Principal Products

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

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

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

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

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

Principal Measurements

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

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

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

Price changes, other marketing and promotional programs offered to customers from time to time, the management of inventory levels by distributors and the implementation of strategic initiatives may impact sales and inventory levels in a given period. Distributor inventory levels tend to increase in the period leading up to a price increase and decline in the period following the implementation of a price increase. The Company traditionally takes price increases in either October or January of a given year across most of its businesses. In the United States, the Company implemented an additional price increase on January 1, 2013 and believes that customers maintained high inventories or even increased inventories in advance of that price increase in the fourth quarter of 2012. The Company believes that certain customers may reduce inventory during the fourth quarter of 2013 following the October 1, 2013 price increase. Although difficult to measure, the Company expects it will have an impact to its internal growth in the fourth quarter of 2013.

The Company has a focus on minimizing costs and achieving operational efficiencies. Management continues to evaluate the consolidation of operations or functions to reduce costs. In addition, the Company remains focused on enhancing efficiency through expanded use of technology and process improvement initiatives. The Company believes that the benefits from these initiatives will improve the cost structure and help offset areas of rising costs such as energy, employee benefits and regulatory oversight and compliance. In connection with these efforts, the Company expects that it will record restructuring charges, from time to time as it commits to initiatives.

Product innovation is a key component of the Company’s overall growth strategy. New advances in technology are anticipated to have a significant influence on future products in the professional dental and consumable medical device markets in which the Company operates. As a result, the Company continues to pursue research and development initiatives to support technological development, including collaborations with various research institutions and dental schools. In addition, the Company licenses and purchases technologies developed by third parties. Although the Company believes these activities will lead to new innovative dental and consumable medical device products, they involve new technologies and there can be no assurance that commercialized products will be developed.

The Company intends to continue to pursue opportunities to expand the Company's product offerings through acquisitions. Although the professional dental and the consumable medical device markets in which the Company operates have experienced consolidation, they are still fragmented industries. Management believes that there will continue to be adequate opportunities to participate as a consolidator in the industries for the foreseeable future, however it plans to be very focused in the near-term on the integration of its recent acquisitions and associated debt reduction.

Impact of Foreign Currencies

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

Reclassification of Prior Year Amounts

In the first nine months of 2013, the Company realigned certain implant and implant related businesses as a result of changes to the business structure. The segment information below reflects the revised structure for all periods shown. In addition, certain reclassifications have been made to prior year's data in order to conform to current year presentation.

RESULTS OF OPERATIONS, QUARTER ENDED SEPTEMBER 30, 2013 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2012

Net Sales

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

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

	Three Months Ended September 30,

(in millions)	2013	2012	$ Change	% Change
Net sales	$704.0	$695.7	$8.3	1.2 %
Less: precious metal content of sales	34.6	48.6	(14.0)	(28.8 %)
Net sales, excluding precious metal content	$669.4	$647.1	$22.3	3.4 %

Net sales, excluding precious metal content, for the three months ended September 30, 2013 was $669.4 million, an increase of $22.3 million or 3.4% over the third quarter of 2012. The change in net sales, excluding precious metal content, was primarily a result of internal growth. Precious metal content of sales declined mostly as a result of lower volume of precious metal alloys compared to the same year ago period.

Constant Currency and Internal Sales Growth

The following table includes growth rates for net sales, excluding precious metal content, for the three months ended September 30, 2013 compared with the three months ended September 30, 2012.

	Three Months Ended September 30, 2013			
	United States	Europe	All Other Regions	Worldwide
Internal sales growth	4.3 %	0.3 %	4.6 %	2.7 %
Acquisition sales growth	— %	— %	— %	— %
Constant currency sales growth	4.3 %	0.3 %	4.6 %	2.7 %

United States

Net sales, excluding precious metal content, increased by 4.3% on an internal growth basis in the third quarter of 2013 as compared to the third quarter of 2012, driven by sales growth in dental specialty, dental consumable and non-dental products.

Europe

Net sales, excluding precious metal content, increased by 0.3% on an internal growth basis in the third quarter of 2013 as compared to the third quarter of 2012. The growth reflects increased demand for consumable medical device products offset by lower demand in dental specialty products.

All Other Regions

Net sales, excluding precious metal content, increased by 4.6% on an internal growth basis in the third quarter of 2013 as compared to the third quarter of 2012. The internal growth increase was primarily due to the increased demand for dental specialty products.

Gross Profit

	Three Months Ended September 30,			
(in millions)	2013	2012	$ Change	% Change
Gross profit	$376.4	$364.1	$12.3	3.4 %
Gross profit as a percentage of net sales, including precious metal content	53.5 %	52.3 %		
Gross profit as a percentage of net sales, excluding precious metal content	56.2 %	56.3 %		

Gross profit as a percentage of net sales, excluding precious metal content, decreased by 10 basis points for the quarter ended September 30, 2013 compared to the same quarter of 2012. The margin rate was negatively influenced by the medical device federal excise tax under the Affordable Care Act that became effective January 1, 2013 and positively impacted by price increases and operational initiatives.

Operating Expenses

(in millions)	Three Months Ended September 30, 2013	2012	$ Change	% Change
Selling, general and administrative expenses (“SG&A”)	$269.2	$260.4	$8.8	3.4 %
Restructuring and other costs	$2.2	$15.1	$(12.9)	NM
SG&A as a percentage of net sales, including precious metal content	38.2 %	37.4 %		
SG&A as a percentage of net sales, excluding precious metal content	40.2 %	40.2 %		

NM – Not meaningful

SG&A Expenses

SG&A expenses as a percentage of net sales, excluding precious metal content, was flat in the quarter ended September 30, 2013 when compared to the same quarter of 2012.

Restructuring and Other Costs

During the quarter ended September 30, 2013, the Company recorded net restructuring and other costs of $2.2 million. In the same quarter of 2012, the Company incurred costs of $15.1 million (See also Note 9, Restructuring and Other Costs, of the Notes to Unaudited Interim Consolidated Financial Statements).

Other Income and Expense

(in millions)	Three Months Ended September 30, 2013	2012	Change
Net interest expense	$9.3	$11.6	$(2.3)
Other expense (income), net	1.6	1.3	0.3
Net interest and other expense	$10.9	$12.9	$(2.0)

Net Interest Expense

Net interest expense for the third quarter of 2013 was $2.3 million lower compared to the three months ended September 30, 2012. The net decrease is a result of lower average debt levels in 2013 compared to the same period of 2012 and non-cash fair value adjustments of $1.0 million related to cross currency basis swaps designated as net investment hedges and credit risk adjustment on the fair value of the Company’s total hedge portfolio.

Other Expense (Income), Net

Other expense (income), net for the three months ended September 30, 2013 and 2012 was $1.6 million and $1.3 million, respectively.

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Income Taxes and Net Income

(in millions, except per share data)	Three Months Ended September 30, 2013	2012	$ Change
Effective income tax rate	14.0 %	25.0 %	
Equity in net loss of unconsolidated affiliated company	$(0.1)	$(2.5)	$2.4
Net income attributable to noncontrolling interests	$1.0	$0.9	$0.1
Net income attributable to DENTSPLY International	$79.9	$53.4	$26.5
Earnings per common share - diluted	$0.55	$0.37	

Provision for Income Taxes

The Company’s effective tax rate for the third quarter of 2013 and 2012 was 14.0% and 25.0%, respectively. The Company’s effective tax rate for the three months of 2013 was favorably impacted by the Company’s post-acquisition restructuring activities. During the third quarter of 2013 the Company recorded a favorable impact to the tax rate of $6.2 million related to prior year tax matters. The third quarter of 2012 included an unfavorable impact to the tax rate of $3.0 million for prior year tax matters.

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

In 2012, the Company’s effective income tax rate included the net unfavorable impact of amortization on purchased intangibles assets, integration and restructuring and other costs and various income tax adjustments which impacted income before income taxes and the provision for income taxes by $22.6 million and $3.8 million, respectively.

Equity in net loss of unconsolidated affiliated company

The Company’s 17% ownership investment of DIO Corporation (“DIO”) resulted in a net loss of $0.1 million and $2.5 million on an after-tax basis for the third quarter of 2013 and 2012, respectively. The equity earnings of DIO includes the result of mark-to-market changes related to the derivative accounting for the convertible bonds issued by DIO to DENTSPLY. The Company’s portion of the mark-to-market net income recorded by DIO for the third quarter of 2013 was approximately $0.8 million and a mark-to-market loss recorded by DIO of approximately $2.0 million for the same period in 2012.

Net Income attributable to DENTSPLY International

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

(1) Acquisition related costs. These adjustments include costs related to integrating recently acquired businesses and specific costs related to the consummation of the acquisition process. These costs are irregular in timing and as such may not be indicative of past and future performance of the Company and are therefore excluded to allow investors to better understand underlying operating trends.
(2) Restructuring and other costs, including legal settlements. These adjustments include both costs and income that are irregular in timing, amount and impact to the Company’s financial performance. As such, these items may not be indicative of past and future performance of the Company and are therefore excluded for the purpose of understanding underlying operating trends.

(3) Amortization of purchased intangible assets. This adjustment excludes the periodic amortization expense related to purchased intangible assets. Following a significant acquisition in 2011, the Company began recording large non-cash charges related to the values attributed to purchased intangible assets. These charges have been excluded from adjusted net income attributed to DENTSPLY International to allow investors to evaluate and understand operating trends excluding these large non-cash charges.
(4) Income related to credit risk and fair value adjustments. These adjustments include both the cost and income impacts of adjustments in certain assets and liabilities that are recorded through net income which are due solely to the changes in fair value and credit risk. These items can be variable and driven more by market conditions than the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.
(5) Certain fair value adjustments related to an unconsolidated affiliated company. This adjustment represents the fair value adjustment of the unconsolidated affiliated company's convertible debt instrument held by the Company. The affiliate is accounted for under the equity method of accounting. The fair value adjustment is driven by open market pricing of the affiliate's equity instruments, which has a high degree of variability and may not be indicative of the operating performance of the affiliate or the Company.
(6) Income tax related adjustments. These adjustments include both income tax expenses and income tax benefits that are representative of income tax adjustments mostly related to prior periods, as well as the final settlement of income tax audits. These adjustments are irregular in timing and amount and may significantly impact the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.
Adjusted earnings per diluted common share is calculated by dividing adjusted net income attributable to DENTSPLY International by diluted weighted-average common shares outstanding. Adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share are considered measures not calculated in accordance with US GAAP, and therefore are non-US GAAP measures. These non-US GAAP measures may differ from other companies. Income tax related adjustments may include the impact to adjust the interim effective income tax rate to the expected annual effective tax rate. The non-US GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with US GAAP.

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

(in thousands, except per share amounts)	Three Months Ended September 30, 2012 Net Income	Per Diluted Common Share
Net income attributable to DENTSPLY International	$53,364	$0.37
Restructuring and other costs, net of tax	10,909	0.08
Amortization of purchased intangible assets, net of tax	5,159	0.04
Income tax related adjustments	4,039	0.03
Loss on fair value adjustments related to an unconsolidated affiliated company, net of tax	1,687	0.01
Orthodontics business continuity costs, net of tax	70	—
Acquisition related activities, net of tax	(1,161)	(0.01)
Rounding	—	(0.01)
Adjusted non-US GAAP earnings	$74,067	$0.51

Operating Segment Results

Third Party Net Sales, Excluding Precious Metal Content

(in millions)	Three Months Ended September 30, 2013	2012	$ Change	% Change
Dental Consumable and Laboratory Businesses	$214.6	$204.2	$10.4	5.1 %
Orthodontics/Canada/Mexico/Japan	$64.8	$70.7	$(5.9)	(8.3%)
Select Distribution Businesses	$65.9	$59.4	$6.5	10.9 %
Implants/Endodontics/Healthcare/Pacific Rim	$325.2	$313.3	$11.9	3.8 %

Segment Operating Income

(in millions)	Three Months Ended September 30, 2013	2012	$ Change	% Change
Dental Consumable and Laboratory Businesses	$62.6	$59.0	$3.6	6.1 %
Orthodontics/Canada/Mexico/Japan	$1.9	$4.7	$(2.8)	NM
Select Distribution Businesses	$0.8	$(0.8)	$1.6	NM
Implants/Endodontics/Healthcare/Pacific Rim	$65.2	$65.5	$(0.3)	(0.5%)

NM – Not meaningful

Dental Consumable and Laboratory Businesses

Net sales, excluding precious metal content, increased $10.4 million, or 5.1% during the three months ended September 30, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 3.0% as compared to the same period in 2012 as a result of increased sales of dental consumables products.

Operating income increased $3.6 million for the three months ended September 30, 2013 compared to 2012. Gross margins increased $5.8 million due to favorable sales mix from dental consumable businesses and foreign currency translation partially offset by higher SG&A expenses primarily reflecting the impact of foreign currency translation.

Orthodontics/Canada/Mexico/Japan

Net sales, excluding precious metal content, decreased $5.9 million or 8.3% for the three months ended September 30, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, decreased 3.9% reflecting the a high level of Orthodontic business sales in the 2012 period resulting from customer restocking product as a result of availability following an extended supply outage. Currency translation had a negative 4.4% impact on net sales, excluding precious metal content, primarily due the weakening of the Japanese yen.

Operating income decreased $2.8 million compared to the same year ago period primarily due to lower sales and the impact of foreign currency transactions on gross profit.

Select Distribution Businesses

Net sales, excluding precious metal content, increased $6.5 million, or 10.9% during the three months ended September 30, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 6.7% when compared to the same period of 2012. The growth was primarily related to increased sales of certain dental specialty products.

Operating income improved $1.6 million during the three months ended September 30, 2013 compared to 2012 driven by the higher sales volume during the three months ended September 30, 2013 compared to 2012.

Implants/Endodontics/Healthcare/Pacific Rim

Net sales, excluding precious metal content, increased $11.9 million, or 3.8%, during the three months ended September 30, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 3.3% primarily driven by sales growth in endodontic and consumable medical device products.

Operating income for the three months ended September 30, 2013 decreased by $0.3 million or 0.5%, compared to 2012. SG&A increased primarily due to $2.0 million of lower amortization expense in the 2012 period reflecting adjustments the Company completed related to purchase price accounting for the Astra Tech acquisition, offset by an increase in gross profit due to higher sales volume.

RESULTS OF OPERATIONS, NINE MONTHS ENDED SEPTEMBER 30, 2013 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2012

Net Sales

(in millions)	Nine Months Ended September 30, 2013	2012	$ Change		% Change	
Net sales	$2,197.1	$2,175.1	$22.0		1.0	%
Less: precious metal content of sales	139.1	163.9	(24.8	)	(15.1	%)
Net sales, excluding precious metal content	$2,058.0	$2,011.2	$46.8		2.3	%

Net sales, excluding precious metal content, for the nine months ended September 30, 2013 was $2,058.0 million, an increase of $46.8 million or 2.3% over the same period of 2012. The change in net sales, excluding precious metal content, was primarily a result of the 2.3% of internal growth. Precious metal content of sales declined primarily as a result of lower volume of precious metal alloys compared to the same year ago period.

Constant Currency and Internal Sales Growth

The following table includes growth rates for net sales, excluding precious metal content, for the nine months ended September 30, 2013 compared with the nine months ended September 30, 2012.

	Nine Months Ended September 30, 2013							
	United States		Europe		All Other Regions		Worldwide	
Internal sales growth	4.1	%	0.7	%	2.7	%	2.3	%
Acquisition sales growth	—	%	0.1	%	—	%	0.1	%
Constant currency sales growth	4.1	%	0.8	%	2.7	%	2.4	%

United States

Net sales, excluding precious metal content, increased by 4.1% in the nine months ended September 30, 2013 as compared to September 30, 2012, driven by internal sales growth in dental specialty and dental consumable products.

Europe

Net sales, excluding precious metal content, increased by 0.8% in the nine months ended September 30, 2013 on a constant currency basis, including 0.7% of internal sales growth. The internal growth was primarily driven by increased sales of consumable medical devices and dental consumable products.

All Other Regions

Net sales, excluding precious metal content, in the other regions of the world increased by 2.7% in the nine months ended September 30, 2013 on a constant currency and internal sales growth basis, driven by increased sales across all product categories.

Gross Profit

	Nine Months Ended September 30,						
(in millions)	2013		2012		$ Change	% Change	
Gross profit	$1,179.6		$1,164.3		$15.3	1.3	%
Gross profit as a percentage of net sales, including precious metal content	53.7	%	53.5	%			
Gross profit as a percentage of net sales, excluding precious metal content	57.3	%	57.9	%			

Gross profit as a percentage of net sales, excluding precious metal content, decreased by 60 basis points for the nine months ended September 30, 2013 compared to the same nine month period of 2012. The margin rate was negatively impacted by the medical device federal excise tax under the Affordable Care Act that became effective January 1, 2013 and unfavorable sales mix.

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Operating Expenses

(in millions)	Nine Months Ended September 30, 2013	2012	$ Change	% Change
Selling, general and administrative expenses (“SG&A”)	$852.8	$860.7	$(7.9)	(0.9%)
Restructuring and other costs	$5.1	$18.9	$(13.8)	NM
SG&A as a percentage of net sales, including precious metal content	38.8%	39.6%		
SG&A as a percentage of net sales, excluding precious metal content	41.4%	42.8%		

NM – Not meaningful

SG&A Expenses

SG&A expenses as a percentage of net sales, excluding precious metal content, decreased 1.4 percentage points for the nine months ended September 30, 2013 when compared to the same period of 2012. This improvement was primarily due to cost savings across a number of businesses and synergies from the integration of recent acquisitions.

Restructuring and Other Costs

During the nine months ended September 30, 2013, the Company recorded net restructuring and other costs of $5.1 million. In the same period of 2012, the Company incurred costs of $18.9 million (See also Note 9, Restructuring and Other Costs, of the Notes to Unaudited Interim Consolidated Financial Statements).

Other Income and Expense

(in millions)	Nine Months Ended September 30, 2013	2012	Change
Net interest expense	$31.6	$37.8	$(6.2)
Other expense (income), net	8.7	2.3	6.4
Net interest and other expense	$40.3	$40.1	$0.2

Net Interest Expense

Net interest expense for the nine months ended September 30, 2013 was $6.2 million lower compared to the nine months ended September 30, 2012. The net decrease is a result of lower average debt levels in 2013 compared to the same period in 2012, partially offset by non-cash fair value adjustments of $0.5 million related to cross currency basis swaps designated as net investment hedges and a credit risk adjustment on the fair value of the Company’s total hedge portfolio.

Other Expense (Income), Net

Other expense (income), net for the nine months ended September 30, 2013 was $6.4 million higher compared to the nine months ended September 30, 2012. Other expense (income), net in the nine months ended September 30, 2013 was $8.7 million, comprised primarily of $6.4 million of interest and non-cash fair value adjustments on cross currency basis swaps not designated as hedges that offset currency risk on intercompany loans, $1.5 million of currency transaction losses and $0.8 million of other expense. Other expense (income), net in the nine months ended September 30, 2012 was $2.3 million, including $2.0 million of currency transaction losses and $0.3 million of non-operating expenses.

Income Taxes and Net Income

(in millions, except per share data)	Nine Months Ended September 30, 2013	2012	$ Change
Effective income tax rate	14.1 %	19.9 %	
Equity in net earnings (loss) of unconsolidated affiliated company	$0.3	$(5.4)	$5.7
Net income attributable to noncontrolling interests	$3.4	$3.1	$0.3
Net income attributable to DENTSPLY International	$238.8	$187.4	$51.4
Earnings per common share - diluted	$1.65	$1.30	

Provision for Income Taxes

The Company’s effective tax rate for the first nine months of 2013 and 2012 was 14.1% and 19.9%, respectively. The Company’s effective tax rate for the nine months of 2013 was favorably impacted by the Company’s post-acquisition restructuring activities and the recording of tax benefits of $9.4 million related to U.S. federal legislative changes enacted in January 2013, relating to 2012, and $9.3 million of benefits related to prior year tax matters. During the first nine months of 2012, the Company recorded a tax benefit of $6.9 million as a result of favorable resolution of tax contingencies and a tax expense of $ 3.0 million for prior year tax matters.

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

In 2012, The Company's effective income tax rate included the net favorable impact of amortization on purchased intangibles assets, integration and restructuring and other costs and various income tax adjustments which impacted income before income taxes and the provision for income taxes by $68.8 million and $23.8 million, respectively.

Equity in net earnings (loss) of unconsolidated affiliated company

The Company’s 17% ownership investment of DIO resulted in net income of $0.3 million on an after-tax basis for the nine months ended September 30, 2013 and a net loss of $5.4 million on an after-tax basis for the same period in 2012. The equity earnings of DIO includes the result of mark-to-market changes related to the derivative accounting for the convertible bonds issued by DIO to DENTSPLY. The Company’s portion of the mark-to-market gain recorded by DIO for the nine months ended September 30, 2013 was approximately $1.3 million and a mark-to-market loss recorded by DIO of approximately $5.4 million for the same period in 2012.

Net Income attributable to DENTSPLY International

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

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

(2) Restructuring and other costs, including legal settlements. These adjustments include both costs and income that are irregular in timing, amount and impact to the Company's financial performance. As such, these items may not be indicative of past and future performance of the Company and are therefore excluded for the purpose of understanding underlying operating trends.
(3) Amortization of purchased intangible assets. This adjustment excludes the periodic amortization expense related to purchased intangible assets. Following a significant acquisition in 2011, the Company began recording large non-cash charges related to the values attributed to purchased intangible assets. These charges have been excluded from adjusted net income attributed to DENTSPLY International to allow investors to evaluate and understand operating trends excluding these large non-cash charges.
(4) Income related to credit risk and fair value adjustments. These adjustments include both the cost and income impacts of adjustments in certain assets and liabilities that are recorded through net income which are due solely to the changes in fair value and credit risk. These items can be variable and driven more by market conditions than the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.
(5) Certain fair value adjustments related to an unconsolidated affiliated company. This adjustment represents the fair value adjustment of the unconsolidated affiliated company's convertible debt instrument held by the Company. The affiliate is accounted for under the equity method of accounting. The fair value adjustment is driven by open market pricing of the affiliate's equity instruments, which has a high degree of variability and may not be indicative of the operating performance of the affiliate or the Company.
(6) Income tax related adjustments. These adjustments include both income tax expenses and income tax benefits that are representative of income tax adjustments mostly related to prior periods, as well as the final settlement of income tax audits. These adjustments are irregular in timing and amount and may significantly impact the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.
Adjusted earnings per diluted common share is calculated by dividing adjusted net income attributable to DENTSPLY International by diluted weighted-average common shares outstanding. Adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share are considered measures not calculated in accordance with US GAAP, and therefore are non-US GAAP measures. These non-US GAAP measures may differ from other companies. Income tax related adjustments may include the impact to adjust the interim effective income tax rate to the expected annual effective tax rate. The non-US GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with US GAAP.

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

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(in thousands, except per share amounts)	Nine Months Ended September 30, 2012 Net Income	Per Diluted Common Share
Net income attributable to DENTSPLY International	$187,413	$1.30
Amortization of purchased intangible assets, net of tax	25,148	0.17
Restructuring and other costs, net of tax	14,063	0.10
Acquisition related activities, net of tax	6,630	0.05
Loss on fair value adjustments related to an unconsolidated affiliated company, net of tax	5,280	0.04
Orthodontics business continuity costs, net of tax	692	—
Income tax related adjustments	(1,375)	(0.01)
Adjusted non-US GAAP earnings	$237,851	$1.65

Operating Segment Results

Third Party Net Sales, Excluding Precious Metal Content

(in millions)	Nine Months Ended September 30, 2013	2012	$ Change	% Change
Dental Consumable and Laboratory Businesses	$645.0	$627.5	$17.5	2.8%
Orthodontics/Canada/Mexico/Japan	$203.6	$207.9	$(4.3)	(2.1%)
Select Distribution Businesses	$192.6	$181.9	$10.7	5.9%
Implants/Endodontics/Healthcare/Pacific Rim	$1,020.1	$998.5	$21.6	2.2%

Segment Operating Income

(in millions)	Nine Months Ended September 30, 2013	2012	$ Change	% Change
Dental Consumable and Laboratory Businesses	$183.5	$181.3	$2.2	1.2%
Orthodontics/Canada/Mexico/Japan	$8.8	$7.6	$1.2	15.8%
Select Distribution Businesses	$(1.5)	$(3.3)	$1.8	(54.5%)
Implants/Endodontics/Healthcare/Pacific Rim	$214.0	$214.3	$(0.3)	(0.1%)

Dental Consumable and Laboratory Businesses

Net sales, excluding precious metal content, increased $17.5 million during the nine months ended September 30, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 1.8% as compared to the same period in 2012, due to increased sales of dental consumable products.

Operating income increased $2.2 million for the nine months ended September 30, 2013 compared to 2012. Gross profit increased $7.5 million due to favorable sales mix from dental consumables businesses, partially offset by higher SG&A spending in the same businesses excluding the impact of foreign currency translation.

Orthodontics/Canada/Mexico/Japan

Net sales, excluding precious metal content, decreased $4.3 million, during the nine months ended September 30, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 1.9% primarily due to increased dental specialty product sales.

Operating income increased $1.2 million compared to the same year ago period primarily due to lower SG&A expenses in 2013 from improved operating leverage in the orthodontic business as it recovered from a supply outage in 2011 and 2012.

Select Distribution Businesses

Net sales, excluding precious metal content, increased $10.7 million during the nine months ended September 30, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 4.2% when compared to the same period of 2012. The growth was primarily related to increased sales of dental specialty products.

Operating income improved $1.8 million during the nine months ended September 30, 2013 compared to 2012. Gross profit increased $5.1 million due to higher sales volumes noted above partially offset by higher SG&A expenses in emerging markets.

Implants/Endodontics/Healthcare/Pacific Rim

Net sales, excluding precious metal content, increased $21.6 million during the nine months ended September 30, 2013 compared to 2012. On a constant currency basis, net sales, excluding precious metal content, increased 2.3% driven by sales growth in endodontic and consumable medical device products partially offset by lower sales in implants.

Operating income for the nine months ended September 30, 2013 decreased $0.3 million, compared to 2012. Gross profit decreased $4.1 million as result of the negative sales mix within the segment primarily as a result of the integration of the implant business in Germany, offset by lower SG&A expenses compared to 2012, due to lower integration and marketing expenses.

CRITICAL ACCOUNTING POLICIES

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

Annual Goodwill Impairment Testing

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

The performance of the Company's 2013 annual impairment tests did not result in any impairment of the Company's goodwill. The WACC rates utilized in the 2013 analysis ranged from 8.4% to 11.5%. If the fair value of each of the Company's reporting units had been hypothetically reduced by 10% at April 30, 2013, the fair value of those reporting units would still exceed their net book value. Had the WACC rate of each of the Company's reporting units been hypothetically increased by 50 basis points at April 30, 2013, the fair value of all reporting units still exceed their net book value.

LIQUIDITY AND CAPITAL RESOURCES

Nine months ended September 30, 2013

Cash flow from operating activities during the nine months ended September 30, 2013 was $258.3 million compared to $202.1 million during the nine months ended September 30, 2012. Net income during the nine month period ended September 30, 2013 increased by $51.6 million to $242.1 million compared to the prior year period. Depreciation and amortization expense for the nine months ended September 30, 2013 decreased by $2.5 million compared to the prior year period. On a constant currency basis, as of September 30, 2013, reported days for inventory increased by 12 days to 118 days and accounts receivable increased by 11 days to 64 days, respectively, as compared to December 31, 2012. The Company anticipates that inventory levels may continue to increase slightly before gradually returning to more normal levels by the end of 2015.

Investing activities during the first nine months of 2013 include capital expenditures of $73.5 million and the settlement of Swiss franc net investment hedges totaling $86.5 million. The Company expects capital expenditures to be approximately $110 million for the full year 2013. Financing activities included the buyout of minority shareholders of a consolidated subsidiary for $9.0 million.

At September 30, 2013, the Company had authorization to maintain up to 34.0 million shares of treasury stock under the stock repurchase program as approved by the Board of Directors. During the nine months ended September 30, 2013, the Company purchased 1.7 million shares of common stock at cost of $72.4 million at an average price of $41.89 per share. As of September 30, 2013, the Company held 20.6 million shares of treasury stock. The Company received proceeds of $48.4 million as a result of the exercise of 1.7 million of stock options during the nine months ended September 30, 2013.

The Company's total borrowings decreased by a net of $85.3 million during the nine months ended September 30, 2013. This change included a net increase of $4.5 million in short-term commercial paper and a decrease of $16.0 million due to exchange rate fluctuations on debt denominated in foreign currencies. On August 15, 2013, the $250.0 million two-year floating rate note matured and the note repayment was financed with available commercial paper. On August 26, 2013, the Company entered into a seven-year $175.0 million variable rate term loan. The term loan proceeds were used to repay outstanding commercial paper. At September 30, 2013, the Company's ratio of total net debt to total capitalization was 35.8% compared to 39.0% at December 31, 2012. The Company defines net debt as total debt, including current and long-term portions, less cash and cash equivalents and total capitalization as the sum of net debt plus equity.

Under its five-year multi-currency revolving credit agreement, the Company is able to borrow up to $500.0 million through July 27, 2016. The facility is unsecured and contains certain affirmative and negative covenants relating to the operations and financial condition of the Company. The most restrictive of these covenants pertain to asset dispositions and prescribed ratios of indebtedness to total capital and operating income plus depreciation and amortization to interest expense. At September 30, 2013, the Company was in compliance with these covenants. The Company also has available an aggregate $500.0 million under a U.S. dollar commercial paper facility. The five-year revolver serves as a back-up to the commercial paper facility, thus the total available credit under the commercial paper facility and the multi-currency revolving credit facilities in the aggregate is $500.0 million. At September 30, 2013, outstanding borrowings were $49.5 million under the multi-currency revolving facility.

The Company also has access to $76.7 million in uncommitted short-term financing under lines of credit from various financial institutions. The lines of credit have no major restrictions and are provided under demand notes between the Company and the lending institutions. At September 30, 2013, the Company had $7.3 million outstanding under these short-term lines of credit. At September 30, 2013, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of $518.9 million.

At September 30, 2013, the Company held $89.8 million of precious metals on consignment from several financial institutions. The consignment agreements allow the Company to acquire the precious metal at market rates at a point in time which is approximately the same time and for the same price as alloys are sold to the Company's customers. In the event that the financial institutions would discontinue offering these consignment arrangements, and if the Company could not obtain other comparable arrangements, the Company may be required to obtain third party financing to fund an ownership position in the required precious metal inventory levels.

At September 30, 2013, the majority of the Company's cash and cash equivalents were held outside of the United States. Most of these balances could be repatriated to the United States, however, under current law, may potentially be subject to U.S. federal income tax, less applicable foreign tax credits. The Company expects to repatriate its foreign excess free cash flow (the amount in excess of capital investment and acquisition needs), subject to current regulations, in order to repay a portion of its commercial paper. Historically, the Company has generated more than sufficient operating cash flows in the United States to fund domestic operations. Further, the Company expects on an ongoing basis, to be able to finance domestic and international cash requirements, including capital expenditures, stock repurchases, debt service, operating leases and potential future acquisitions, from the funds generated from operations and amounts available under its existing credit facilities. The Company intends to finance the current portion of long-term debt due in 2014 utilizing available commercial paper, cash and other financing.

The Company’s $175.0 million variable rate seven-year term loan matures in August, 2020. The term loan is pre-payable at par and has annual principle repayments of $8.8 million in each of the first six years with the balance due at maturity. The variable interest rate is reset quarterly at three-month U.S. dollar LIBOR plus 1.125%. There have been no additional material changes to the Company’s scheduled contractual cash obligations disclosed in its Form 10-K for the year ended December 31, 2012.

NEW ACCOUNTING PRONOUNCEMENTS

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

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

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

Item 4 – Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

Except as noted below, there have been no significant material changes to the risk factors as disclosed in the Company's Form 10-K for the year ended December 31, 2012.

Certain provisions in the Company's governing documents may make it more difficult for a third party to acquire DENTSPLY.

Certain provisions of DENTSPLY's Certificate of Incorporation and By-laws and of Delaware law could have the effect of making it difficult for a third party to acquire control of DENTSPLY. Such provisions include, among others, a provision allowing the Board of Directors to issue preferred stock having rights senior to those of the common stock and certain procedural requirements which make it difficult for stockholders to amend DENTSPLY's By-laws and call special meetings of stockholders. In addition, members of DENTSPLY's management and participants in its Employee Stock Ownership Plan ("ESOP") collectively own approximately 4% of the outstanding common stock of DENTSPLY.

Item 2 – Unregistered Sales of Securities and Use of Proceeds

At September 30, 2013, the Company had authorization to maintain up to 34.0 million shares of treasury stock under the stock repurchase program as approved by the Board of Directors. During the quarter ended September 30, 2013, the Company had the following activity with respect to this repurchase program:

(in thousands, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Cost of Shares Purchased	Number of Shares that May be Purchased Under the Share Repurchase Program
July 1, 2013 to July 31, 2013	—	$—	$—	13,607.1
August 1, 2013 to August 31, 2013	89.4	42.00	3,754.5	13,664.7
September 1, 2013 to September 30, 2013	147.6	43.02	6,348.4	13,810.4
	237.0	$—	$10,102.9	

Item 6 – Exhibits

Exhibit Number	Description
31	Section 302 Certification Statements
32	Section 906 Certification Statements
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Signatures

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

DENTSPLY International Inc.

/s/	Bret W. Wise	October 29, 2013
	Bret W. Wise	Date
	Chairman of the Board and	
	Chief Executive Officer	
/s/	Christopher T. Clark	October 29, 2013
	Christopher T. Clark	Date
	President and	
	Chief Financial Officer	