

DENTSPLY INTERNATIONAL INC /DE/  
Form 10-K  
February 20, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013  
Commission File Number 0-16211

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

Delaware 39-1434669  
(State or other jurisdiction of incorporation or  
organization) (I.R.S. Employer Identification No.)

221 West Philadelphia Street, York, PA 17405-2558  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (717) 845-7511

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                     | Name of each exchange on which registered |
|---|---|
| Common Stock, par value \$.01 per share | The NASDAQ Stock Market LLC               |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

The aggregate market value of the voting common stock held by non-affiliates of the registrant computed by reference to the closing price as of the last business day of the registrants most recently completed second quarter June 30, 2013, was \$5,825,578,435.

The number of shares of the registrant's Common Stock outstanding as of the close of business on February 13, 2014 was 141,813,505.

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement of DENTSPLY International Inc. (the "Proxy Statement") to be used in connection with the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent provided herein. Except as specifically incorporated by reference herein the Proxy Statement is not deemed to be filed as part of this Form 10-K.

DENTSPLY International Inc.  
Table of Contents

PART I

|  | Page      |
|--|-----------|
| Item 1 Business  | <u>3</u>  |
| Item 1A Risk Factors   | <u>10</u> |
| Item 1B Unresolved Staff Comments                                | <u>17</u> |
| Item 2 Properties  | <u>17</u> |
| Item 3 Legal Proceedings<br>Executive Officers of the Registrant | <u>19</u> |
| Item 4 Not Applicable  | <u>20</u> |

PART II

|   |           |
|---|-----------|
| Item 5 Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | <u>21</u> |
| Item 6 Selected Financial Data  | <u>23</u> |
| Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations                        | <u>25</u> |
| Item 7A Quantitative and Qualitative Disclosures About Market Risk  | <u>43</u> |
| Item 8 Financial Statements and Supplementary Data  | <u>46</u> |
| Item 9 Changes In and Disagreements With Accountants on Accounting and Financial Disclosure                         | <u>46</u> |
| Item 9A Controls and Procedures   | <u>46</u> |
| Item 9B Other Information   | <u>46</u> |

PART III

|  |           |
|--|-----------|
| Item 10 Directors, Executive Officers and Corporate Governance                                   | <u>47</u> |
| Item 11 Executive Compensation   | <u>47</u> |
| Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stock Matters | <u>47</u> |

|         |  |           |
|---------|--|-----------|
| Item 13 | Certain Relationships and Related Transactions and Director Independence | <u>47</u> |
| Item 14 | Principal Accountant Fees and Services                                   | <u>47</u> |
| PART IV |  |           |
| Item 15 | Exhibits and Financial Statement Schedule                                | <u>48</u> |

## PART I

### FORWARD-LOOKING STATEMENTS

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,” “assumes” and similar expressions identify forward-looking statements. 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”) and elsewhere in this report 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.

## PART I

### Item 1. Business

#### History and Overview

DENTSPLY, a Delaware corporation which dates its history to 1899, believes it is the world’s largest designer, developer, manufacturer and marketer of a broad range of consumable dental products for the professional dental market. The Company also manufactures and markets other consumable medical device products. The Company’s principal product categories are dental consumable products, dental laboratory products, dental specialty products and consumable medical device products. The Company’s worldwide headquarters and executive offices are located in York, Pennsylvania.

Consolidated net sales, excluding precious metal content, of the Company’s dental products accounted for approximately 88% of DENTSPLY’s consolidated net sales, excluding precious metal content, for the year ended December 31, 2013. The remaining consolidated net sales, excluding precious metal content, is primarily related to consumable medical device products and materials sold to the investment casting industry. The presentation of net sales, excluding precious metal content, is considered a measure not calculated in accordance with generally accepted accounting principles in the United States of America (“US GAAP”), and is therefore considered a non-US GAAP measure. This non-US GAAP measure is discussed further in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and a reconciliation of net sales to net sales, excluding precious metal content, is provided.

Throughout 2013, the Company conducted its business through four operating segments. During the year ended December 31, 2013, the Company realigned certain implant and implant related businesses as a result of changes to the business structure. All of the Company’s segments are primarily engaged in the design, manufacture and distribution of dental and medical products in four principal product categories: 1) dental consumable products 2) dental laboratory products 3) dental specialty products and 4) consumable medical device products.

The Company conducts its business in the United States of America (“U.S.”), as well as in over 120 foreign countries, principally through its foreign subsidiaries. DENTSPLY has a long-established presence in the European market, particularly in Germany, Sweden, France, the United Kingdom (“UK”), Switzerland and Italy, as well as in Canada. The

Company also has a significant market presence in the countries of the Commonwealth of Independent States (“CIS”), Central and South America, the Middle-East region and the Pacific Rim.

#### Geographic Information

For 2013, 2012 and 2011, the Company’s net sales, excluding precious metal content, to customers outside the U.S., including export sales, accounted for approximately 67%, 67% and 66%, respectively, of consolidated net sales, excluding precious metal content. Reference is made to the information about the Company’s U.S. and foreign sales by shipment origin set forth in Note 5, Segment and Geographic Information, to the consolidated financial statements in this Form 10-K.

## Segment Information

Information regarding the Company's operating segments for the years ended December 31, 2013, 2012 and 2011 can be found in Note 5, Segment and Geographic Information, to the consolidated financial statements in this Form 10-K.

## Principal Products

The worldwide professional dental industry encompasses the diagnosis, treatment and prevention of disease and ailments of the teeth, gums and supporting bone. DENTSPLY's principal dental product categories are dental consumable products, dental laboratory products and dental specialty products. Additionally, the Company's consumable medical device products provide for urological and surgical applications. These products are produced by the Company in the U.S. and internationally and are distributed throughout the world under some of the most well-established brand names and trademarks in these industries, including ANKYLOS, AQUASIL ULTRA, ARTICADENT, ASTRA TECH, ATLANTIS, BELLOVAC ABT, CALIBRA, CAULK, CAVITRON, CERAMCO, CERCON, CITANEST, DELTON, DENTSPLY, DETREY, DYRACT, ECLIPSE, ELEPHANT, ESTHET.X, FRIADENT, GENIE, GOLDEN GATE, IN-OVATION, INTERACTIVE MYSTIQUE, LOFRIC, MAILLEFER, MIDWEST, NUPRO, ORAQIX, OSSEOSPEED, PALODENT PLUS, PEPGEN P-15, PORTRAIT, PRIME & BOND, PROFILE, PROTAPER, RECIPROC, RINN, SANI-TIP, STYLUS, SULTAN, SUREFIL, THERMAFIL, TRIODENT MATRIX SYSTEMS, TRUBYTE, WAVEONE, WELLSPECT, XENO, XIVE, XYLOCAINE and ZHERMACK .

## Dental Consumable Products

Dental consumable products consist of value added dental supplies and devices and small equipment used in dental offices for the treatment of patients. Net sales of dental consumable products, excluding precious metal content, accounted for approximately 28%, 28% and 33% of the Company's consolidated net sales, excluding precious metal content, for the years ended December 31, 2013, 2012 and 2011, respectively.

DENTSPLY's dental supplies and devices in the dental consumable products category include dental anesthetics, prophylaxis paste, dental sealants, impression materials, restorative materials, tooth whiteners and topical fluoride. The Company manufactures thousands of different dental consumable products marketed under more than one hundred brand names.

Small equipment products in the dental consumable products category consist of various durable goods used in dental offices for the treatment of patients. DENTSPLY's small equipment products include dental handpieces, intraoral curing light systems, dental diagnostic systems and ultrasonic scalers and polishers.

## Dental Laboratory Products

Dental laboratory products are used in the preparation of dental appliances by dental laboratories. Net sales of dental laboratory products, excluding precious metal content, accounted for approximately 10%, 11% and 14% of the Company's consolidated net sales, excluding precious metal content, for the years ended December 31, 2013, 2012 and 2011, respectively.

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 design and machining (CAD/CAM) ceramic systems and porcelain furnaces.

## Dental Specialty Products

Dental specialty products are specialized treatment products used within the dental office and laboratory settings. Net sales of dental specialty products, excluding precious metal content, accounted for approximately 49%, 48% and 46% of the Company's consolidated net sales, excluding precious metal content, for the years ended December 31, 2013, 2012 and 2011, respectively. DENTSPLY's products in this category include endodontic (root canal) instruments and materials, implants and related products, bone grafting materials, 3D digital scanning and treatment planning software, dental lasers and orthodontic appliances and accessories.

#### Consumable Medical Device Products

Consumable medical device products consist mainly of urology catheters, certain surgical products, medical drills and other non-medical products. Net sales of consumable medical device products, excluding precious metal content, accounted for approximately 13%, 13% and 7% of the Company's consolidated net sales, excluding precious metal content, for the years ended December 31, 2013, 2012 and 2011, respectively.



## Markets, Sales and Distribution

The Company believes that the market for its products will grow over the long-term based on the following factors:

• Increasing worldwide population.

Aging mix of population in developed countries - The U.S., European, Japanese and other regions have aging population with significant needs for dental care and healthcare, the elderly in these regions are well positioned to pay for the required procedures since they control sizable amounts of discretionary income.

• Natural teeth are being retained longer - Individuals with natural teeth are much more likely to visit a dentist in a given year than those without any natural teeth remaining.

The changing dental practice in North America and Western Europe - Dentistry in North America and Western Europe has been transformed from a profession primarily dealing with pain, infections and tooth decay to one with increased emphasis on preventive care and cosmetic dentistry.

• The demands for patient comfort and ease of product use and handling.

Per capita and discretionary incomes are increasing in emerging markets - As personal incomes continue to rise in the emerging nations of the Pacific Rim, CIS and Latin America, obtaining healthcare, including dental services, is a growing priority. Many surveys indicate the middle class population will expand significantly within these emerging markets.

The Company's business is less susceptible than many other industries to general downturns in the economies in which it operates. Many of the products the Company offers relate to dental procedures and health conditions that are considered necessary by patients regardless of the economic environment. Dental specialty products and products that support discretionary dental procedures are the most susceptible to changes in economic conditions.

DENTSPLY believes that demand in a given geographic market for its dental and medical products vary according to the stage of social, economic and technical development of the particular market. Geographic markets for DENTSPLY's dental and medical products can be categorized into the following two stages of development:

### Developed Markets

The U.S., Canada, Western Europe, Japan, Australia and certain other countries are highly developed markets that demand the most advanced dental and health products and have the highest level of expenditures for dental and medical care. These markets account for approximately 80% to 85% of the Company's net sales. In these markets, dental care is increasingly focused upon preventive care and specialized dentistry, in addition to basic procedures, such as excavation of teeth and filling of cavities, tooth extraction and denture replacement. These markets require varied and complex dental products, utilize sophisticated diagnostic and imaging equipment and demand high levels of attention to protect against infection and patient cross-contamination. A broader segment of the population in these markets can afford higher end treatments in both dental and medical care.

### Emerging Markets

In certain countries in Central America, South America, Eastern Europe, Pacific Rim, Middle East and Africa, most dental care is often limited to excavation of teeth and filling of cavities and other restorative techniques, reflecting more modest per capita expenditures for dental and medical care. These markets account for approximately 15% to 20% of the Company's net sales. The Company markets products with a diverse price range including dual-brand

alternatives to address patient and professional needs. However, there is also a portion of the population in these markets that receive excellent dental and medical care similar to that received in developed countries. As such our premium products are actively sold into these regions.

The Company offers products and equipment for use in markets at both of these stages of development. The Company believes that demand for more technically advanced products will increase as each of these markets develop. The Company also believes that its recognized brand names, high quality and innovative products, clinical education and technical support services and strong international distribution capabilities position it well, to benefit from opportunities in virtually any market.

DENTSPLY employs approximately 3,600 highly trained, product-specific sales and technical staff to provide comprehensive marketing and service tailored to the particular sales and technical support requirements of the distributors, dealers and the end-users.

## Dental

DENTSPLY distributes approximately half of its dental products through third-party distributors. Certain highly technical products such as precious metal dental alloys, dental ceramics, crown and bridge porcelain products, endodontic instruments and materials, orthodontic appliances, implants, and bone substitute and grafting materials are sold directly to the dental laboratory or dental professionals in some markets. During 2013 and 2012, the Company did not have any single customer that represented ten percent or more of DENTSPLY's consolidated net sales. In 2011, one customer, Henry Schein Incorporated, a dental distributor, accounted for 11% of DENTSPLY's consolidated net sales. No other single customer, represented ten percent or more of DENTSPLY's consolidated net sales during 2011.

Although many of its dental sales are made to distributors, dealers and importers, DENTSPLY focuses its marketing efforts on the dentists, dental hygienists, dental assistants, dental laboratories and dental schools which are the end-users of its products. As part of this end-user "pull through" marketing approach, The Company conducts extensive distributor, dealer and end-user marketing programs. Additionally, the Company trains laboratory technicians, dental hygienists, dental assistants and dentists in the proper use of its products and introduces them to the latest technological developments at its educational courses conducted throughout the world. The Company also maintains ongoing relationships with various dental associations and recognized worldwide opinion leaders in the dental field, although there is no assurance that these influential dental professionals will continue to support the Company's products in the future.

## Medical

The Company's urology products business reaches the market directly in 16 countries throughout Europe and North America, and through distributors in 18 additional markets. The largest markets include the UK, Germany and France. Sales efforts target urologists, urology nurses, general practitioners and direct-to-patients.

Historical reimbursement levels within Europe have been higher for intermittent catheters which explain a greater penetration of single-use catheter products in that market. In the U.S., which the Company considers an important growth market, the reimbursement environment has improved since 2008 as the infection control cost benefits of disposable catheters gain acceptance among payers.

The surgery products business operates directly in 13 countries throughout Europe and Australia, with distributors in 21 additional markets. The largest markets include Australia, Norway and the UK. Sales efforts target surgeons, hospital nurses, physiotherapists, hospital purchasing departments and medical supply distributors.

The Company also maintains ongoing relationships with various medical associates, professional and key opinion leaders to help promote our products, although there are no assurances that they will continue to support the Company's products in the future.

## Product Development

Innovation and successful product development are critical to keeping market leadership position in key product categories and growing market share in other products categories while strengthening the Company's prominence in the dental and medical markets that it serves. While many of DENTSPLY's existing products undergo brand extensions, the Company also continues to focus efforts on successfully launching innovative products that represent

fundamental change.

New advances in technology are also anticipated to have a significant influence on future products in dentistry and in select areas of healthcare. As a result, the Company pursues research and development initiatives to support this technological development, including collaborations with external research institutions, dental and medical schools. Through its own internal research centers as well as through its collaborations with external research institutions, dental and medical schools, the Company directly invested \$85.1 million, \$85.4 million and \$66.7 million in 2013, 2012 and 2011, respectively, in connection with the development of new products, improvement of existing products and advances in technology. The continued development of these areas is a critical step in meeting the Company's strategic goal as a leader in defining the future of dentistry and in select areas in health care.

In addition to the direct investment in product development and improvement, the Company also invests in these activities through acquisitions, and by entering into licensing agreements with third parties as well as purchasing technologies developed by third parties.

#### Acquisition Activities

DENTSPLY believes that the dental products industry continues to experience consolidation with respect to both product manufacturing and distribution, although it remains fragmented thereby creating a number of acquisition opportunities. DENTSPLY also seeks to expand its position in consumable medical device products through acquisitions.

The Company views acquisitions as a key part of its growth strategy. These acquisition activities are intended to supplement the Company's core growth and assure ongoing expansion of its business, including new technologies, additional products and geographic breadth.

#### Operating and Technical Expertise

DENTSPLY believes that its manufacturing capabilities are important to its success. The manufacturing process of the Company's products requires substantial and varied technical expertise. Complex materials technology and processes are necessary to manufacture the Company's products. The Company endeavors to automate its global manufacturing operations in order to improve quality and customer service and lower costs.

#### Financing

Information about DENTSPLY's working capital, liquidity and capital resources is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K.

#### Competition

The Company conducts its operations, both domestic and foreign, under highly competitive market conditions. Competition in the dental and medical products industries is based primarily upon product performance, quality, safety and ease of use, as well as price, customer service, innovation and acceptance by professionals, technicians and patients. DENTSPLY believes that its principal strengths include its well-established brand names, its reputation for high quality and innovative products, its leadership in product development and manufacturing, the breadth of its product line, its commitment to customer satisfaction and support of the Company's products by dental and medical professionals.

The size and number of the Company's competitors vary by product line and from region to region. There are many companies that produce some, but not all, of the same types of products as those produced by the Company.

#### Regulation

The Company's products are subject to regulation by, among other governmental entities, the U.S. Food and Drug Administration (the "FDA"). In general, if a dental or medical "device" is subject to FDA regulation, compliance with the FDA's requirements constitutes compliance with corresponding state regulations. In order to ensure that dental and medical products distributed for human use in the U.S. are safe and effective, the FDA regulates the introduction, manufacture, advertising, labeling, packaging, marketing and distribution of, and record-keeping for, such products. The introduction and sale of dental and medical products of the types produced by the Company are also subject to government regulation in the various foreign countries in which they are produced or sold. DENTSPLY believes that

it is in substantial compliance with the FDA and foreign regulatory requirements that are applicable to its products and manufacturing operations.

Dental and medical devices of the types sold by DENTSPLY are generally classified by the FDA into a category that renders them subject only to general controls that apply to all medical devices, including regulations regarding alteration, misbranding, notification, record-keeping and good manufacturing practices. In the European Union, DENTSPLY's products are subject to the medical devices laws of the various member states, which are based on a Directive of the European Commission. Such laws generally regulate the safety of the products in a similar way to the FDA regulations. DENTSPLY products in Europe bear the CE mark showing that such products adhere to European regulations.

All dental amalgam filling materials, including those manufactured and sold by DENTSPLY, contain mercury. Various groups have alleged that dental amalgam containing mercury is harmful to human health and have actively lobbied state and federal lawmakers and regulators to pass laws or adopt regulatory changes restricting the use, or requiring a warning against alleged

potential risks, of dental amalgams. The FDA's Dental Devices Classification Panel, the National Institute of Health and the U.S. Public Health Service have each indicated that no direct hazard to humans from exposure to dental amalgams has been demonstrated. In response to concerns raised by certain consumer groups regarding dental amalgam, the FDA formed an advisory committee in 2006 to review peer-reviewed scientific literature on the safety of dental amalgam. In July 2009, the FDA concluded its review of dental amalgam, confirming its use as a safe and effective restorative material. Also, as a result of this review, the FDA classified amalgam and its component parts, elemental mercury and powder alloy, as a Class II medical device. Previously there was no classification for encapsulated amalgam and dental mercury (Class I) and alloy (Class II) were classified separately. This new regulation places encapsulated amalgam in the same class of devices as most other restorative materials, including composite and gold fillings, and makes amalgam subject to special controls by FDA. In that respect, the FDA recommended that certain information about dental amalgam be provided, which includes information indicating that dental amalgam releases low levels of mercury vapor, and that studies on people age six and over as well as FDA estimated exposures of children under six, have not indicated any adverse health risk associated with the use of dental amalgam. After the FDA issued this regulation, several petitions were filed asking the FDA to reconsider its position. Another advisory panel was established by the FDA to consider these petitions. Hearings of the advisory panel were held in December 2010. The FDA has taken no action as of the filing date of this Form 10-K from this latest advisory panel meeting.

In Europe, particularly in Scandinavia and Germany, the contents of mercury in amalgam filling materials have been the subject of public discussion. As a consequence, in 1994 the German health authorities required suppliers of dental amalgam to amend the instructions for use of amalgam filling materials to include a precaution against the use of amalgam for children less than eighteen years of age and to women of childbearing age. Additionally, some groups have asserted that the use of dental amalgam should be prohibited because of concerns about environmental impact from the disposition of mercury within dental amalgam, which has resulted in the sale of mercury containing products being banned in Sweden and severely curtailed in Norway. DENTSPLY also manufactures and sells non-amalgam dental filling materials that do not contain mercury.

#### Sources and Supply of Raw Materials and Finished Goods

The Company manufactures the majority of the products sold by the Company. Most of the raw materials used by the Company in the manufacture of its products are purchased from various suppliers and are typically available from numerous sources. No single supplier accounts for more than 10% of DENTSPLY's requirements.

#### Intellectual Property

Products manufactured by DENTSPLY are sold primarily under its own trademarks and trade names. DENTSPLY also owns and maintains more than 2,500 patents throughout the world and is licensed under a small number of patents owned by others.

DENTSPLY's policy is to protect its products and technology through patents and trademark registrations both in the U.S. and in significant international markets. The Company carefully monitors trademark use worldwide and promotes enforcement of its patents and trademarks in a manner that is designed to balance the cost of such protection against obtaining the greatest value for the Company. DENTSPLY believes its patents and trademark properties are important and contribute to the Company's marketing position but it does not consider its overall business to be materially dependent upon any individual patent or trademark.

#### Employees

At December 31, 2013, the Company and its subsidiaries employed approximately 11,800 employees. Of these employees, approximately 3,400 were employed in the United States and 8,400 in countries outside of the United States. Less than 5% of employees in the United States are covered by collective bargaining agreements. Some employees outside of the United States are covered by collective bargaining, union contract or other similar type program. The Company believes that it has a positive relationship with its employees.

#### Environmental Matters

DENTSPLY believes that its operations comply in all material respects with applicable environmental laws and regulations. Maintaining this level of compliance has not had, and is not expected to have, a material effect on the Company's capital expenditures or on its business.



#### Other Factors Affecting the Business

Approximately two-thirds of the Company's sales are located in regions outside the U.S., and the Company's consolidated net sales can be impacted negatively by the strengthening or positively by the weakening of the U.S. dollar. Additionally, movements in certain foreign exchange rates may unfavorably or favorably impact the Company's results of operations, financial condition and liquidity.

The Company's business is subject to quarterly fluctuations of consolidated net sales and net income. The Company typically implements most of its price changes in the beginning of the first or fourth quarter. Price changes, other marketing and promotional programs as well as the management of inventory levels by distributors and the implementation of strategic initiatives, may impact sales levels in a given period. Sales for the industry and the Company are generally strongest in the second and fourth calendar quarters and weaker in the first and third calendar quarters, due to the effects of the items noted above and due to the impact of holidays and vacations, particularly throughout Europe.

The Company tries to maintain short lead times within its manufacturing, as such, the backlog on products is generally not material to the financial statements.

#### Securities and Exchange Act Reports

The U.S. Securities and Exchange Commission ("SEC") maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that the Company files with the SEC at <http://www.sec.gov>. The Company files annual reports, quarterly reports, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934, as amended ("Exchange Act"). The public may read and copy any materials the Company files with the SEC at its Public Reference Room at the following address:

The Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549

The public may obtain information on the operation of this Public Reference Room by calling the SEC at 1-800-SEC-0330.

DENTSPLY also makes available free of charge through its website at [www.DENTSPLY.com](http://www.DENTSPLY.com) its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such materials are filed with or furnished to the SEC.

## Item 1A. Risk Factors

The following are the significant risk factors that could materially impact DENTSPLY's business, financial condition or future results. The order in which these factors appear should not be construed to indicate their relative importance or priority.

Negative changes could occur in the dental or medical device markets, the general economic environments, or government reimbursement or regulatory programs of the regions in which the Company operates.

The success of the Company is largely dependent upon the continued strength of dental and medical device markets and is also somewhat dependent upon the general economic environments of the regions in which DENTSPLY operates. Negative changes to these markets and economies could materially impact the Company's results of operations and financial condition. In many markets, dental reimbursement is largely out of pocket for the consumer and thus utilization rates can vary significantly depending on economic growth. For instance, data suggests that the utilization of dental services by working age adults in the U.S. may have declined over the last several years. Additionally, there is also uncertainty as to what impact the Affordable Care Act may have on dental utilization in the U.S. In certain markets, particularly in the European Union, government and regulatory programs have a more significant impact than in other markets. Changes to these programs could have a positive or negative impact on the Company's results.

Prolonged negative economic conditions in domestic and global markets may adversely affect the Company's suppliers and customers and consumers, which could harm the Company's financial position.

Prolonged negative changes in domestic and global economic conditions or disruptions of either or both of the financial and credit markets may affect the Company's supply chain and the customers and consumers of the Company's products and may have a material adverse effect on the Company's results of operations, financial condition and liquidity.

Due to the Company's international operations, the Company is exposed to the risk of changes in foreign exchange rates.

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 U.S., the Company's consolidated net sales are impacted negatively by the strengthening or positively by the weakening of the U.S. dollar. Additionally, movements in certain foreign exchange rates may unfavorably or favorably impact the Company's results of operations, financial condition and liquidity. Although the Company uses certain financial tools to attempt to mitigate market fluctuations in foreign exchange rates, there can be no assurance that such measures will be effective or that they will not create additional financial obligations on the Company.

Volatility in the capital markets or investment vehicles could limit the Company's ability to access capital or could raise the cost of capital.

Although the Company continues to have positive operating cash flow, a disruption in the credit markets may reduce sources of liquidity available to the Company. The Company relies on multiple financial institutions to provide funding pursuant to existing and/or future credit agreements, and those institutions may not be able to provide funding in a timely manner, or at all, when required by the Company. The cost of or lack of available credit could impact the Company's ability to develop sufficient liquidity to maintain or grow the Company, which in turn may adversely affect the Company's businesses and results of operations, financial condition and liquidity.

The Company also manages cash and cash equivalents and short-term investments through various institutions. There may be a risk of loss on investments based on the volatility of the underlying instruments that would not allow the Company to recover the full principal of its investments.

The Company may not be able to access or renew its precious metal consignment facilities resulting in a liquidity constraint equal to the fair market value of the precious metal value of inventory and would subject the Company to inventory valuation risk as the value of the precious metal inventory fluctuates resulting in greater volatility to reported earnings.

The Company's quarterly operating results and market price for the Company's common stock may be volatile.

DENTSPLY experiences fluctuations in quarterly sales and earnings due to a number of factors, many of which are substantially outside of the Company's control, including but not limited to:

- The timing of new product introductions by DENTSPLY and its competitors;
- Timing of industry tradeshows;
- Changes in customer inventory levels;
- Developments in government reimbursement policies;
- Changes in customer preferences and product mix;
- The Company's ability to supply products to meet customer demand;
- Fluctuations in manufacturing costs;
- Changes in income tax laws and incentives which could create adverse tax consequences;
- Fluctuations in currency exchange rates; and
- General economic conditions, as well as those specific to the healthcare and related industries.

As a result, the Company may fail to meet the expectations of securities analysts and investors, which could cause its stock price to decline. The quarterly fluctuations generally result in net sales and operating profits historically being higher in the second and fourth quarters. The Company typically implements most of its price changes early in the fourth quarter or beginning of the year. These price changes, other marketing and promotional programs, which are offered to customers from time to time in the ordinary course of business, the management of inventory levels by distributors and the implementation of strategic initiatives, may impact sales levels in a given period. Net sales and operating profits generally have been lower in the first and third quarters, primarily due not only to increased sales in the quarters preceding these quarters, but also due to the impact of holidays and vacations, particularly throughout Europe.

In addition to fluctuations in quarterly earnings, a variety of other factors may have a significant impact on the market price of DENTSPLY's common stock causing volatility. These factors include, but are not limited to, the publication of earnings estimates or other research reports and speculation in the press or investment community; changes in the Company's industry and competitors; the Company's financial condition and cash flows; any future issuances of DENTSPLY's common stock, which may include primary offerings for cash, stock splits, issuances in connection with business acquisitions, restricted stock and the grant or exercise of stock options from time to time; general market and economic conditions; and any outbreak or escalation of hostilities in geographical areas in which the Company does business.

Also, the NASDAQ National Market ("NASDAQ") can experience extreme price and volume fluctuations that can be unrelated or disproportionate to the operating performance of the companies listed on the NASDAQ. Broad market and industry factors may negatively affect the market price of the Company's common stock, regardless of actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against companies. This type of litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources, which could harm the Company's business.

The dental and medical device supplies markets are highly competitive and there is no guarantee that the Company can compete successfully.

The worldwide markets for dental and medical products are highly competitive. There can be no assurance that the Company will successfully identify new product opportunities and develop and market new products successfully, or

that new products and technologies introduced by competitors will not render the Company's products obsolete or noncompetitive. Additionally, the size and number of the Company's competitors vary by product line and from region to region. There are many companies that produce some, but not all, of the same types of products as those produced by the Company. Certain of DENTSPLY's competitors may have greater resources than the Company. In addition, the Company is exposed to the risk that its competitors or its customers may introduce private label, generic, or low cost products that compete with the Company's products at lower price points. If these competitors' products capture significant market share or result in a decrease in market prices overall, this could have a negative impact on the Company's results of operations and financial condition.

Inventories maintained by the Company's customers may fluctuate from time to time.

The Company relies in part on its predictions of dealer and customer inventory levels in projecting future demand levels and financial results. These inventory levels may fluctuate, and may differ from the Company's predictions, resulting in the Company's projections of future results being different than expected. There can be no assurance that the Company's dealers and customers will maintain levels of inventory in accordance with the Company's predictions or past history, or that the timing of customers' inventory build or liquidation will be in accordance with the Company's predictions or past history.

The Company may be unable to develop innovative products or obtain regulatory approval for new products.

The market for DENTSPLY's products is characterized by rapid and significant technological change, evolving industry standards and new product introductions. There can be no assurance that DENTSPLY's products will not become noncompetitive or obsolete as a result of such factors or that we will be able to generate any economic return on the Company's investment in product development. If the Company's products or technologies become noncompetitive or obsolete, DENTSPLY's business could be negatively affected.

DENTSPLY has identified new products as an important part of its growth opportunities. There can be no assurance that DENTSPLY will be able to continue to develop innovative products and that regulatory approval of any new products will be obtained from applicable U.S. or international government or regulatory authorities, or that if such approvals are obtained, such products will be favorably accepted in the marketplace. Additionally, there is no assurance that entirely new technology or approaches to dental treatment or competitors' new products will not be introduced that could render the Company's products obsolete.

DENTSPLY may be unable to obtain necessary product approvals and marketing clearances.

DENTSPLY must obtain certain approvals and marketing clearances from governmental authorities, including the FDA and similar health authorities in foreign countries to market and sell its products. These regulatory agencies regulate the marketing, manufacturing, labeling, packaging, advertising, sale and distribution of medical devices, including the export of medical devices to foreign countries.

The regulatory review process which must be completed prior to marketing a new medical device may delay or hinder a product's timely entry into the marketplace. There can be no assurance that the review or approval process for these products by the FDA or any other applicable governmental authority will occur in a timely fashion, if at all, or that additional regulations will not be adopted or current regulations amended in such a manner as will adversely affect the Company. The FDA also oversees the content of advertising and marketing materials relating to medical devices which have received FDA clearance. Delays or failure to receive the necessary product approvals from governmental authorities could negatively impact DENTSPLY's operations.

DENTSPLY's business is subject to extensive, complex and changing laws, regulations and orders that failure to comply with could subject us to civil or criminal penalties or other liabilities.

DENTSPLY is subject to extensive laws, regulations and orders which are administered by various international, federal and state governmental authorities, including, among others, the FDA, the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC"), the Bureau of Industry and Security of the United States Department of Commerce ("BIS"), the United States Federal Trade Commission, the United States Department of Justice and other similar domestic and foreign authorities. These regulations include, but are not limited to, the U.S. Foreign Corrupt Practices Act and similar international anti-bribery laws, the Physician Payments Sunshine Act, regulations concerning the supply of conflict minerals, various environmental regulations and regulations relating to

trade, import and export controls and economic sanctions. Such laws, regulations and orders may be complex and are subject to change.

Compliance with the numerous applicable existing and new laws, regulations and orders could require us to incur substantial regulatory compliance costs. Although the Company has implemented policies and procedures to comply with applicable laws, regulations and orders, there can be no assurance that governmental authorities will not raise compliance concerns or perform audits to confirm compliance with such laws, regulations and orders. Failure to comply with applicable laws, regulations or orders could result in a range of governmental enforcement actions, including fines or penalties, injunctions and/or criminal or other civil proceedings. Any such actions could result in higher than anticipated costs or lower than anticipated revenue and could have a material adverse effect on the Company's reputation, business, financial condition and results of operations.

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

Challenges may be asserted against the Company's products due to real or perceived quality or health issues.

The Company manufactures and sells a wide portfolio of dental and medical device products. While the Company endeavors to ensure that its products are safe and effective, there can be no assurance that there may not be challenges from time to time regarding the real or perceived quality or health impact of the Company's products. All dental amalgam filling materials, including those manufactured and sold by DENTSPLY, contain mercury. Some groups have asserted that amalgam should be discontinued because of its mercury content and/or that disposal of mercury containing products may be harmful to the environment. If governmental authorities elect to place restrictions or significant regulations on the sale and/or disposal of dental amalgam, that could have an adverse impact on the Company's sales of dental amalgam. DENTSPLY also manufactures and sells non-amalgam dental filling materials that do not contain mercury but that may contain bisphenol-A, commonly called BPA. BPA is found in many everyday items, such as plastic bottles, foods, detergents and toys, and may be found in certain dental composite materials or sealants either as a by-product of other ingredients that have degraded, or as a trace material left over from the manufacture of other ingredients used in such composites or sealants. The FDA currently allows the use of BPA in dental materials, medical devices, and food packaging. Nevertheless, public reports and concerns regarding the potential hazards of dental amalgam or of BPA could contribute to a perceived safety risk for the Company's products that contain mercury or BPA. Adverse publicity about the quality or safety of our products, whether or not ultimately based on fact, may have an adverse effect on our brand, reputation and operating results.

The Company may be unable to obtain a supply for certain finished goods purchased from third parties.

A significant portion of the Company's injectable anesthetic products, orthodontic products, certain dental cutting instruments, catheters, nickel titanium products and certain other products and raw materials are purchased from a limited number of suppliers and in certain cases single source suppliers, some of which may also compete with the Company. As there are a limited number of suppliers for these products, there can be no assurance that the Company will be able to obtain an adequate supply of these products and raw materials in the future. Any delays in delivery of or shortages in these products could interrupt and delay manufacturing of the Company's products and result in the cancellation of orders for these products. In addition, these suppliers could discontinue the manufacture or supply of these products to the Company at any time or supply products to competitors. DENTSPLY may not be able to identify and integrate alternative sources of supply in a timely fashion or at all. Any transition to alternate suppliers may result in delays in shipment and increased expenses and may limit the Company's ability to deliver products to customers. If the Company is unable to develop reasonably priced alternative sources in a timely manner, or if the Company encounters delays or other difficulties in the supply or manufacturing of such products and other materials internally or from third parties, the Company's business and results of operations may be harmed.

The Company is facing increased competition in its Orthodontics business as it recovers from a supply disruption in 2011 and 2012.

One of the Company's key suppliers, which was the source of certain orthodontic products comprising approximately 9% of the Company's 2010 consolidated net sales, excluding precious metal content, was located in the zone that was evacuated following the March 2011 tsunami in Japan. The supplier lost access to its facility and as a result, product supply was severely disrupted through the remainder of 2011 and during a portion of 2012. The supplier gradually



restored operations in 2012. The Company has been recovering a portion of the business lost during the supply disruption, but is facing additional competition in part due to capacity added by competition while the Company was out of the market and also in part due to new competitors entering the market and from alternative technologies. The Company continues to source product from its supplier in Japan under an agreement that is subject to periodic renewal and has also established alternative sources of supply. Given the highly competitive conditions in the market, there is no assurance that the Company will be able to recover market share lost during the product outage, or that its existing or alternative sources will be sufficient to allow the Company to have a competitive position in the marketplace.

The Company's expansion through acquisition involves risks and may not result in the expected benefits.

The Company continues to view acquisitions as a key part of its growth strategy. The Company continues to be active in evaluating potential acquisitions although there is no assurance that these efforts will result in completed transactions as there are many factors that affect the success of such activities. If the Company does succeed in acquiring a business or product, there can be no assurance that the Company will achieve any of the benefits that it might anticipate from such an acquisition and the attention and effort devoted to the integration of an acquired business could divert management's attention from normal business operations. If the Company makes acquisitions, it may incur debt, assume contingent liabilities and/or additional risks, or create additional expenses, any of which might adversely affect its financial results. Any financing that the Company might need for acquisitions may only be available on terms that restrict its business or that impose additional costs that reduce its operating results.

The Company may fail to successfully complete the integration of Astra Tech or fully realize the benefits of the acquisition.

The success of the Company's acquisition of Astra Tech depends upon its ability to realize anticipated benefits from integrating Astra Tech's business into its operations. The Company's ongoing business could be disrupted and management's attention diverted due to integration planning activities and as a result of the actual integration of the two companies following the acquisition. In addition, conditions in the dental implant and urological medical device markets, including but not limited to market growth, increased competition and government regulation, may differ from the Company's assumptions and assessments made at the time of the acquisition. As a result, the Company may not fully realize the benefits of the integration as anticipated.

The Company may fail to realize the expected benefits of its cost reduction and restructuring efforts.

In order to operate more efficiently and control costs, the Company may announce from time to time restructuring plans, including workforce reductions, global facility consolidations and other cost reduction initiatives that are intended to generate operating expense or cost of goods sold savings through direct and indirect overhead expense reductions as well as other savings. Due to the complexities inherent in implementing these types of cost reduction and restructuring activities, the Company may fail to realize expected efficiencies and benefits, or may experience a delay in realizing such efficiencies and benefits, and its operations and business could be disrupted. Risks associated with these actions and other workforce management issues include delays in implementation of anticipated workforce reductions, additional unexpected costs, changes in restructuring plans that increase or decrease the number of employees affected, adverse effects on employee morale, and the failure to meet operational targets due to the loss of employees, any of which may impair the Company's ability to achieve anticipated cost reductions or may otherwise harm its business, and could have a material adverse effect on its competitive position, results of operations, cash flows or financial condition.

Changes in or interpretations of, accounting principles could result in unfavorable charges to operations.

The Company prepares its consolidated financial statements in accordance with US GAAP. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. Market conditions have prompted accounting standard setters to issue new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. It is possible that future accounting standards the Company would be required to adopt could change the current accounting treatment applied to the Company's consolidated financial statements and such changes could have a material adverse effect on the Company's business, results of operations, financial condition and liquidity.

If the Company's goodwill or intangible assets become impaired, the Company may be required to record a significant charge to earnings.

Under US GAAP, the Company reviews its goodwill and intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Additionally, goodwill is required to be tested for impairment at least annually. The valuations used to determine the fair values used to test goodwill or intangible assets are dependent upon various assumptions and reflect management's best estimates. Net sales growth, discount rates, earnings multiples and future cash flows are critical assumptions used to determine these fair values. Slower net sales growth rates in the dental or medical device industries, an increase in discount rates, unfavorable changes in earnings multiples or a decline in future cash flows, among other factors, may cause a change in circumstances indicating that the carrying value of the Company's goodwill or intangible assets may not be recoverable. The Company may be required to record a significant charge to earnings in the financial statements during the period in which any impairment of the Company's goodwill or intangible assets is determined.

Changes in or interpretations of, tax rules, operating structures, country profitability mix and regulations may adversely affect the Company's effective tax rates.

The Company is a U.S. based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Unanticipated changes in the Company's tax rates could affect its future results of operations. The Company's future effective tax rates could be unfavorably affected by factors such as changes in, or interpretation of, tax rules and regulations in the jurisdictions in which the Company does business, by structural changes in the Company's businesses, by unanticipated decreases in the amount of revenue or earnings in countries with low statutory tax rates, by lapses of the availability of the U.S. research and development tax credit, or by changes in the valuation of the Company's deferred tax assets and liabilities.

The Company faces the inherent risk of litigation and claims.

The Company's business involves a risk of product liability and other types of legal actions or claims, including possible recall actions affecting the Company's products. The primary risks to which the Company is exposed are related to those products manufactured by the Company. The Company has insurance policies, including product liability insurance, covering these risks in amounts that are considered adequate; however, the Company cannot provide assurance that the maintained coverage is sufficient to cover future claims or that the coverage will be available in adequate amounts or at a reasonable cost. Also, other types of claims asserted against the Company may not be covered by insurance. A successful claim brought against the Company in excess of available insurance, or another type of claim which is uninsured or that results in significant adverse publicity against the Company, could harm its business and overall cash flows of the Company.

Various parties, including the Company, own and maintain patents and other intellectual property rights applicable to the dental and medical device fields. Although the Company believes it operates in a manner that does not infringe upon any third party intellectual property rights, it is possible that a party could assert that one or more of the Company's products infringe upon such party's intellectual property and force the Company to pay damages and/or discontinue the sale of certain products.

Increasing exposure to markets outside of the U.S. and Europe.

We anticipate that sales outside of the U.S. and Europe will continue to expand and account for a significant portion of DENTSPLY's revenue. Operating in such locations is subject to a number of uncertainties, including, but not limited to, the following:

- Economic and political instability;
- Import or export licensing requirements;
- Additional compliance-related risks;
- Trade restrictions;
- Product registration requirements;
- Longer payment cycles;
- Changes in regulatory requirements and tariffs;
- Fluctuations in currency exchange rates;
- Potentially adverse tax consequences; and
- Potentially weak protection of intellectual property rights.

The Company's success is dependent upon its management and employees.

The Company's success is dependent upon its management and employees. The loss of senior management employees or failure to recruit and train needed managerial, sales and technical personnel, could have a material adverse effect on the Company.

The Company may be unable to sustain the operational and technical expertise that is key to its success.

DENTSPLY believes that its manufacturing capabilities are important to its success. The manufacture of the Company's products requires substantial and varied technical expertise. Complex materials technology and processes are necessary to manufacture the Company's products. There can be no assurance that the Company will be able to maintain the necessary operational and technical expertise that is key to its success.

A large number of the Company's products are manufactured in single manufacturing facilities.

Although the Company maintains multiple manufacturing facilities, a large number of the products manufactured by the Company are manufactured in facilities that are the sole source of such products. As there are a limited number of alternative suppliers for these products, any disruption at a particular Company manufacturing facility could lead to delays, increased expenses, and may damage the Company's business and results of operations.

The Company may not generate sufficient cash flow to service its debt, pay its contractual obligations and operate the business.

DENTSPLY's ability to make payments on its indebtedness and contractual obligations, and to fund its operations depends on its future performance and financial results, which, to a certain extent, are subject to general economic, financial, competitive, regulatory and other factors and the interest rate environment that are beyond its control. Although senior management believes that the Company has and will continue to have sufficient liquidity, there can be no assurance that DENTSPLY's business will generate sufficient cash flow from operations in the future to service its debt, pay its contractual obligations and operate its business.

The Company may not be able to repay its outstanding debt in the event that cross default provisions are triggered due to a breach of loan covenants.

DENTSPLY's existing borrowing documentation contains a number of covenants and financial ratios, which it is required to satisfy. Any breach of any such covenants or restrictions, the most restrictive of which pertain to asset dispositions, maintenance of certain levels of net worth, and prescribed ratios of indebtedness to total capital and operating income excluding depreciation and amortization of interest expense, would result in a default under the existing borrowing documentation that would permit the lenders to declare all borrowings under such documentation to be immediately due and payable and, through cross default provisions, would entitle DENTSPLY's other lenders to accelerate their loans. DENTSPLY may not be able to meet its obligations under its outstanding indebtedness in the event that any cross default provisions are triggered.

After closing the Astra Tech acquisition, DENTSPLY has a significant amount of indebtedness. A breach of the covenants under DENTSPLY's debt instruments outstanding from time to time could result in an event of default under the applicable agreement.

In connection with the financing of the acquisition of Astra Tech, the Company incurred additional debt of approximately \$1.2 billion. As a consequence, after closing the Acquisition, DENTSPLY has a significant amount of indebtedness. DENTSPLY also has the ability to incur up to \$500 million of indebtedness under the Revolving Credit Facility and may incur significantly more indebtedness in the future.

DENTSPLY's level of indebtedness and related debt service obligations could have negative consequences including:

- making it more difficult for the Company to satisfy its obligations with respect to its indebtedness;
- requiring DENTSPLY to dedicate significant cash flow from operations to the payment of principal and interest on its indebtedness, which would reduce the funds the Company has available for other purposes, including working capital, capital expenditures and acquisitions; and
- reducing DENTSPLY's flexibility in planning for or reacting to changes in its business and market conditions.

DENTSPLY's current indebtedness contains a number of covenants and financial ratios, which it is required to satisfy. Under the agreements governing the DENTSPLY's 4.11% Senior Notes due 2016, the Company will be required to maintain a ratio of consolidated debt to consolidated EBITDA of less than or equal to 3.50 to 1.00. The Company may

need to reduce the amount of its indebtedness outstanding from time to time in order to comply with such ratio, but no assurance can be given that DENTSPLY will be able to do so. DENTSPLY's failure to maintain such ratio or a breach of the other covenants under its debt instruments outstanding from time to time could result in an event of default under the applicable agreement. Such a default may allow the creditors to accelerate the related indebtedness and may result in the acceleration of any other indebtedness to which a cross-acceleration or cross-default provision applies.

Changes in our credit ratings or macroeconomic impacts on credit markets may increase our cost of capital and limit financing options.

We utilize the short and long-term debt markets to obtain capital from time to time. Adverse changes in our credit ratings may result in increased borrowing costs for future long-term debt or short-term borrowing facilities which may in turn limit financing options, including our access to the unsecured borrowing market. We may also be subject to additional restrictive covenants that would reduce our flexibility. In addition, macroeconomic conditions, such as continued or increased volatility or disruption in the credit markets, would adversely affect our ability to refinance existing debt or obtain additional financing to support operations or to fund new acquisitions or capital-intensive internal initiatives.

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.

Issues related to the quality and safety of the Company's products, ingredients or packaging could cause a product recall resulting in harm to the Company's reputation and negatively impacting the Company's operating results.

The Company's products generally maintain a good reputation with customers and end-users. Issues related to quality and safety of products, ingredients or packaging, could jeopardize the Company's image and reputation. Negative publicity related to these types of concerns, whether valid or not, might negatively impact demand for the Company's products or cause production and delivery disruptions. The Company may need to recall products if they become unfit for use. In addition, the Company could potentially be subject to litigation or government action, which could result in payment of fines or damages. Cost associated with these potential actions could negatively affect the Company's operating results, financial condition and liquidity.

The Company relies heavily on information and technology to operate its business networks, and any disruption to its technology infrastructure or the Internet could harm the Company's operations.

DENTSPLY operates many aspects of its business including financial reporting and customer relationship management through server- and web-based technologies, and stores various types of data on such servers or with third-parties who may in turn store it on servers or in the "cloud". Any disruption to the Internet or to the Company's or its service providers' global technology infrastructure, including malware, insecure coding, "Acts of God," attempts to penetrate networks, data leakage and human error, could pose a threat to the Company's operations. While DENTSPLY has invested and continues to invest in information technology risk management and disaster recovery plans, these measures cannot fully insulate the Company from technology disruptions or data loss and the resulting adverse effect on the Company's operations and financial results.

#### Item 1B. Unresolved Staff Comments

None.





## Item 2. Properties

The following is a listing of DENTSPLY's principal manufacturing and distribution locations at December 31, 2013:

| Location                    | Function   | Leased or Owned |
|-----------------------------|--|-----------------|
| United States:              |  |                 |
| Milford, Delaware (1)       | Manufacture of dental consumable products  | Owned           |
| Sarasota, Florida (2)       | Manufacture of orthodontic accessory products  | Owned           |
| Des Plaines, Illinois (1)   | Manufacture and assembly of dental handpieces  | Leased          |
| Elgin, Illinois (1)         | Manufacture of dental x-ray film holders, film mounts and accessories                                | Owned/Leased    |
| Waltham, Massachusetts (4)  | Manufacture and distribution of dental implant products  | Leased          |
| Islandia, New York (2)      | Manufacture and distribution of orthodontic products and materials                                   | Leased          |
| Maumee, Ohio (1)            | Manufacture and distribution of investment casting products  | Owned           |
| Lancaster, Pennsylvania (1) | Distribution of dental products  | Leased          |
| York, Pennsylvania (1)      | Manufacture and distribution of artificial teeth and other dental laboratory products                | Owned           |
| York, Pennsylvania (1)      | Manufacture of small dental equipment, bone grafting products, and preventive dental products        | Owned           |
| Johnson City, Tennessee (4) | Manufacture and distribution of endodontic instruments and materials                                 | Leased          |
| Foreign:                    |  |                 |
| Hasselt, Belgium (4)        | Manufacture and distribution of dental products  | Owned           |
| Leuven, Belgium (4)         | Manufacture and distribution of 3D digital implantology  | Leased          |
| Catanduva, Brazil (4)       | Manufacture and distribution of dental anesthetic products   | Owned           |
| Petropolis, Brazil (4)      | Manufacture and distribution of artificial teeth, dental consumable products and endodontic material | Owned           |
| Shanghai, China (1)         | Manufacture and distribution of dental laboratory products   | Leased          |
| Tianjin, China (4)          | Manufacture and distribution of dental products  | Leased          |

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-K

|                            |   |              |
|----------------------------|---|--------------|
| Ivry Sur-Seine, France (3) | Manufacture and distribution of investment casting products   | Leased       |
| Bohmte, Germany (1)        | Manufacture and distribution of dental laboratory products  | Owned        |
| Hanau, Germany (1)         | Manufacture and distribution of precious metal dental alloys, dental ceramics and dental implant products | Owned        |
| Konstanz, Germany (1)      | Manufacture and distribution of dental consumable products  | Owned        |
| Mannheim, Germany (4)      | Manufacture and distribution of dental implant products   | Owned/Leased |
| Munich, Germany (4)        | Manufacture and distribution of endodontic  | Owned        |

18

---

|                              |   |              |
|------------------------------|---|--------------|
|                              | instruments and materials   |              |
| Radolfzell, Germany (5)      | Distribution of dental products   | Leased       |
| Rosbach, Germany (1)         | Manufacture and distribution of dental ceramics   | Owned        |
| Badia Polesine, Italy (1)    | Manufacture and distribution of dental consumable products  | Owned/Leased |
| Otawara, Japan (2)           | Manufacture and distribution of precious metal dental alloys, dental consumable products and orthodontic products | Owned        |
| Mexicali, Mexico (2)         | Manufacture and distribution of orthodontic products and materials  | Leased       |
| Hoorn, Netherlands (1)       | Distribution of precious metal dental alloys and dental ceramics and refinery of precious metals                  | Owned        |
| HA Soest, Netherlands (2)    | Distribution of orthodontic products  | Leased       |
| Katikati, New Zealand (1)    | Manufacture of dental consumable products   | Leased       |
| Warsaw, Poland (1)           | Manufacture and distribution of dental consumable products  | Owned        |
| Las Piedras, Puerto Rico (1) | Manufacture of crown and bridge materials   | Owned        |
| Möln dal, Sweden (4)         | Manufacture and distribution of dental implant products and consumable medical devices                            | Owned        |
| Ballaigues, Switzerland (4)  | Manufacture and distribution of endodontic instruments, plastic components and packaging material                 | Owned        |

(1) These properties are included in the Dental Consumables and Laboratory segment.

(2) These properties are included in the Orthodontics/Canada/Mexico/Japan segment.

(3) These properties are included in the Select Distribution segment.

(4) These properties are included in the Implants/Endodontics/Healthcare/Pacific Rim segment.

(5) This property is a distribution warehouse not managed by named segments.

In addition, the Company maintains sales and distribution offices at certain of its foreign and domestic manufacturing facilities, as well as at various other U.S. and international locations. The Company maintains offices in Toronto, Mexico City, Paris, Rome, Weybridge, Möln dal, Hong Kong and Melbourne and other international locations. Most of these sites around the world that are used exclusively for sales and distribution are leased.

The Company also owns its corporate headquarters located in York, Pennsylvania.

DENTSPLY believes that its properties and facilities are well maintained and are generally suitable and adequate for the purposes for which they are used.

### Item 3. Legal Proceedings

Incorporated by reference to Part II, Item 8, Note 19, Commitments and Contingencies, to the Consolidated Financial Statements in this Form 10-K.

## Executive Officers of the Registrant

The following table sets forth certain information regarding the executive officers of the Company as of February 20, 2014.

| Name                  | Age | Position   |
|-----------------------|-----|--|
| Bret W. Wise          | 53  | Chairman of the Board and Chief Executive Officer    |
| Christopher T. Clark  | 52  | President and Chief Financial Officer                |
| James G. Mosch        | 56  | Executive Vice President and Chief Operating Officer |
| Robert J. Size        | 55  | Senior Vice President                                |
| Albert J. Sterkenburg | 50  | Senior Vice President                                |
| Deborah M. Rasin      | 47  | Vice President, Secretary and General Counsel        |

Bret W. Wise has served as Chairman of the Board and Chief Executive Officer of the Company since January 1, 2007 and also served as President in 2007 and 2008. Prior to that time, Mr. Wise served as President and Chief Operating Officer in 2006, as Executive Vice President in 2005 and Senior Vice President and Chief Financial Officer from December 2002 through December 2004. Prior to that time, Mr. Wise was Senior Vice President and Chief Financial Officer with Ferro Corporation of Cleveland, OH (1999 - 2002), Vice President and Chief Financial Officer at WCI Steel, Inc., of Warren, OH, (1994 - 1999) and prior to that he was a partner with KPMG LLP. During 2012, Mr. Wise was elected a member of the Board of Directors of the Pall Corporation.

Christopher T. Clark has served as President and Chief Financial Officer of the Company since April 8, 2013. He also served as President and Chief Operating Officer from 2009 through April 2013 and as Executive Vice President and Chief Operating Officer in 2007 and 2008. Prior to that time, Mr. Clark served as Senior Vice President (2003 - 2006), as Vice President and General Manager of DENTSPLY's global imaging business (1999 - 2002), as Vice President and General Manager of the Prosthetics Division (1996 - 1999), and as Director of Marketing of DENTSPLY'S Prosthetics Division (1992 - 1996). Prior to September 1992, Mr. Clark held various brand management positions with Proctor & Gamble.

James G. Mosch has served as Chief Operating Officer since April 8, 2013 and as Executive Vice President since January 1, 2009. Prior to that time, he served as Senior Vice President (2003-2009) and as Vice President and General Manager of DENTSPLY's Professional division, beginning in July 1994 when he started with the Company. Prior to 1994, Mr. Mosch served in general management and marketing positions with Baxter International and American Hospital Supply Corporation.

Robert J. Size has served as Senior Vice President since January 1, 2007. Prior to that, Mr. Size served as a Vice President (2006) and as Vice President and General Manager of DENTSPLY's Caulk division beginning June 2003 through December 31, 2005. Prior to that time, he was the Chief Executive Officer and President of Superior MicroPowders and held various cross-functional and international leadership positions with The Cookson Group.

Albert J. Sterkenburg, D.D.S. has served as Senior Vice President since January 1, 2009. Prior to that, Dr. Sterkenburg served as Vice President (2006 - 2009), Vice President and General Manager of the DeguDent division (2003 - 2006) and Vice President and General Manager of the VDW division beginning in 2000. Prior to that time, he served in marketing and general management roles at Johnson & Johnson.

Deborah M. Rasin has served as Vice President, Secretary and General Counsel of the Company since March 7, 2011. Prior to that, she served since 2006 as Vice President, General Counsel and Secretary of Samsonite Corporation, where she oversaw all legal, compliance and corporate governance matters of a Delaware-incorporated global

consumer goods company. Prior to joining Samsonite, Ms. Rasin served as a senior corporate attorney at General Motors Corporation, and as an associate at various international law firms. Ms. Rasin received her J.D. from Harvard Law School in 1992.

Item 4. Mine Safety Disclosure

Not Applicable

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Quarterly Stock Market and Dividend Information

The Company's common stock is traded on the NASDAQ National Market under the symbol "XRAY." The following table shows, for the periods indicated, the high, low, closing sale prices and cash dividends declared of the Company's common stock as reported on the NASDAQ National Market:

|                | Market Range of Common Stock |         | Period-end<br>Closing<br>Price | Cash<br>Dividend<br>Declared |
|----------------|------------------------------|---------|--------------------------------|------------------------------|
|                | High                         | Low     |                                |                              |
| 2013           |                              |         |                                |                              |
| First Quarter  | \$43.63                      | \$39.36 | \$42.44                        | \$0.0625                     |
| Second Quarter | 44.21                        | 39.90   | 40.96                          | 0.0625                       |
| Third Quarter  | 45.37                        | 40.81   | 43.41                          | 0.0625                       |
| Fourth Quarter | 50.99                        | 42.99   | 48.48                          | 0.0625                       |
| 2012           |                              |         |                                |                              |
| First Quarter  | \$40.32                      | \$34.77 | \$40.13                        | \$0.055                      |
| Second Quarter | 41.38                        | 35.88   | 37.81                          | 0.055                        |
| Third Quarter  | 39.27                        | 35.04   | 38.14                          | 0.055                        |
| Fourth Quarter | 40.82                        | 35.83   | 39.61                          | 0.055                        |

The Company estimates, based on information supplied by its transfer agent, that there are 325 holders of record of the Company's common stock. Approximately 68,900 holders of the Company's common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

## Stock Repurchase Program

The Board of Directors has authorized the Company to repurchase shares under its stock repurchase program in an amount up to 34.0 million shares of common stock. The table below contains certain information with respect to the repurchase of shares of the Company's common stock during the quarter ended December 31, 2013:

(in thousands, except per share amounts)

| Period              | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid Per<br>Share | Total Cost<br>of Shares<br>Purchased | Number of<br>Shares that<br>May Yet be<br>Purchased<br>Under the Share<br>Repurchase<br>Program |
|---------------------|--|------------------------------------|--------------------------------------|---|
| October 1-31, 2013  | —                                      | \$—                                | \$—                                  | 13,962.8  |
| November 1-30, 2013 | 220,400                                | 47.55                              | 10,479.5                             | 13,908.8  |
| December 1-31, 2013 | 737,573                                | 47.68                              | 35,163.9                             | 13,465.9  |
|                     | 957,973                                | \$47.65                            | \$45,643.4                           |   |





Stock Authorized for Issuance Under Equity Compensation Plans

The following table provides information about the Company's common stock that may be issued under equity compensation plans at December 31, 2013:

(in thousands, except share price)

| Plan Category  | Securities to Be Issued Upon Exercise of Outstanding Options | Weighted Average Exercise Price per Share | Securities Available for Future Issuance |
|--|--|---|--|
| Equity compensation plans approved by security holders | 9,425,749  | \$35.50                                   | 9,441,618                                |
| Total  | 9,425,749  | \$35.50                                   | 9,441,618                                |

## Performance Graph

The following graph compares the Company's cumulative total stockholder return (Common Stock price appreciation plus dividends, on a reinvested basis) over the last five fiscal years with the NASDAQ Composite Index, the Standard & Poor's S&P 500 Index and the Standard & Poor's S&P Health Care Index.

|                             | 12/08  | 12/09  | 12/10  | 12/11  | 12/12  | 12/13  |
|-----------------------------|--------|--------|--------|--------|--------|--------|
| DENTSPLY International Inc. | 100.00 | 125.35 | 122.53 | 126.22 | 143.70 | 176.89 |
| NASDAQ Composite            | 100.00 | 144.88 | 170.58 | 171.30 | 199.99 | 283.39 |
| S&P 500                     | 100.00 | 126.46 | 145.51 | 148.59 | 172.37 | 228.19 |
| S&P Health Care             | 100.00 | 119.70 | 123.17 | 138.85 | 163.69 | 231.55 |

## Item 6. Selected Financial Data

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
SELECTED FINANCIAL DATA

(in thousands, except per share amounts, days and percentages)

|  | Year ended December 31, |             |             |             |             |   |
|--|-------------------------|-------------|-------------|-------------|-------------|---|
|  | 2013                    | 2012        | 2011 (a)    | 2010        | 2009        |   |
| <b>Statement of Operations Data:</b>               |                         |             |             |             |             |   |
| Net sales  | \$2,950,770             | \$2,928,429 | \$2,537,718 | \$2,221,014 | \$2,159,378 |   |
| Net sales, excluding precious metal content        | 2,771,728               | 2,714,698   | 2,332,589   | 2,031,757   | 1,990,666   |   |
| Gross profit                                       | 1,577,412               | 1,556,387   | 1,273,440   | 1,130,158   | 1,106,363   |   |
| Restructuring and other costs                      | 13,356                  | 25,717      | 35,865      | 10,984      | 6,890       |   |
| Operating income                                   | 419,166                 | 381,939     | 300,728     | 380,273     | 381,243     |   |
| Income before income taxes                         | 369,335                 | 330,679     | 256,111     | 357,656     | 363,356     |   |
| Net income   | 318,161                 | 318,489     | 247,446     | 267,335     | 274,412     |   |
| Net income attributable to DENTSPLY International  | \$313,192               | \$314,213   | \$244,520   | \$265,708   | \$274,258   |   |
| <b>Earnings per common share:</b>                  |                         |             |             |             |             |   |
| Basic  | \$2.20                  | \$2.22      | \$1.73      | \$1.85      | \$1.85      |   |
| Diluted  | \$2.16                  | \$2.18      | \$1.70      | \$1.82      | \$1.83      |   |
| <b>Cash dividends declared per common share</b>    |                         |             |             |             |             |   |
|  | \$0.250                 | \$0.220     | \$0.205     | \$0.200     | \$0.200     |   |
| <b>Weighted Average Common Shares Outstanding:</b> |                         |             |             |             |             |   |
| Basic  | 142,663                 | 141,850     | 141,386     | 143,980     | 148,319     |   |
| Diluted  | 144,965                 | 143,945     | 143,553     | 145,985     | 150,102     |   |
| <b>Balance Sheet Data:</b>                         |                         |             |             |             |             |   |
| Cash and cash equivalents                          | \$74,954                | \$80,132    | \$77,128    | \$540,038   | \$450,348   |   |
| Property, plant and equipment, net                 | 637,172                 | 614,705     | 591,445     | 423,105     | 439,619     |   |
| Goodwill and other intangibles, net                | 3,076,919               | 3,041,595   | 2,981,163   | 1,381,798   | 1,401,682   |   |
| Total assets                                       | 5,078,047               | 4,972,297   | 4,755,398   | 3,257,951   | 3,087,932   |   |
| Total debt, current and long-term portions         | 1,476,040               | 1,520,998   | 1,766,711   | 611,769     | 469,325     |   |
| Equity   | 2,577,974               | 2,249,443   | 1,884,151   | 1,909,912   | 1,906,958   |   |
| Return on average equity                           | 13.0                    | % 15.2      | % 12.9      | % 13.9      | % 15.4      | % |
| Total net debt to total capitalization (b)         | 35.2                    | % 39.0      | % 47.3      | % 3.6       | % 1.0       | % |
| <b>Other Data:</b>                                 |                         |             |             |             |             |   |
| Depreciation and amortization                      | \$127,903               | \$129,199   | \$85,035    | \$65,912    | \$65,175    |   |
| Cash flows from operating activities               | 417,848                 | 369,685     | 393,469     | 377,461     | 362,489     |   |
| Capital expenditures                               | 100,345                 | 92,072      | 71,186      | 44,236      | 56,481      |   |
| Interest expense (income), net                     | 41,502                  | 48,091      | 35,577      | 20,835      | 16,864      |   |

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-K

|                    |      |       |       |        |        |   |
|--------------------|------|-------|-------|--------|--------|---|
| Inventory days     | 114  | 106   | 100   | 100    | 99     |   |
| Receivable days    | 56   | 53    | 54    | 54     | 55     |   |
| Effective tax rate | 14.1 | % 2.7 | % 4.3 | % 25.0 | % 24.5 | % |

(a) Includes the results of the Astra Tech acquisition from September 1, 2011 through December 31, 2011.

(b)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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following Management's Discussion and Analysis of Financial Conditions and Results of Operations ("MD&A") is intended to help the reader understand the Company's operations and business environment. MD&A is provided as a supplement to, and should be read in conjunction with, the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K. The following discussion includes forward-looking statements that involve certain risks and uncertainties. See "Forward-Looking Statements" in the beginning of this Form 10-K. The MD&A includes the following sections:

- **Business** - a general description of DENTSPLY's business and how performance is measured;
- **Results of Operations** - an analysis of the Company's consolidated results of operations for the three years presented in the consolidated financial statements;
- **Critical Accounting Estimates** - a discussion of accounting policies that require critical judgments and estimates; and
- **Liquidity and Capital Resources** - an analysis of cash flows; debt and other obligations; and aggregate contractual obligations.

2013 Operational Highlights

For the year ended December 31, 2013, sales grew by 0.8% on a reported basis and grew 2.1%, excluding precious metal content. The sales growth excluding precious metal content was driven by internal growth of 1.9%, with acquisitions and currency translation each adding 0.1%. This internal sales growth was comprised of increases of 3.8% in the United States, 0.2% in Europe and 2.7% in the rest of world regions.

During 2013 the Company completed the integration of its regional sales and marketing organizations of the combined DENTSPLY Implants organization. Integration efforts during the year and continuing into 2014 are now primarily focused on efficiency improvements, including in-sourcing of certain products previously produced by outside parties.

Operating margins on a reported basis for the year ended December 31, 2013 increased 120 basis points to 14.2% from 13.0% in fiscal 2012. On an adjusted basis (a non-US GAAP measure), excluding precious metals and certain other items, operating margin improved by 10 basis points to 17.6% from 17.5%.

Operating cash flow for the year ended December 31, 2013 was \$418 million, an all time record for the Company and a 13% increase versus \$370 million in fiscal year 2012.

BUSINESS

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 Measurements

The principal measurements used by the Company in evaluating its business are: (1) internal sales growth by geographic region; (2) constant currency sales 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) sales growth through acquisition.

The Company defines “internal sales 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 sales growth. The Company defines “net acquisition sales growth” as the net sales, excluding precious metal content, for a period of twelve months following

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

The primary drivers of internal growth includes global dental market growth, innovation and new products launched by the Company, and continued investments in sales and marketing resources, including clinical education. Management believes that over time, the Company’s ability to execute its strategies allows it to grow at a modest premium to the growth rate of the underlying dental market. Management further believes that the global dental market has generally in the past and should over time in the future grow at a premium to underlying economic growth rates. Considering all of these factors, the Company assumes that the long-term growth rate for the dental market will range from 3% to 6% on average and that the Company targets a slight premium to market growth. Over the past several years, growth in the global dental and other healthcare markets have been restrained by lower economic growth in Western Europe and certain other markets compared to historical averages and, accordingly, market growth rates, and the Company’s internal growth rate remains uncertain in the near term.

The Company’s business is subject to quarterly fluctuations of consolidated net sales and net income. The Company typically implements most of its price changes at the beginning of the first or fourth quarters. Price changes, other marketing and promotional programs as well as the management of inventory levels by distributors and the implementation of strategic initiatives, may impact sales levels in a given period.

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

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

The Company will continue to pursue opportunities to expand the Company’s product offerings through acquisitions. Although the professional dental and the consumable medical device markets in which the Company operates have experienced consolidation, they remain fragmented. Management believes that there will continue to be adequate opportunities to participate as a consolidator in the industry for the foreseeable future.

#### 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 65% to 70% of the Company’s net sales located in regions outside the U.S., the Company’s consolidated net sales are impacted negatively by the strengthening or positively by the weakening of the U.S. dollar. 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

Certain reclassifications have been made to prior years' data in order to conform to the current year presentation. Specifically, during the year ended 2013, the Company realigned certain implant and implant related businesses as a result of changes to the management structure. The segment information below reflects the revised structure for all periods shown.

## RESULTS OF OPERATIONS

2013 Compared to 2012

## Net Sales

The discussion below summarizes the Company's sales growth, excluding precious metal content, into the following components: (1) constant currency sales growth, which includes internal sales growth and net acquisition sales growth, and (2) foreign currency translation. These disclosures of net sales growth provide the reader with sales results on a comparable basis between periods.

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 cost of the precious metal content of the Company's sales is largely passed 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 US GAAP, and is therefore considered a non-US GAAP measure. The Company provides the following reconciliation of net sales to net sales, excluding precious metal content. The Company's definitions and calculations of net sales, excluding precious metal content, and other operating measures derived using net sales, excluding precious metal content, may not necessarily be the same as those used by other companies.

| (in millions)                               | Year Ended December 31, |           |           |          |
|---|-------------------------|-----------|-----------|----------|
|   | 2013                    | 2012      | \$ Change | % Change |
| Net sales                                   | \$2,950.8               | \$2,928.4 | \$22.4    | 0.8 %    |
| Less: Precious metal content of sales       | 179.1                   | 213.7     | (34.6)    | (16.2 %) |
| Net sales, excluding precious metal content | \$2,771.7               | \$2,714.7 | \$57.0    | 2.1 %    |

During 2013, net sales, excluding precious metal content increased \$57.0 million from 2012. The 2.1% increase in net sales, excluding precious metal content, included constant currency sales growth of 2.0%. The constant currency sales growth was comprised of internal sales growth of 1.9% and acquisition sales growth of 0.1%. Precious metal content of sales declined compared to the same period in 2012, primarily as a result of a decline in use of precious metal alloys in dentistry.

## Constant Currency Sales Growth

The following table includes growth rates for net sales, excluding precious metal content.

| Year Ended December 31, 2013 |        |                   |           |
|------------------------------|--------|-------------------|-----------|
| United States                | Europe | All Other Regions | Worldwide |

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-K

|                                |     |       |        |        |   |
|--------------------------------|-----|-------|--------|--------|---|
| Internal sales growth          | 3.8 | % 0.2 | % 2.7  | % 1.9  | % |
| Net acquisition sales growth   | —   | % 0.2 | % (0.1 | %) 0.1 | % |
| Constant currency sales growth | 3.8 | % 0.4 | % 2.6  | % 2.0  | % |

United States

During 2013, net sales, excluding precious metal content, increased by 3.8% on a constant currency basis. The increase was primarily due to internal sales growth in dental specialty and dental consumables product categories.

## Europe

During 2013, net sales, excluding precious metal content, increased by 0.4% on a constant currency basis, including 0.2% of net acquisition sales growth. The increase in net sales, excluding precious metal content, was primarily driven by an increase in consumable medical products, partially offset by lower sales of dental specialty products when compared to the year ago period.

## All Other Regions

During 2013, net sales, excluding precious metal content, increased 2.6% on a constant currency basis. The internal sales growth was 2.7%, driven by increased sales across all product categories.

## Gross Profit

| (in millions)   | Year Ended December 31, |           | \$ Change | % Change |   |
|---|-------------------------|-----------|-----------|----------|---|
|   | 2013                    | 2012      |           |          |   |
| Gross profit  | \$1,577.4               | \$1,556.4 | \$21.0    | 1.3      | % |
| Gross profit as a percentage of net sales, including precious metal content | 53.5                    | % 53.1    | %         |          |   |
| Gross profit as a percentage of net sales, excluding precious metal content | 56.9                    | % 57.3    | %         |          |   |

Gross profit as a percentage of net sales, excluding precious metal content, decreased 40 basis points during 2013 compared to 2012. The margin rate decline was primarily the impact of the medical device federal excise tax mandated by the Affordable Care Act that became effective January 1, 2013.

## Expenses

## Selling, General and Administrative ("SG&amp;A") Expenses

| (in millions)  | Year Ended December 31, |           | \$ Change | % Change |     |
|--|-------------------------|-----------|-----------|----------|-----|
|  | 2013                    | 2012      |           |          |     |
| SG&A expenses  | \$1,144.9               | \$1,148.7 | \$(3.8)   | (0.3)    | (%) |
| SG&A expenses as a percentage of net sales, including precious metal content | 38.8                    | % 39.2    | %         |          |     |
| SG&A expenses as a percentage of net sales, excluding precious metal content | 41.3                    | % 42.3    | %         |          |     |

SG&A expenses as a percentage of net sales, excluding precious metal content, improved 100 basis points as compared to 2012 primarily as a result cost savings across a number of businesses and synergies from the integration activities of recent acquisitions.

## Restructuring and Other Costs

| (in millions)                 | Year Ended December 31, |        | \$ Change | % Change |     |
|-------------------------------|-------------------------|--------|-----------|----------|-----|
|                               | 2013                    | 2012   |           |          |     |
| Restructuring and other costs | \$13.4                  | \$25.7 | \$(12.3)  | (47.9)   | (%) |

The Company recorded net restructuring and other costs of \$13.4 million in 2013 compared to \$25.7 million in 2012. In 2013, restructuring costs of \$12.0 million related to the closure and consolidation of facilities in an effort to streamline the Company's operations and better leverage the Company's resources. Restructuring and other costs also includes net expense of \$1.4 million related to an impairment of previously acquired technology partially offset by a net gain on legal settlements.

In 2012, restructuring and other costs of \$25.7 million included restructuring cost of \$17.8 million related to the implant integration activity as well as the closure and consolidation of facilities in an effort to streamline the Company's operations and

28

---

better leverage the Company's resources. Restructuring and other costs also included \$5.2 million related to impairment of previously acquired technologies.

#### Other Income and Expenses

| (in millions)                  | Year Ended December 31, |        |           |
|--------------------------------|-------------------------|--------|-----------|
|                                | 2013                    | 2012   | \$ Change |
| Net interest expense           | \$41.5                  | \$48.1 | \$(6.6 )  |
| Other expense (income), net    | 8.3                     | 3.2    | 5.1       |
| Net interest and other expense | \$49.8                  | \$51.3 | \$(1.5 )  |

#### Net Interest Expense

Net interest expense for the year ended December 31, 2013 was \$6.6 million lower compared to the year ended December 31, 2012. The net decrease is a result of lower average debt levels in 2013 compared to the same period in 2012 and positive net interest recorded on net investment hedges due to lower average interest rates on euro and Swiss franc hedge contracts compared to the prior year period. The net decrease was partially offset by lower investment income due to lower investment balances, lower interest rates and a lower coupon rate on convertible bonds.

#### Other Expense (Income), Net

Other expense (income), net for the year ended December 31, 2013 was \$5.1 million higher compared to the year ended December 31, 2012. Other expense (income), net for the year ended December 31, 2013 was \$8.3 million, comprised primarily of \$6.9 million of interest expense and fair value adjustments on cross currency basis swaps not designated as hedges that offset currency risk on intercompany loans, and \$2.1 million of currency transaction losses offset by \$0.7 million of other non-operating income. Other expense (income), net for the year ended December 31, 2012 was \$3.2 million, including \$2.7 million of currency transaction losses and \$0.5 million of non-operating expenses.

#### Income Taxes and Net Income

| (in millions, except per share amounts)                          | Year Ended December 31, |          |           |
|--|-------------------------|----------|-----------|
|  | 2013                    | 2012     | \$ Change |
| Effective income tax rate  | 14.1                    | % 2.7    | %         |
| Equity in net income (loss) of unconsolidated affiliated company | \$1.0                   | \$(3.3 ) | \$4.3     |
| Net income attributable to noncontrolling interests              | \$5.0                   | \$4.3    | \$0.7     |
| Net income attributable to DENTSPLY International                | \$313.2                 | \$314.2  | \$(1.0 )  |
| Diluted earnings per common share                                | \$2.16                  | \$2.18   |           |

#### Provision for Income Taxes

The Company's effective tax rate for 2013 and 2012 was 14.1% and 2.7%, respectively. The Company's effective tax rate for 2013 was favorably impacted by the Company's post-acquisition restructuring activities, the recording of tax benefits of \$9.4 million related to U.S. federal legislative changes enacted in January 2013 relating to 2012, a tax

benefit of \$2.2 million for the release of a valuation allowance and \$10.3 million of benefits related to prior year tax matters. During 2012, the Company entered into various legal entity restructuring activities to complete the integration of the Astra Tech business acquired in August 2011. In addition to the specific tax integration of the Astra Tech subsidiaries with legacy DENTSPLY subsidiaries, the Company also realigned much of its foreign legal entity structure to better align operations and cash management activities. As a part of this restructuring, the Company was able to capture an overall net benefit from anticipated tax losses of \$57.7 million. Most of the cash flow benefit from this tax matter, including utilization of an existing credit carryforward of approximately \$49.6 million will

be realized over the next several years after 2012. Also, the Company recognized \$12.0 million of tax benefit from a reduction in foreign tax rates and separately recorded a valuation allowance on previously recognized assets of \$10.4 million. Further information regarding the details of income taxes is presented in Note 14, Income Taxes, to the consolidated financial statements in this Form 10-K.

In 2013, the Company's effective tax rate included the impact of amortization of purchased intangible assets, integration and restructuring and other costs as well as various income tax adjustments which impacted income before taxes and the provisions for income taxes by \$72.9 million and \$43.7 million, respectively. In 2012, the Company's effective tax rate included the impact of amortization of purchased intangible assets, integration and restructuring and other costs as well as various income tax adjustments which impacted income before taxes and the provisions for income taxes by \$91.7 million and \$90.0 million, respectively.

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

The Company's 17% ownership investment of DIO Corporation ("DIO") resulted in a net earnings of \$1.0 million on an after-tax basis for 2013. 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 gain incurred by DIO was approximately \$1.2 million. In 2012, equity in net loss in DIO was \$3.3 million on an after-tax basis, which includes the Company's portion of the mark-to-market net loss incurred by DIO of approximately \$3.1 million.

#### Net income attributable to noncontrolling interests

The portion of consolidated net income attributable to noncontrolling interests increased \$0.7 million from 2013 to 2012 primarily due to increased sales and earnings by such entities.

#### 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. 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. Beginning 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

30

---

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.

| (in thousands, except per share amounts)  | Year Ended December 31, 2013 |                          |
|---|------------------------------|--------------------------|
|   | Net Income                   | Per Diluted Common Share |
| Net income attributable to DENTSPLY International   | \$313,192                    | \$2.16                   |
| Amortization of purchased intangible assets, net of tax                                   | 32,309                       | 0.22                     |
| Restructuring and other costs, net of tax   | 9,721                        | 0.07                     |
| Acquisition related activities, net of tax  | 5,890                        | 0.04                     |
| Credit risk and fair value adjustments to outstanding derivatives, net of tax             | 2,339                        | 0.02                     |
| Gain on fair value adjustment related to an unconsolidated affiliated company, net of tax | (1,200)                      | (0.01)                   |
| Income tax related adjustments  | (21,054)                     | (0.15)                   |
| Adjusted non-US GAAP earnings   | \$341,197                    | \$2.35                   |
|   |                              |                          |
|   |                              |                          |
| (in thousands, except per share amounts)  | Year Ended December 31, 2012 |                          |
|   | Net Income                   | Per Diluted Common Share |
| Net income attributable to DENTSPLY International   | \$314,213                    | \$2.18                   |
| Amortization of purchased intangible assets, net of tax                                   | 33,612                       | 0.23                     |
| Restructuring and other costs, net of tax   | 18,549                       | 0.13                     |
| Acquisition related activities, net of tax  | 9,299                        | 0.07                     |
| Loss on fair value adjustment related to an unconsolidated affiliated company, net of tax | 2,927                        | 0.02                     |
| Orthodontic business continuity costs, net of tax   | 600                          | —                        |
| Income tax related adjustments  | (59,992)                     | (0.41)                   |
| Adjusted non-US GAAP earnings   | \$319,208                    | \$2.22                   |

### Operating Segment Results

The Company's operating businesses are combined into operating groups, which have overlapping product offerings, geographic 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. Each of

these operating groups covers a wide range of product categories and geographic regions. The product categories and geographic regions often overlap across the groups. Further information regarding the details of each group is presented in Note 5, Segment and Geographic Information, to the consolidated financial statements in this Form 10-K. The management of each group is evaluated for performance and incentive compensation purposes on net third party sales, excluding precious metal content, and segment operating income.

31

---

| Net Sales, Excluding Precious Metal Content<br>(in millions) | Year Ended December 31, |           |           |          |
|--|-------------------------|-----------|-----------|----------|
|  | 2013                    | 2012      | \$ Change | % Change |
| Dental Consumable and Laboratory Businesses                  | \$842.7                 | \$816.3   | \$26.4    | 3.2 %    |
| Orthodontics/Canada/Mexico/Japan                             | \$279.0                 | \$286.7   | \$(7.7)   | (2.7 %)  |
| Select Distribution Businesses                               | \$267.3                 | \$252.1   | \$15.2    | 6.0 %    |
| Implants/Endodontics/Healthcare/Pacific Rim                  | \$1,386.9               | \$1,363.3 | \$23.6    | 1.7 %    |
| Segment Operating Income (Loss)<br>(in millions)             | Year Ended December 31, |           |           |          |
|  | 2013                    | 2012      | \$ Change | % Change |
| Dental Consumable and Laboratory Businesses                  | \$229.6                 | \$223.7   | \$5.9     | 2.6 %    |
| Orthodontics/Canada/Mexico/Japan                             | \$13.9                  | \$14.1    | \$(0.2)   | (1.4 %)  |
| Select Distribution Businesses                               | \$(1.0)                 | \$(4.2)   | \$3.2     | NM       |
| Implants/Endodontics/Healthcare/Pacific Rim                  | \$295.4                 | \$293.0   | \$2.4     | 0.8 %    |
| NM - Not meaningful  |                         |           |           |          |

#### Dental Consumable and Laboratory Businesses

Net sales, excluding precious metal content, increased \$26.4 million, or 3.2%, during 2013 as compared to 2012. Sales on a constant currency basis increased 2.1% coupled with positive currency translation of 1.1% due to the weakening of the U.S. dollar primarily against the euro. Constant currency growth was primarily the result of increased sales of the dental consumable products.

Operating income increased \$5.9 million during 2013 compared to 2012. The improvement in operating income was primarily the result of sales growth.

#### Orthodontics/Canada/Mexico/Japan

Net sales, excluding precious metal content, decreased \$7.7 million, or 2.7%, during 2013 compared to 2012. Sales grew on a constant currency basis by 1.4% which was entirely offset by negative currency translation of 4.1% as currency rates for the Japanese yen and the Canadian dollar weakened compared with the U.S. dollar. The constant currency growth was primarily the result of increased sales of specialty dental products.

Operating income decreased \$0.2 million during 2013 compared to 2012. Excluding the impact of foreign currency fluctuations, there were modest operating income improvements reflecting the ongoing recovery of the orthodontics business.

#### Select Distribution Businesses

Net sales, excluding precious metal content, increased \$15.2 million, or 6.0%, during 2013 compared to 2012. Sales increased by 4.0% on a constant currency basis, while currency translation added 2.0%. The constant currency growth was primarily the result of increased sales of specialty dental products.

Operating income (loss), improved by \$3.2 million in 2013 compared to 2012. The improvement in operating income was primarily the result of sales growth.

## Implants/Endodontics/Healthcare/Pacific Rim

Net sales, excluding precious metal content, increased \$23.6 million, or 1.7%, during 2013 compared to 2012. The sales improvement included sales growth of 1.8% on a constant currency basis slightly offset by the negative impact of foreign currency rates. Constant currency sales growth was primarily the result of increased sales of specialty products despite a decline in implant sales.

Operating income improved \$2.4 million during 2013 compared to 2012, primarily as a result of increased specialty product sales and cost savings activities.

## RESULTS OF OPERATIONS

## 2012 Compared to 2011

| (in millions)                               | Year Ended December 31, |           | \$ Change | % Change |   |
|---|-------------------------|-----------|-----------|----------|---|
|   | 2012                    | 2011      |           |          |   |
| Net sales                                   | \$2,928.4               | \$2,537.7 | \$390.7   | 15.4     | % |
| Less: Precious metal content of sales       | 213.7                   | 205.1     | 8.6       | 4.2      | % |
| Net sales, excluding precious metal content | \$2,714.7               | \$2,332.6 | \$382.1   | 16.4     | % |

In 2012, net sales, excluding precious metal content increased \$382.1 million from 2011. The 16.4% increase in net sales, excluding precious metal content, included constant currency growth of 20.2%, and currency translation, which decreased net sales, excluding precious metal content, by 3.8%. The constant currency sales growth was comprised of internal growth of 4.0% and acquisition growth of 16.2%.

## Constant Currency Sales Growth

The following table includes growth rates for net sales, excluding precious metal content.

|                                | Year Ended December 31, 2012 |        |                   |           |   |
|--------------------------------|------------------------------|--------|-------------------|-----------|---|
|                                | United States                | Europe | All Other Regions | Worldwide |   |
| Internal sales growth          | 3.6                          | % 2.6  | % 7.2             | % 4.0     | % |
| Net acquisition sales growth   | 10.2                         | % 24.9 | % 8.7             | % 16.2    | % |
| Constant currency sales growth | 13.8                         | % 27.5 | % 15.9            | % 20.2    | % |

## United States

During 2012, net sales, excluding precious metal content, increased by 13.8% on a constant currency basis, including 10.2% of acquisition growth. The internal growth rate was 3.6% due to increased demand across all product categories.

## Europe

During 2012, net sales, excluding precious metal content, increased by 27.5% on a constant currency basis, including 24.9% of acquisition growth. The internal growth rate was 2.6% and was primarily driven by sales growth in the

dental specialty, dental consumable and consumable medical device products partially offset by decreased demand for precious metal alloy products within the dental laboratory products category.

#### All Other Regions

During 2012, net sales, excluding precious metal content, increased 15.9% on a constant currency basis, which includes 8.7% of acquisition growth. The internal growth was 7.2%, driven by sales growth in all dental product categories.

## Gross Profit

| (in millions)   | Year Ended December 31, |           | \$ Change | % Change |   |
|---|-------------------------|-----------|-----------|----------|---|
|   | 2012                    | 2011      |           |          |   |
| Gross profit  | \$1,556.4               | \$1,273.4 | \$283.0   | 22.2     | % |
| Gross profit as a percentage of net sales, including precious metal content | 53.1                    | % 50.2    | %         |          |   |
| Gross profit as a percentage of net sales, excluding precious metal content | 57.3                    | % 54.6    | %         |          |   |

Gross profit as a percentage of net sales, excluding precious metal content, increased 2.7% during 2012 compared to 2011. The gross profit rate was positively impacted by improved product pricing, favorable product mix primarily associated with recent acquisitions as well as a favorable rate impact from changes in foreign currency translation rates offset by higher manufacturing costs. In 2011, the gross profit rate was negatively impacted by approximately two percentage points from expensing inventory for the fair value adjustments associated with acquisitions.

## Expenses

## Selling, General and Administrative (“SG&amp;A”) Expenses

| (in millions)  | Year Ended December 31, |         | \$ Change | % Change |   |
|--|-------------------------|---------|-----------|----------|---|
|  | 2012                    | 2011    |           |          |   |
| SG&A expenses  | \$1,148.7               | \$936.8 | \$211.9   | 22.6     | % |
| SG&A expenses as a percentage of net sales, including precious metal content | 39.2                    | % 36.9  | %         |          |   |
| SG&A expenses as a percentage of net sales, excluding precious metal content | 42.3                    | % 40.2  | %         |          |   |

SG&A expenses as a percentage of net sales, excluding precious metal content, was 2.1% higher than in 2011. Increased SG&A expenses as a percent of net sales, excluding precious metal content, was a result of the higher expense rate of the Astra Tech business and \$30.9 million of amortization primarily associated with 2011 acquisitions as well as key global marketing events.

## Restructuring and Other Costs

| (in millions)                 | Year Ended December 31, |        | \$ Change | % Change |     |
|-------------------------------|-------------------------|--------|-----------|----------|-----|
|                               | 2012                    | 2011   |           |          |     |
| Restructuring and other costs | \$25.7                  | \$35.9 | \$(10.2)  | (28.4)   | (%) |

The Company recorded net restructuring and other costs of \$25.7 million in 2012 compared to \$35.9 million in 2011. In 2012, restructuring cost of \$17.8 million were related to the implant integration activity as well as the closure and consolidation of facilities in an effort to streamline the Company’s operations and better leverage the Company’s resources. Restructuring and other costs also include \$5.2 million related to an impairment of previously acquired technology.

In 2011, these costs were related to expenses associated with the acquisition of Astra Tech of \$18.0 million, legal settlement cost of \$12.6 million as well as restructuring costs primarily related to the orthodontic business. Also, the Company recorded certain other costs of \$1.5 million related to an impairment of an intangible asset.



The benefits associated with the 2011 and 2012 restructuring plans were immaterial to the current period. The Company estimates the future annual savings related to these plans to be in the range of \$10 million to \$15 million to be realized over the next three to five years. There is no assurance that future savings will be fully achieved.

## Other Income and Expenses

| (in millions)                  | Year Ended December 31, |        |           |
|--------------------------------|-------------------------|--------|-----------|
|                                | 2012                    | 2011   | \$ Change |
| Net interest expense           | \$48.1                  | \$35.6 | \$12.5    |
| Other expense, net             | 3.2                     | 9.0    | (5.8 )    |
| Net interest and other expense | \$51.3                  | \$44.6 | \$6.7     |

## Net Interest Expense

The change in net interest expense in 2012 compared to 2011 was primarily the result of higher average debt levels and lower cash levels as a result of financing the \$1.8 billion Astra Tech acquisition in 2011. Interest expense increased \$13.0 million over 2011.

## Other Expense, Net

Other expense in the 2012 period included approximately \$2.7 million of currency transaction losses and \$0.5 million of other non-operating expense. Other expense in the 2011 period included approximately \$1.7 million of currency transaction losses, \$2.9 million of interest rate swap terminations, \$3.8 million of Treasury rate lock ineffectiveness, and \$0.6 million of other non-operating expense.

## Income Taxes and Net Income

| (in millions, except per share amounts)                          | Year Ended December 31, |         |           |
|--|-------------------------|---------|-----------|
|  | 2012                    | 2011    | \$ Change |
| Effective income tax rate  | 2.7                     | % 4.3   | %         |
| Equity in net income (loss) of unconsolidated affiliated company | \$(3.3 )                | \$2.4   | \$(5.7 )  |
| Net income attributable to noncontrolling interests              | \$4.3                   | \$2.9   | \$1.4     |
| Net income attributable to DENTSPLY International                | \$314.2                 | \$244.5 | \$69.7    |
| Diluted earnings per common share                                | \$2.18                  | \$1.70  |           |

## Provision for Income Taxes

During 2012, the Company entered into various legal entity restructuring activities to complete the integration of the Astra Tech business acquired in August 2011. In addition to the specific tax integration of the Astra Tech subsidiaries with legacy DENTSPLY subsidiaries, the Company also realigned much of its foreign legal entity structure to better align operations and cash management activities. As a part of this restructuring, the Company was able to capture an overall net benefit from anticipated tax losses of \$57.7 million. Most of the cash flow benefit from this tax matter, including utilization of an existing credit carryforward of approximately \$49.6 million will be realized over the next several years. Also, the Company recognized \$12.0 million of tax benefit from a reduction in foreign tax rates and separately recorded a valuation allowance on previously recognized assets of \$10.4 million. During 2011, the Company recorded a tax benefit from the release of a valuation allowance on previously unrecognized tax loss carryforwards of approximately \$46.7 million. Further information regarding the details of income taxes is presented in Note 14, Income Taxes, to the consolidated financial statements in this Form 10-K.

The Company's effective tax rate for 2012 and 2011 was 2.7% and 4.3%, respectively. In 2012, the Company's effective tax rate included the impact of amortization of purchased intangible assets, integration and restructuring and other costs as well as various income tax adjustments which impacted income before taxes and the provisions for income taxes by \$91.7 million and \$90.0 million, respectively. In 2011, the Company's effective income tax rate included the impact of acquisition related activity, restructuring and other costs, amortization of purchased intangibles from acquisitions and the release of the valuation allowance

and various income tax adjustments, which impacted income before income taxes and the provision for income taxes by \$123.8 million and \$75.4 million, respectively.

Equity in net income (loss) of unconsolidated affiliated company

The Company's 17% ownership investment of DIO Corporation resulted in a net loss of \$3.3 million on an after-tax basis for 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 net loss incurred by DIO was approximately \$3.1 million. In 2011, equity in net income was \$2.4 million on an after-tax basis and the Company's portion of the mark-to-market net gain incurred by DIO was approximately \$2.2 million.

Net income attributable to noncontrolling interests

The portion of consolidated net income attributable to noncontrolling interests increased \$1.4 million from 2012 to 2011 due to higher earnings.

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. 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.

| (in thousands, except per share amounts)  | Year Ended December 31, 2012 |                          |
|---|------------------------------|--------------------------|
|   | Net Income                   | Per Diluted Common Share |
| Net income attributable to DENTSPLY International                                 | \$314,213                    | \$2.18                   |
| Amortization of purchased intangible assets, net of tax                           | 33,612                       | 0.23                     |
| Restructuring and other costs, net of tax   | 18,549                       | 0.13                     |
| Acquisition related activities, net of tax  | 9,299                        | 0.07                     |
| Loss on fair value adjustment at an unconsolidated affiliated company, net of tax | 2,927                        | 0.02                     |
| Orthodontic business continuity costs, net of tax                                 | 600                          | —                        |
| Income tax related adjustments  | (59,992)                     | (0.41)                   |
| Adjusted non-US GAAP earnings   | \$319,208                    | \$2.22                   |
|   |                              |                          |
|   |                              |                          |
| (in thousands, except per share amounts)  | Year Ended December 31, 2011 |                          |
|   | Net Income                   | Per Diluted Common Share |
| Net income attributable to DENTSPLY International                                 | \$244,520                    | \$1.70                   |
| Acquisition related activities, net of tax  | 62,723                       | 0.44                     |
| Amortization of purchased intangible assets, net of tax                           | 14,428                       | 0.10                     |
| Restructuring and other costs, net of tax   | 11,395                       | 0.08                     |

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-K

|   |           |         |   |
|---|-----------|---------|---|
| Orthodontic business continuity costs, net of tax                                 | 2,128     | 0.01    |   |
| Credit risk adjustment to outstanding derivatives, net of tax                     | (783      | ) —     |   |
| Gain on fair value adjustment at an unconsolidated affiliated company, net of tax | (2,486    | ) (0.02 | ) |
| Income tax related adjustments  | (41,053   | ) (0.28 | ) |
| Adjusted non-US GAAP earnings   | \$290,872 | \$2.03  |   |

36

---

## Operating Segment Results

| Net Sales, Excluding Precious Metal Content<br>(in millions) | Year Ended December 31, |         |           |          |
|--|-------------------------|---------|-----------|----------|
|  | 2012                    | 2011    | \$ Change | % Change |
| Dental Consumable and Laboratory Businesses                  | \$816.3                 | \$824.3 | \$(8.0)   | (1.0)%   |
| Orthodontics/Canada/Mexico/Japan                             | \$286.7                 | \$276.2 | \$10.5    | 3.8%     |
| Select Distribution Businesses                               | \$252.1                 | \$252.5 | \$(0.4)   | (0.2)%   |
| Implants/Endodontics/Healthcare/Pacific Rim                  | \$1,363.3               | \$984.5 | \$378.8   | 38.5%    |
| Segment Operating Income (Loss)<br>(in millions)             | Year Ended December 31, |         |           |          |
|  | 2012                    | 2011    | \$ Change | % Change |
| Dental Consumable and Laboratory Businesses                  | \$223.7                 | \$209.4 | \$14.3    | 6.8%     |
| Orthodontics/Canada/Mexico/Japan                             | \$14.1                  | \$13.0  | \$1.1     | 8.5%     |
| Select Distribution Businesses                               | \$(4.2)                 | \$(1.4) | \$(2.8)   | NM       |
| Implants/Endodontics/Healthcare/Pacific Rim                  | \$293.0                 | \$218.4 | \$74.6    | 34.2%    |
| NM - Not meaningful  |                         |         |           |          |

## Dental Consumable and Laboratory Businesses

Net sales, excluding precious metal content, decreased \$8.0 million during the year ended December 31, 2012 as compared to 2011. On a constant currency basis, net sales, excluding precious metals content, increased 2.0%, which was driven primarily by increased sales in the dental consumable businesses partially offset by lower sales in the dental laboratory businesses.

Operating income increased \$14.3 million during the year ended December 31, 2012 compared to 2011. Operating income was positively impacted by an increase in gross profit of approximately \$8 million despite unfavorable currency translation of approximately \$13 million, the increase was mainly the result of product mix. SG&A expenses decreased approximately \$7 million, primarily due to favorable currency translation.

## Orthodontics/Canada/Mexico/Japan

Net sales, excluding precious metal content, increased \$10.5 million, or 3.8%, during the year ended December 31, 2012 compared to 2011. On a constant currency basis, net sales, excluding precious metal content, increased 6.0%. The increase was due to the recovery of the orthodontics business and sales growth in Canada.

Operating income increased \$1.1 million during the year ended December 31, 2012 compared to 2011. Gross profit increased \$2 million mainly due to higher sales despite approximately \$2 million of unfavorable currency translation. SG&A expenses were unchanged as compared to 2011, including favorable foreign currency translation and expenses

related to the relaunch of the orthodontics businesses.

#### Select Distribution Businesses

Net sales, excluding precious metal content, decreased \$0.4 million during the year ended December 31, 2012 compared to 2011. On a constant currency basis, net sales, excluding precious metal content, increased by 8.3% primarily driven by sales demand in all dental product categories with the largest increase in dental specialty products.

37

---

Operating income decreased \$2.8 million during the year ended December 31, 2012 compared to 2011. Gross profit decreased approximately \$5 million primarily due to unfavorable currency translation. SG&A expenses decreased by approximately \$3 million, primarily due to favorable foreign currency translation partially offset by increased selling expense.

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

Net sales, excluding precious metal content, increased \$378.8 million, or 38.5%, during the year ended December 31, 2012 compared to 2011. On a constant currency basis, net sales, excluding precious metal content, increased 42.2% over prior year mostly as a result of the full year of Astra Tech financial results. The 2011 net sales, excluding precious metal content, only included four months of Astra Tech financial results. On a constant currency basis, net sales, excluding precious metal content grew in all businesses.

Operating income increased \$74.6 million, or 34.2% during the year ended December 31, 2012 compared to 2011. Gross margin increased approximately \$289 million primarily due to acquisitions partially offset by approximately \$42 million of unfavorable foreign currency translation. SG&A expenses increased approximately \$215 million primarily due to acquisitions and favorable foreign currency translation of approximately \$27 million.

#### CRITICAL ACCOUNTING JUDGMENTS AND POLICIES

The preparation of the Company's consolidated financial statements in conformity with US GAAP requires the Company to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix and in some cases, actuarial techniques. The Company evaluates these significant factors as facts and circumstances dictate. Some events as described below could cause results to differ significantly from those determined using estimates. The Company has identified the following accounting estimates as those which are critical to its business and results of operations.

##### Business Acquisitions

The Company acquires businesses as well as partial interests in businesses. Acquired businesses are accounted for using the acquisition method of accounting which requires the Company to record assets acquired and liabilities assumed at their respective fair values with the excess of the purchase price over estimated fair values recorded as goodwill. The assumptions made in determining the fair value of acquired assets and assumed liabilities as well as asset lives can materially impact the results of operations.

The Company obtains information during due diligence and through other sources to get respective fair values. Examples of factors and information that the Company uses to determine the fair values include: tangible and intangible asset evaluations and appraisals; evaluations of existing contingencies and liabilities and product line integration information. If the initial valuation for an acquisition is incomplete by the end of the quarter in which the acquisition occurred, the Company will record a provisional estimate in the financial statements. The provisional estimate will be finalized as soon as information becomes available but will only occur up to one year from the acquisition date.

##### Goodwill and Other Long-Lived Assets



### Goodwill and Indefinite-Lived Assets

The Company follows the accounting standards for goodwill and indefinite-lived intangibles, which require an annual test for impairment to goodwill using a fair value approach. In addition to minimum annual impairment tests, the Company also requires that impairment assessments be made more frequently if events or changes in circumstances indicate that the goodwill or indefinite-lived assets might be impaired. If impairment related to goodwill is identified, the resulting charge is determined by recalculating goodwill through a hypothetical purchase price allocation of the fair value and reducing the current carrying value to the extent it exceeds the recalculated goodwill. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized.

## Other Long-Lived Assets

Other long-lived assets, such as definite-lived intangible assets and fixed assets, are amortized or depreciated over their estimated useful lives. In accordance with US GAAP, these assets are reviewed for impairment whenever events or circumstances provide evidence that suggest that the carrying amount of the asset may not be recoverable based upon an evaluation of the identifiable undiscounted cash flows. If impaired based on the identifiable undiscounted cash flows, the asset's fair value is determined using the discounted cash flow and market participant assumptions. The resulting charge reflects the excess of the asset's carrying cost over its fair value.

## Impairment Assessment

Assessment of the potential impairment of goodwill and other long-lived assets is an integral part of the Company's normal ongoing review of operations. Testing for potential impairment of these assets is significantly dependent on numerous assumptions and reflects management's best estimates at a particular point in time. The dynamic economic environments in which the Company's businesses operate and key economic and business assumptions with respect to projected selling prices, increased competition and introductions of new technologies can significantly affect the outcome of impairment tests. Estimates based on these assumptions may differ significantly from actual results. Changes in factors and assumptions used in assessing potential impairments can have a significant impact on the existence and magnitude of impairments, as well as the time at which such impairments are recognized. If there are unfavorable changes in these assumptions, particularly changes in the Company's discount rates, earnings multiples and future cash flows, the Company may be required to recognize impairment charges. Information with respect to the Company's significant accounting policies on goodwill and other long-lived assets are included in Note 1, Significant Accounting Policies, to the consolidated financial statements in this Form 10-K.

## 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. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a decline in expected cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition or slower growth rates, among others. It is important to note that fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill.

Goodwill is allocated among and evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. The Company has several reporting units contained within each operating segment.

The evaluation of impairment involves comparing the current fair value of each reporting unit to its net book value, including goodwill. The Company uses a discounted cash flow model ("DCF model") to estimate the current fair value of its reporting units when testing for impairment, as management believes forecasted operating cash flows are the best indicator of such fair value. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including future sales growth, operating margin growth, benefits from restructuring initiatives, tax rates, capital spending, business initiatives, and working capital changes. These assumptions may vary significantly among the reporting units. Operating cash flow forecasts are based on approved business-unit operating plans for the early years and historical relationships and projections in later years. The weighted average cost of capital ("WACC") rate is estimated for geographic regions and applied to the reporting units located within the regions. The Company has not materially changed its methodology for goodwill impairment testing for the years presented. Due to the many variables inherent in the estimation of a reporting unit's fair value and the relative size of the Company's recorded goodwill, differences in assumptions may have a material effect on the results

of the Company's impairment analysis.

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 each reporting unit 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 exceeds their net book value.

In 2011, the Company had a major acquisition that significantly increased the size of the Company's implants and healthcare businesses. Also in 2011, the Company's orthodontic business suffered a severe supply disruption. The Company continues to closely monitor these businesses given the size and competitive markets in which they operate. Goodwill for these reporting units totaled approximately \$1.6 billion at December 31, 2013.

Should the Company's analysis in the future indicate an increase in discount rates or a degradation in the overall markets served by these reporting units, it could result in impairment of the carrying value of goodwill to its implied fair value. There can be no assurance that the Company's future goodwill impairment testing will not result in a charge to earnings.

#### Annual Indefinite-Lived Intangible Asset Impairment Testing

Indefinite-lived intangible assets consist of tradenames and are not subject to amortization; instead, they are tested for impairment annually or more frequently if indicators of impairment exist or if a decision is made to sell a business. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a decline in expected cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition or slower growth rates, among others. It is important to note that fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of indefinite-lived assets.

The fair value of acquired tradenames is estimated by the use of a relief from royalty method, which values an indefinite-lived intangible asset by estimating the royalties saved through the ownership of an asset. Under this method, an owner of an indefinite-lived intangible asset determines the arm's length royalty that likely would have been charged if the owner had to license the asset from a third party. The royalty, which is based on the estimated rate applied against forecasted sales, is tax-effected and discounted present value using a discount rate commensurate with the relative risk of achieving the cash flow attributable to the asset. Significant management judgment is necessary to determine key assumptions, including projected revenue, royalty rates and appropriate discount rates. Royalty rates used are consistent with those assumed for the original purchase accounting valuation. Other assumptions are consistent with those applied to goodwill impairment testing.

The performance of the Company's 2013 annual impairment test did not result in any impairment of the Company's indefinite-lived assets. If the fair value of each of the Company's indefinite-lived intangibles assets had been hypothetically reduced by 10% or the discount rate had been hypothetically increased by 50 basis points, the fair value of these assets would still exceed their book value.

In 2011, the Company had a major acquisition that significantly increased the size of the Company's implants and healthcare businesses. The Company continues to closely monitor these businesses given the size and competitive markets in which they operate. Indefinite-lived intangible assets related to these reporting unit totaled approximately \$196.8 million at December 31, 2013.

Should the Company's analysis in the future indicate an increase in discount rates or a degradation in the use of the tradenames, it could result in impairment of the carrying value of the indefinite-lived assets to its implied fair value. There can be no assurance that the Company's future indefinite-lived asset impairment testing will not result in a charge to earnings.

#### Litigation

The Company and its subsidiaries are from time to time parties to lawsuits arising out of their respective operations. The Company records liabilities when a loss is probable and can be reasonably estimated. These estimates are typically in the form of ranges, and the Company records the liabilities at the low point of the ranges, when no other point within the ranges are a better estimate of the probable loss. The ranges established by management are based on analysis made by internal and external legal counsel based on information known at the time. If the Company determines a liability to be only reasonably possible, it considers the same information to estimate the possible exposure and discloses any material potential liability. These loss contingencies are monitored regularly for a change in fact or circumstance that would require an accrual adjustment. The Company believes it has estimated liabilities for

probable losses well in the past; however, the unpredictability of litigation and court decisions could cause a liability to be incurred in excess of estimates. Legal costs related to these lawsuits are expensed as incurred.

#### Income Taxes

Income taxes are determined using the liability method of accounting for income taxes. The Company's tax expense includes the U.S. and international income taxes plus the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be permanently invested.

The Company applies a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company recognizes in the 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.

Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. Deferred tax assets are recognized if it is more likely than not that the assets will be realized in future years. The Company establishes a valuation allowance for deferred tax assets for which realization is not likely. At December 31, 2013, the Company recorded a valuation allowance of \$228.8 million against the benefit of certain deferred tax assets of foreign and domestic subsidiaries.

The Company operates within multiple taxing jurisdictions and in the normal course of business is examined in various jurisdictions. The reversal of accruals is recorded when examinations are completed, statutes of limitation are closed or tax laws are changed.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities during the year ended December 31, 2013 were \$417.8 million compared to \$369.7 million during the year ended December 31, 2012. The year over year improvement in cash from operations of \$48.1 million was primarily the result of substantially lower taxes paid partially offset by an increase in working capital. The Company's cash, cash equivalents and short-term investments decreased by \$5.1 million during the year ended December 31, 2013 to \$75.0 million.

For the year ended December 31, 2013, the number of days for sales outstanding in accounts receivable increased by three days to 56 days as compared to 53 days in 2012. On a constant currency basis, the number of days of sales in inventory increased by eight days to 114 days at December 31, 2013 as compared to 106 days at December 31, 2012. The Company has strategically increased inventory in a few businesses as part of transition plans associated with anticipated operational changes. The Company anticipates that inventory levels may continue to increase slightly in 2014 before gradually returning to more normal levels by the end of 2015.

Investing activities during 2013 include capital expenditures of \$100.3 million. The Company also invested \$75.2 million related to the acquisition of two businesses and final payments on previous acquisitions.

At December 31, 2013, the Company had authorization to maintain up to 34.0 million shares of treasury stock under its stock repurchase program as approved by the Board of Directors. Under this program, the Company purchased approximately 2.7 million shares, or approximately 1.9% of average diluted shares outstanding, during 2013 at an average price of \$43.94. At December 31, 2013 and 2012, the Company held 20.5 million shares of treasury stock. The Company also received proceeds of \$66.9 million primarily as a result of 2.3 million stock options exercised during the year ended December 31, 2013.

Total debt decreased by \$45.0 million for the year ended December 31, 2013. DENTSPLY's long-term debt, including the current portion, at December 31, 2013 and 2012 was \$1,370.8 million and \$1,472.9 million, respectively. The Company's long-term debt, including the current portion decreased by a net of \$102.1 million during the year ended December 31, 2013. This net change included a net decrease in borrowings of \$78.4 million, and a decrease of \$23.7 million due to exchange rate fluctuations on debt denominated in foreign currencies. The decrease in long term borrowings reflects refinancing of \$250.0 million floating rate notes with a combination of a new seven year term loan of \$175.0 million and the balance refinanced with short-term commercial paper, which increased \$56.9 million for the year. During the year ended December 31, 2013, the Company's ratio of net debt to total capitalization decreased to 35.3% compared to 39.0% at December 31, 2012. DENTSPLY 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 total equity.

On August 26, 2013, the Company entered into a \$175.0 million variable rate seven-year term loan that matures in August 2020. The term loan is pre-payable at par and has annual principal 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

London Inter-Bank Offered Rate (“LIBOR”) plus 1.125%.

During the fourth quarter of 2013, the Company settled and replaced net investment hedges totaling 533.8 million euros. The settled hedge instruments were cross currency basis swaps that matured in October and December of 2013. The Company replaced these hedges with new foreign exchange forward contracts that have layered maturity dates from March 2014 to June 2015. These net investment hedges were traded at an exchange rate of approximately 1.37 U.S. dollars per euro which resulted in cash payments totaling \$52.7 million to settle the hedges during the fourth quarter of 2013. On December 30, 2013, the Company entered into 22.0 million euro of additional foreign exchange forward contracts designated as hedges of net investments, maturing June 2015. The hedges had an original exchange rate of approximately 1.38 U.S. dollars per euro.

On January 17, 2013, the Company extended 295.5 million Swiss francs of cross currency basis swaps maturing in February, March and April of 2013 with five new swaps totaling 295.5 million Swiss francs maturing in February 2016, March 2017 and

April 2018. These net investment hedges were traded at an exchange rate of approximately 0.93 Swiss francs per U.S. dollar which resulted in cash payments totaling \$55.2 million to settle the hedges in February, March, and April of 2013. The Company will receive three-month U.S. dollar LIBOR and pay three-month Swiss franc LIBOR minus 31.6 basis points.

On January 10, 2013, the Company entered into 347.8 million euro of cross currency basis swaps to hedge a balance sheet liability resulting from a legal entity restructuring pursuant to the Company's acquisition integration plans. The hedges had an original exchange rate of approximately 1.32 U.S. dollars per euro and offset currency revaluation of a euro note payable by a U.S. dollar functional company. On June 19, 2013, the Company terminated these swaps resulting in a cash receipt of \$2.2 million.

On December 20, 2012, the Company established hedges totaling 241.4 million Swiss francs to offset an intercompany Swiss franc note receivable at a U.S. dollar functional entity that was created by a net dividend of 241.4 million Swiss francs. The change in the value of the hedges offset the change in the value of the Swiss franc denominated intercompany note receivable held at a U.S. dollar functional entity. During the year ending December 31, 2013, the Company adjusted the amount of the hedge each quarter to reflect note repayments and maintain an offset to the currency revaluation of the Swiss franc note receivable outstanding. The note and the hedge decreased by 142.3 million Swiss francs as the note was repaid. The hedge settlements resulted in \$7.0 million cash receipt.

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 December 31, 2013, the Company was in compliance with these covenants. The Company also has available an aggregate \$500.0 million under a U.S. dollar commercial paper facility. The five-year revolver 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 December 31, 2013, outstanding borrowings were \$101.9 million under the multi-currency revolving facility

The Company also has access to \$75.4 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 December 31, 2013, \$3.3 million was outstanding under these short-term lines of credit. At December 31, 2013, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of \$469.7 million.

At December 31, 2013, the Company held \$80.8 million of precious metals on consignment from several financial institutions. These 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.

The following table presents the Company's scheduled contractual cash obligations at December 31, 2013:

| Contractual Obligations<br>(in thousands) | Less Than<br>1 Year | 1-3<br>Years | 3-5<br>Years | Greater<br>Than<br>5 Years | Total       |
|---|---------------------|--------------|--------------|----------------------------|-------------|
| Long-term borrowings                      | \$204,656           | \$567,888    | \$17,984     | \$580,305                  | \$1,370,833 |
| Operating leases                          | 38,068              | 50,317       | 33,793       | 21,381                     | 143,559     |



|  |           |           |           |           |             |
|--|-----------|-----------|-----------|-----------|-------------|
| Interest on long-term borrowings, net of interest rate swap agreements | 37,877    | 58,574    | 40,298    | 51,657    | 188,406     |
| Postemployment obligations   | 11,097    | 23,852    | 27,686    | 84,824    | 147,459     |
| Cross currency basis swaps   | 40,756    | 9,187     | 8,655     | —         | 58,598      |
| Precious metal consignment agreements                                  | 80,766    | —         | —         | —         | 80,766      |
| Other commitments  | 89,122    | —         | —         | —         | 89,122      |
|  | \$502,342 | \$709,818 | \$128,416 | \$738,167 | \$2,078,743 |

Due to the uncertainty with respect to the timing of future cash flows associated with the Company's unrecognized tax benefits at December 31, 2013, the Company is unable to make reasonably reliable estimates of the period of cash settlement with the

respective taxing authority; therefore, \$25.2 million of the unrecognized tax benefit has been excluded from the contractual obligations table above (See Note 14, Income Taxes, to the consolidated financial statements in this Form 10-K).

The Company, on an ongoing basis, expects to be able to finance cash requirements, including 2014 capital expenditures in a range of \$120.0 million to \$130.0 million, stock repurchases, debt service, operating leases and potential future acquisitions from the current cash and cash equivalents and short-term investment balances, funds generated from operations and amounts available under its existing credit facilities, which is further discussed in Note 12, Financing Arrangements, to the consolidated financial statements. The Company intends to finance the current portion of long-term debt due in 2014 utilizing the available commercial paper and revolving credit facilities as well as other sources of credit. As noted in the Company's Consolidated Statements of Cash Flows in this Form 10-K, the Company continues to generate strong cash flows from operations, which are used to finance the Company's activities.

At December 31, 2013, the majority of the Company's cash and cash equivalents were held outside of the United States. Most of these balances could be repatriated to the United States, however, under current law, 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 purchase of the remaining shares of one variable interest entity for approximately 62.0 million euros as well as the current portion of long-term debt maturing in 2014 utilizing available commercial paper, cash and other financing.

#### NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 1, Significant Accounting Policies, to the Consolidated Financial Statements in this Form 10-K for a discussion of recent accounting guidance and pronouncements.

#### Item 7A. Quantitative and Qualitative Disclosure About Market Risk

##### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's major market risk exposures are changing interest rates, movements in foreign currency exchange rates and potential price volatility of commodities used by the Company in its manufacturing processes. The Company's policy is to manage interest rates through the use of floating rate debt and interest rate swaps to adjust interest rate exposures when appropriate, based upon market conditions. The Company employs foreign currency denominated debt and currency swaps which serve to partially offset the Company's exposure on its net investments in subsidiaries denominated in foreign currencies. The Company's policy generally is to hedge major foreign currency transaction exposures through foreign exchange forward contracts. These contracts are entered into with major financial institutions thereby minimizing the risk of credit loss. In order to limit the unanticipated earnings fluctuations from volatility in commodity prices, the Company selectively enters into commodity swaps to convert variable raw material costs to fixed costs. The Company does not hold or issue derivative financial instruments for speculative or trading purposes. The Company is subject to other foreign exchange market risk exposure in addition to the risks on its financial instruments, such as possible impacts on its pricing and production costs, which are difficult to reasonably predict, and have therefore not been included below.

##### Foreign Exchange Risk Management

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. The Company primarily uses forward foreign exchange contracts and cross currency basis swaps to hedge these risks.

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 forward foreign exchange contracts as cash flow hedges.

The Company has numerous 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, cross currency basis swaps and foreign exchange forward contracts 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 investment.

At December 31, 2013, a 10% strengthening of the U.S. dollar against all other currencies would improve the net fair value associated with the forward foreign exchange contracts and the cross currency basis swaps by approximately \$81.8 million.

#### 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 and to convert fixed rate debt to variable rate debt. At December 31, 2013, the Company has three groups of significant interest rate swaps. One of the groups of swaps has notional amounts totaling 12.5 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. Another swap has a notional amount of \$150.0 million to effectively convert the underlying fixed interest rate of 4.1% on a portion of the Company's \$250.0 million Private Placement Notes to variable rate for a term of five years, ending February 2016. 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.

At December 31, 2013, an increase of 1.0% in the interest rates on the variable interest rate instruments would increase the Company's interest expense by approximately \$4.7 million.

#### 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. At December 31, 2013, the Company had swaps in place to purchase 1,062 troy ounces of platinum bullion for use in production at an average fixed rate of \$1,452 per troy ounce. In addition, the Company had swaps in place to purchase 79,380 troy ounces of silver bullion for use in production at an average fixed rate of \$24 per troy ounce.

At December 31, 2013, a 10% increase in commodity prices would reduce the fair value liability associated with the commodity swaps by approximately \$0.3 million.

#### Off Balance Sheet Arrangements

##### Consignment Arrangements

The Company consigns the precious metals used in the production of precious metal dental alloy products from various financial institutions. Under these consignment arrangements, the banks own the precious metal, and, accordingly, the Company does not report this consigned inventory as part of its inventory on its consolidated balance sheet. These agreements are cancelable by either party at the end of each consignment period, which typically run for a period of one to nine months; however, because the Company typically has access to numerous financial institutions with excess capacity, consignment needs created by cancellations can be shifted among the other institutions. The consignment agreements allow the Company to take ownership of the metal at approximately the same time customer orders are received and to closely match the price of the metal acquired to the price charged to the customer (i.e., the price charged to the customer is largely a pass through).

As precious metal prices fluctuate, the Company evaluates the impact of the precious metal price fluctuation on its target gross margins for precious metal dental alloy products and revises the prices customers are charged for precious metal dental alloy products accordingly, depending upon the magnitude of the fluctuation. While the Company does not separately invoice customers for the precious metal content of precious metal dental alloy products, the underlying precious metal content is the primary component of the cost and sales price of the precious metal dental alloy products. For practical purposes, if the precious metal prices go up or down by a small amount, the Company will not immediately modify prices, as long as the cost of precious metals embedded in the Company's precious metal dental alloy price closely approximates the market price of the precious metal. If there is a significant change in the price of precious metals, the Company adjusts the price for the precious metal dental alloys, maintaining its margin on the products.

At December 31, 2013, the Company had 171,140 troy ounces of precious metal, primarily gold, platinum, palladium and silver on consignment for periods of less than one year with a market value of \$80.8 million. Under the terms of the consignment agreements, the Company also makes compensatory payments to the consignor banks based on a percentage of the value of the

consigned precious metals inventory. At December 31, 2013, the average annual rate charged by the consignor banks was 0.4%. These compensatory payments are considered to be a cost of the metals purchased and are recorded as part of the cost of products sold.

45

---

Item 8. Financial Statements and Supplementary Data

The information set forth under the captions “Management’s Report on Internal Control Over Financial Reporting,” “Report of Independent Registered Public Accounting Firm,” “Consolidated Statements of Operations,” “Consolidated Statements of Comprehensive Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Changes in Equity,” “Consolidated Statements of Cash Flows,” and “Notes to Consolidated Financial Statements” is filed, in Item 15 in this Form 10-K. Other information required by Item 8 is included in “Computation of Ratios of Earnings to Fixed Charges” filed as Exhibit 12.1 to this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) 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 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, as amended, 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.

(b) Management’s Report on Internal Control Over Financial Reporting

Management’s report on the Company’s internal control over financial reporting is included under Item 15(a)(1) of this Form 10-K.

(c) Changes in Internal Control Over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting that occurred during quarter ended December 31, 2013 that have materially affected, or are likely to materially affect, its internal control over financial reporting.

Item 9B. Other Information

Not applicable.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

The information (i) set forth under the caption “Executive Officers of the Registrant” in Part I of this Form 10-K and (ii) set forth under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2014 Proxy Statement is incorporated herein by reference.

#### Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to the Chief Executive Officer, Chief Financial Officer and the Board of Directors and substantially all of the Company’s management level employees. A copy of the Code of Business Conduct and Ethics is available in the Investor Relations section of the Company’s website at [www.DENTSPLY.com](http://www.DENTSPLY.com). The Company intends to disclose any amendment to its Code of Business Conduct and Ethics that relates to any element enumerated in Item 406(b) of Regulation S-K, and any waiver from a provision of the Code of Business Conduct and Ethics granted to any director, principal executive officer, principal financial officer, principal accounting officer, or any of the Company’s other executive officers, in the Investor Relations section of the Company’s website at [www.DENTSPLY.com](http://www.DENTSPLY.com), within four business days following the date of such amendment or waiver.

#### Item 11. Executive Compensation

The information set forth under the caption “Report on Executive Compensation” in the 2014 Proxy Statement is incorporated herein by reference.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans” in the 2014 Proxy Statement is incorporated herein by reference.

#### Item 13. Certain Relationships and Related Transactions and Director Independence

The information required under this item is presented in the 2014 Proxy Statement, which is incorporated herein by reference.

#### Item 14. Principal Accounting Fees and Services

The information set forth under the caption “Relationship with Independent Registered Public Accounting Firm” in the 2014 Proxy Statement is incorporated herein by reference.



## PART IV

### Item 15. Exhibits and Financial Statement Schedule

#### (a) Documents filed as part of this Report

##### 1. Financial Statements

The following consolidated financial statements of the Company are filed as part of this Form 10-K:

Management's Report on Internal Control Over Financial Reporting  
 Report of Independent Registered Public Accounting Firm  
 Consolidated Statements of Operations - Years ended December 31, 2013, 2012 and 2011  
 Consolidated Statements of Comprehensive Income - Years ended December 31, 2013, 2012 and 2011  
 Consolidated Balance Sheets - December 31, 2013 and 2012  
 Consolidated Statements of Changes in Equity - Years ended December 31, 2013, 2012 and 2011  
 Consolidated Statements of Cash Flows - Years ended December 31, 2013, 2012 and 2011  
 Notes to Consolidated Financial Statements  
 Quarterly Financial Information (Unaudited)

##### 2. Financial Statement Schedule

The following financial statement schedule is filed as part of this Form 10-K and is covered by the Report of Independent Registered Public Accounting Firm:

#### Schedule II — Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required to be included herein under the related instructions or are inapplicable and, therefore, have been omitted.

##### 3. Exhibits

The Exhibits listed below are filed or incorporated by reference as part of the Company's Form 10-K.

| Exhibit Number | Description   |
|----------------|---|
| 3.1            | Restated Certificate of Incorporation (Filed herewith)  |
| 3.2            | By-Laws, as amended (Filed herewith)  |
| 4.1            | (a) United States Commercial Paper Issuing and paying Agency Agreement dated as of August 12, 1999 between the Company and the Chase Manhattan Bank (2) |
|                | (b) United States Commercial Paper Dealer Agreement dated as of March 28, 2002 between the Company and Salomon Smith Barney Inc. (6)                    |
|                | (c) 12.5 Billion Japanese Yen Term Loan Agreement, due March 28, 2012 dated as of July 25, 2008 (9)   |
|                | (d) United States Commercial Paper Dealer Agreement dated as of March 28, 2002 between the Company and J.P. Morgan Chase Bank, N.A. (6)                 |
| 4.4            | \$250.0 Million Private Placement Note Purchase Agreement, due February 19, 2016 dated as of October 16, 2009 (10)                                      |
| 4.5            | 65.0 Million Swiss Franc Term Loan Agreement, due March 1, 2012 dated as of February 24, 2010 (11)  |

- 4.6 \$500.0 Million Credit Agreement, dated as of July 27, 2011 final maturity in July 2016, by and among the Company, the subsidiary borrowers party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A. as administrative agent, Morgan Stanley Senior Funding, Inc. as Syndication Agent, Citigroup Global Markets, Inc., Bank of Tokyo-Mitsubishi UFJ, LTD and Wells Fargo Bank, N.A. as co-documentation agents, and Morgan Stanley Senior Funding, Inc. and J.P. Morgan Securities LLC, as Joint Bookrunners and Joint Lead Arrangers. (12)
- 4.8 Second Amendment to the 65.0 Million Swiss Franc Term Loan Agreement dated August 31, 2011 due September 1, 2016, between the Company, the Lenders, and PNC Bank, National Association , as Agent (12)

48

---

- 4.9 12.5 Billion Japanese Yen Term Loan Agreement between the Company and Bank of Tokyo dated September 21, 2011 due September 28, 2014, between the Company, The Bank of Tokyo as Arranger, Development Bank of Japan, Inc. as Co-Arranger, The Bank of Tokyo-Mitsubishi UFJ, Inc, as Agent, and the Bank of Tokyo-Mitsubishi UFJ, LTD, Development Bank of Japan, Inc., The Shinkumi Federation Bank, Mitsui Sumitomo Insurance Company, Limited, and The Chiba Bank, LTD as Lenders. (12)
- 4.10 \$175.0 Million Credit Agreement dated August 26, 2013 among DENTSPLY International Inc., PNC Bank, National Association as Administrative Agent and the Lenders Party thereto (Filed herewith)
- 4.11 Form of Indenture (13)
- 4.12 Supplemental Indenture, dated August 23, 2011 between DENTSPLY International Inc., as Issuer and Wells Fargo, National Association, as Trustee (14)
- 10.1 1998 Stock Option Plan (1)
- 10.2 2002 Amended and Restated Equity Incentive Plan (8)
- 10.3 Restricted Stock Unit Deferral Plan (7)
- 10.4 (a) Trust Agreement for the Company's Employee Stock Ownership Plan between the Company and T. Rowe Price Trust Company dated as of November 1, 2000 (3)
- (b) Plan Recordkeeping Agreement for the Company's Employee Stock Ownership Plan between the Company and T. Rowe Price Trust Company dated as of November 1, 2000 (3)
- 10.5 DENTSPLY Supplemental Saving Plan Agreement dated as of December 10, 2007 (8)
- 10.6 Amended and Restated Employment Agreement entered February 19, 2008 between the Company and Bret W. Wise\* (8)
- 10.7 Amended and Restated Employment Agreement entered February 19, 2008 between the Company and Christopher T. Clark\* (8)
- 10.8 Amended and Restated Employment Agreement entered February 19, 2008 between the Company and William R. Jellison\* (8)
- 10.10 Amended and Restated Employment Agreement entered February 19, 2008 between the Company and James G. Mosch\* (8)
- 10.11 Amended and Restated Employment Agreement entered February 19, 2008 between the Company and Robert J. Size\* (8)
- 10.12 Amended and Restated Employment Agreement entered January 1, 2009 between the Company's subsidiary, DeguDent GMBH and Albert Sterkenburg\* (9)
- 10.13 DENTSPLY International Inc. Directors' Deferred Compensation Plan effective January 1, 2007, as amended\* (9)
- 10.14 Board Compensation Arrangement\* (15)
- 10.15 Supplemental Executive Retirement Plan effective January 1, 1999, as amended January 1, 2008\* (9)
- 10.16 Incentive Compensation Plan, amended and restated\* (12)
- 10.17 AZ Trade Marks License Agreement, dated January 18, 2001 between AstraZeneca AB and Maillefer Instruments Holdings, S.A. (3)
- 10.18 (a) Precious metal inventory Purchase and Sale Agreement dated November 30, 2001, as amended October 10, 2006 between Bank of Nova Scotia and the Company (7)
- (b) Precious metal inventory Purchase and Sale Agreement dated December 20, 2001 between JPMorgan Chase Bank and the Company (4)
- (c) Precious metal inventory Purchase and Sale Agreement dated December 20, 2001 between Mitsui & Co., Precious Metals Inc. and the Company (4)
- (e) Precious metal inventory Purchase and Sale Agreement dated January 30, 2002 between CommerzbankAG, Frankfurt, and the Company (8)
- (f) Precious metal inventory Purchase and Sale Agreement dated December 6, 2010, as amended February 8, 2013 between HSBC Bank USA, National Association and the Company (Filed herewith)
- (g)

|       |  |
|-------|--|
|       | Precious metal inventory Purchase and Sale Agreement dated April 29, 2013 between The Toronto-Dominion Bank and the Company (Filed herewith) |
| 10.19 | Executive Change in Control Plan for foreign executives, as amended December 31, 2008* (10)  |
| 10.20 | 2010 Equity Incentive Plan, amended and restated (12)  |
| 10.21 | Employment Agreement between the Company and Deborah M. Rasin* (12)  |
| 12.1  | Computation of Ratio of Earnings to Fixed Charges (Filed herewith)   |

|         |   |
|---------|---|
| 21.1    | Subsidiaries of the Company (Filed herewith)  |
| 23.1    | Consent of Independent Registered Public Accounting Firm - PricewaterhouseCoopers LLP |
| 31.1    | Section 302 Certification Statement Chief Executive Officer                           |
| 31.2    | Section 302 Certification Statements Chief Financial Officer                          |
| 32      | Section 906 Certification Statement   |
| 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                                |

\*Management contract or compensatory plan.

- (1) Incorporated by reference to exhibit included in the Company's Registration Statement on Form S-8 dated June 4, 1998 (No. 333-56093).
- (2) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 1999, File No. 0-16211.
- (3) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2000, File No. 0-16211.
- (4) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2001, File No. 0-16211.
- (5) Incorporated by reference to exhibit included in the Company's Registration Statement on Form S-8 dated November 27, 2002 (No. 333-101548).
- (6) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2002, File No. 0-16211.
- (7) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2006, File no. 0-16211.
- (8) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2007, File No. 0-16211.
- (9) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2008, File No. 0-16211
- (10) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2009, File no. 0-16211.
- (11) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2010, File no. 0-16211.
- (12) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2011, File no. 0-16211.

- (13) Incorporated by reference to exhibit included in the Company's Registration Statement on Form S-3 dated August 15, 2011 (No. 333-176307).
- (14) Incorporated by reference to exhibit included in the Company's Form 8-K dated August 29, 2011, File no. 0-16211.
- (15) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2012, File no. 0-16211.

## SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011

| (in thousands)                          | Balance at<br>Beginning<br>of Period | Additions<br>Charged<br>(Credited)<br>To Costs<br>And Expenses | Charged to<br>Other<br>Accounts | Write-offs<br>Net of<br>Recoveries | Translation<br>Adjustment | Balance<br>at End<br>of Period |
|---|--------------------------------------|--|---------------------------------|------------------------------------|---------------------------|--------------------------------|
| Description                             |                                      |  |                                 |                                    |                           |                                |
| Allowance for doubtful accounts:        |                                      |  |                                 |                                    |                           |                                |
| For Year Ended December 31,             |                                      |  |                                 |                                    |                           |                                |
| 2011                                    | \$8,820                              | \$469  | \$7,930                         | (a) \$(1,373)                      | ) \$(941)                 | ) \$14,905                     |
| 2012                                    | 14,905                               | 2,409  | 115                             | (3,798)                            | ) 16                      | ) 13,647                       |
| 2013                                    | 13,647                               | 2,949  | (231)                           | (2,521)                            | ) 369                     | ) 14,213                       |
| Inventory valuation reserves:           |                                      |  |                                 |                                    |                           |                                |
| For Year Ended December 31,             |                                      |  |                                 |                                    |                           |                                |
| 2011                                    | \$35,469                             | \$3,325  | \$697                           | (b) \$(3,924)                      | ) \$(463)                 | ) \$35,104                     |
| 2012                                    | 35,104                               | 2,500  | (78)                            | (4,673)                            | ) (292)                   | ) 32,561                       |
| 2013                                    | 32,561                               | 4,663  | (54)                            | (2,521)                            | ) (410)                   | ) 34,239                       |
| Deferred tax asset valuation allowance: |                                      |  |                                 |                                    |                           |                                |
| For Year Ended December 31,             |                                      |  |                                 |                                    |                           |                                |
| 2011                                    | \$93,054                             | \$(22,400)   | ) \$2,174                       | (c) \$—                            | ) \$(1,070)               | ) \$71,758                     |
| 2012                                    | 71,758                               | 107,995  | —                               | —                                  | (54)                      | ) 179,699                      |
| 2013                                    | 179,699                              | 49,251   | —                               | —                                  | (104)                     | ) 228,846                      |

(a) Amount includes \$7.8 million allowance for Astra Tech opening balance at August 31, 2011.

(b) Amount includes \$1.1 million reserve for Astra Tech opening balance at August 31, 2011.

(c) Amount related to opening balance sheet valuation allowance for Astra Tech at August 31, 2011.

## Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A Company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making its assessment, management used the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its assessment management concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective based on the criteria established in Internal Control - Integrated Framework (1992) issued by the COSO.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears herein.

/s/ Bret W. Wise  
Bret W. Wise  
Chairman of the Board and  
Chief Executive Officer  
February 20, 2014

/s/ Christopher T. Clark  
Christopher T. Clark  
President and  
Chief Financial Officer  
February 20, 2014



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
of DENTSPLY International Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of DENTSPLY International Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2), presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting, appearing under Item 15(a)(1). Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 20, 2014

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share amounts)

|  | Year Ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2013                    | 2012        | 2011        |
| Net sales  | \$2,950,770             | \$2,928,429 | \$2,537,718 |
| Cost of products sold  | 1,373,358               | 1,372,042   | 1,264,278   |
| Gross profit   | 1,577,412               | 1,556,387   | 1,273,440   |
| Selling, general and administrative expenses                     | 1,144,890               | 1,148,731   | 936,847     |
| Restructuring and other costs                                    | 13,356                  | 25,717      | 35,865      |
| Operating income   | 419,166                 | 381,939     | 300,728     |
| Other income and expenses:                                       |                         |             |             |
| Interest expense   | 49,625                  | 56,851      | 43,814      |
| Interest income  | (8,123)                 | ) (8,760    | ) (8,237    |
| Other expense (income), net                                      | 8,329                   | 3,169       | 9,040       |
| Income before income taxes                                       | 369,335                 | 330,679     | 256,111     |
| Provision for income taxes                                       | 52,150                  | 8,920       | 11,016      |
| Equity in net income (loss) of unconsolidated affiliated company | 976                     | (3,270      | ) 2,351     |
| Net income   | 318,161                 | 318,489     | 247,446     |
| Less: Net income attributable to noncontrolling interests        | 4,969                   | 4,276       | 2,926       |
| Net income attributable to DENTSPLY International                | \$313,192               | \$314,213   | \$244,520   |
| Earnings per common share:                                       |                         |             |             |
| Basic  | \$2.20                  | \$2.22      | \$1.73      |
| Diluted  | \$2.16                  | \$2.18      | \$1.70      |
| Weighted average common shares outstanding:                      |                         |             |             |
| Basic  | 142,663                 | 141,850     | 141,386     |
| Diluted  | 144,965                 | 143,945     | 143,553     |

The accompanying notes are an integral part of these financial statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands)

|   | Year Ended December 31, |           |            |
|---|-------------------------|-----------|------------|
|   | 2013                    | 2012      | 2011       |
| Net Income  | \$318,161               | \$318,489 | \$247,446  |
| Other comprehensive income (loss), net of tax:                      |                         |           |            |
| Foreign currency translation adjustments                            | 88,931                  | 93,775    | (208,009 ) |
| Net (loss) gain on derivative financial instruments                 | (29,725 )               | (25,752 ) | 9,258 )    |
| Net unrealized holding (loss) gain on available-for-sale securities | (5,093 )                | 18,338 )  | (11,545 )  |
| Pension liability adjustments                                       | 23,266                  | (39,196 ) | (3,164 )   |
| Total other comprehensive income (loss)                             | 77,379                  | 47,165    | (213,460 ) |
| Total comprehensive income  | 395,540                 | 365,654   | 33,986     |
| Less: Comprehensive income attributable to noncontrolling interests | 7,210                   | 4,671     | 2,730      |
| Comprehensive income attributable to DENTSPLY International         | \$388,330               | \$360,983 | \$31,256   |

The accompanying notes are an integral part of these financial statements



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

|   | December 31, |             |
|---|--------------|-------------|
|   | 2013         | 2012        |
| Assets  |              |             |
| Current Assets:   |              |             |
| Cash and cash equivalents   | \$74,954     | \$80,132    |
| Accounts and notes receivable-trade, net  | 472,802      | 442,412     |
| Inventories, net  | 438,559      | 402,940     |
| Prepaid expenses and other current assets   | 157,487      | 185,612     |
| Total Current Assets  | 1,143,802    | 1,111,096   |
| Property, plant and equipment, net  | 637,172      | 614,705     |
| Identifiable intangible assets, net   | 795,323      | 830,642     |
| Goodwill, net   | 2,281,596    | 2,210,953   |
| Other noncurrent assets, net  | 220,154      | 204,901     |
| Total Assets  | \$5,078,047  | \$4,972,297 |
| Liabilities and Equity  |              |             |
| Current Liabilities:  |              |             |
| Accounts payable  | \$132,789    | \$165,290   |
| Accrued liabilities   | 339,308      | 424,336     |
| Income taxes payable  | 14,446       | 39,191      |
| Notes payable and current portion of long-term debt   | 309,862      | 298,963     |
| Total Current Liabilities   | 796,405      | 927,780     |
| Long-term debt  | 1,166,178    | 1,222,035   |
| Deferred income taxes   | 238,394      | 232,641     |
| Other noncurrent liabilities  | 299,096      | 340,398     |
| Total Liabilities   | 2,500,073    | 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 December 31, 2013 and 2012 | 1,628        | 1,628       |
| Capital in excess of par value  | 255,272      | 246,548     |
| Retained earnings   | 3,095,721    | 2,818,461   |
| Accumulated other comprehensive income (loss)   | (69,062)     | (144,200)   |
| Treasury stock, at cost, 20.5 million shares at December 31, 2013 and 2012  | (748,506)    | (713,739)   |
| Total DENTSPLY International Equity   | 2,535,053    | 2,208,698   |
| Noncontrolling Interests  | 42,921       | 40,745      |
| Total Equity  | 2,577,974    | 2,249,443   |
| Total Liabilities and Equity  | \$5,078,047  | \$4,972,297 |

The accompanying notes are an integral part of these financial statements.

56

---

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(in thousands)

|  | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Total<br>DENTSPLY<br>International<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|--|-----------------|--------------------------------------|----------------------|---|-------------------|--|-----------------------------|-----------------|
| Balance at<br>December 31,<br>2010             | \$ 1,628        | \$ 204,902                           | \$ 2,320,350         | \$ 24,156   | \$(711,650)       | \$ 1,839,386                                 | \$ 70,526                   | \$ 1,909,912    |
| Net income                                     | —               | —                                    | 244,520              | —   | —                 | 244,520                                      | 2,926                       | 247,446         |
| Other<br>comprehensive<br>loss                 | —               | —                                    | —                    | (213,264 )  | —                 | (213,264 )                                   | (196 )                      | (213,460 )      |
| Acquisition of<br>noncontrolling<br>interest   | —               | 22,782                               | —                    | (1,862 )  | —                 | 20,920                                       | (37,008 )                   | (16,088 )       |
| Exercise of stock<br>options                   | —               | (14,677 )                            | —                    | —   | 56,952            | 42,275                                       | —                           | 42,275          |
| Tax benefit from<br>stock options<br>exercised | —               | 1,039                                | —                    | —   | —                 | 1,039  | —                           | 1,039           |
| Share based<br>compensation<br>expense         | —               | 20,947                               | —                    | —   | —                 | 20,947                                       | —                           | 20,947          |
| Funding of<br>Employee Stock<br>Option Plan    | —               | 379                                  | —                    | —   | 2,595             | 2,974  | —                           | 2,974           |
| Treasury shares<br>purchased                   | —               | —                                    | —                    | —   | (79,500 )         | (79,500 )                                    | —                           | (79,500 )       |
| Dividends from<br>noncontrolling<br>interests  | —               | —                                    | —                    | —   | —                 | —  | (174 )                      | (174 )          |
| RSU distributions                              | —               | (5,872 )                             | —                    | —   | 3,626             | (2,246 )                                     | —                           | (2,246 )        |
| RSU dividends                                  | —               | 187                                  | (187 )               | —   | —                 | —  | —                           | —               |
| Cash dividends<br>(\$0.205 per share)          | —               | —                                    | (28,974 )            | —   | —                 | (28,974 )                                    | —                           | (28,974 )       |
| Balance at<br>December 31,<br>2011             | \$ 1,628        | \$ 229,687                           | \$ 2,535,709         | \$ (190,970 )   | \$(727,977)       | \$ 1,848,077                                 | \$ 36,074                   | \$ 1,884,151    |
| Net income                                     | —               | —                                    | 314,213              | —   | —                 | 314,213                                      | 4,276                       | 318,489         |



Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-K

|  |          |            |              |               |               |              |           |              |
|--|----------|------------|--------------|---------------|---------------|--------------|-----------|--------------|
| Other comprehensive income               | —        | —          | —            | 46,770        | —             | 46,770       | 395       | 47,165       |
| Exercise of stock options                | —        | (10,482 )  | —            | —             | 44,665        | 34,183       | —         | 34,183       |
| Tax benefit from stock options exercised | —        | 13,009     | —            | —             | —             | 13,009       | —         | 13,009       |
| Share based compensation expense         | —        | 22,187     | —            | —             | —             | 22,187       | —         | 22,187       |
| Funding of Employee Stock Option Plan    | —        | 370        | —            | —             | 3,271         | 3,641        | —         | 3,641        |
| Treasury shares purchased                | —        | —          | —            | —             | (38,837 )     | (38,837 )    | —         | (38,837 )    |
| RSU distributions                        | —        | (8,453 )   | —            | —             | 5,139         | (3,314 )     | —         | (3,314 )     |
| RSU dividends                            | —        | 230        | (230 )       | —             | —             | —            | —         | —            |
| Cash dividends (\$0.220 per share)       | —        | —          | (31,231 )    | —             | —             | (31,231 )    | —         | (31,231 )    |
| Balance at December 31, 2012             | \$ 1,628 | \$ 246,548 | \$ 2,818,461 | \$ (144,200 ) | \$ (713,739 ) | \$ 2,208,698 | \$ 40,745 | \$ 2,249,443 |
| Net income                               | —        | —          | 313,192      | —             | —             | 313,192      | 4,969     | 318,161      |
| Other comprehensive income               | —        | —          | —            | 75,138        | —             | 75,138       | 2,241     | 77,379       |
| Acquisition of noncontrolling interest   | —        | (3,926 )   | —            | —             | —             | (3,926 )     | (5,034 )  | (8,960 )     |
| Exercise of stock options                | —        | (7,317 )   | —            | —             | 74,230        | 66,913       | —         | 66,913       |
| Tax benefit from stock options exercised | —        | 2,406      | —            | —             | —             | 2,406        | —         | 2,406        |
| Share based compensation expense         | —        | 25,099     | —            | —             | —             | 25,099       | —         | 25,099       |
| Funding of Employee Stock Option Plan    | —        | 959        | —            | —             | 3,698         | 4,657        | —         | 4,657        |
| Treasury shares purchased                | —        | —          | —            | —             | (118,024 )    | (118,024 )   | —         | (118,024 )   |
| RSU distributions                        | —        | (8,795 )   | —            | —             | 5,329         | (3,466 )     | —         | (3,466 )     |
| RSU dividends                            | —        | 298        | (298 )       | —             | —             | —            | —         | —            |
|  | —        | —          | (35,634 )    | —             | —             | (35,634 )    | —         | (35,634 )    |

Cash dividends  
(\$0.250 per share)

Balance at

|                      |          |            |              |              |              |              |           |              |
|----------------------|----------|------------|--------------|--------------|--------------|--------------|-----------|--------------|
| December 31,<br>2013 | \$ 1,628 | \$ 255,272 | \$ 3,095,721 | \$ (69,062 ) | \$ (748,506) | \$ 2,535,053 | \$ 42,921 | \$ 2,577,974 |
|----------------------|----------|------------|--------------|--------------|--------------|--------------|-----------|--------------|

The accompanying notes are an integral part of these financial statements.

57

---

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

|   | Year Ended December 31, |           |             |
|---|-------------------------|-----------|-------------|
|   | 2013                    | 2012      | 2011        |
| Cash flows from operating activities:   |                         |           |             |
| Net income  | \$318,161               | \$318,489 | \$247,446   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |           |             |
| Depreciation  | 81,639                  | 79,456    | 64,039      |
| Amortization of intangible and other assets                                       | 46,264                  | 49,743    | 20,996      |
| Amortization of deferred financing costs  | 4,984                   | 7,045     | 8,023       |
| Deferred income taxes   | (29,156)                | (65,527)  | (88,402)    |
| Share based compensation expense  | 25,099                  | 22,187    | 20,947      |
| Restructuring and other costs - non-cash  | 14,008                  | 20,229    | 2,460       |
| Stock option income tax benefit   | (2,406)                 | (13,009)  | (1,039)     |
| Equity in earnings from unconsolidated affiliates                                 | (976)                   | 3,270     | (2,351)     |
| Other non-cash expense (income)   | 19,760                  | (15,564)  | 20,938      |
| Loss on disposal of property, plant and equipment                                 | 685                     | 808       | 570         |
| Changes in operating assets and liabilities, net of acquisitions:                 |                         |           |             |
| Accounts and notes receivable-trade, net  | (32,532)                | (12,591)  | 1,469       |
| Inventories, net  | (25,367)                | (36,792)  | 21,503      |
| Prepaid expenses and other current assets   | 26,929                  | (15,126)  | (933)       |
| Other noncurrent assets   | (1,065)                 | 853       | (1,560)     |
| Accounts payable  | (36,728)                | 12,843    | 10,816      |
| Accrued liabilities   | (4,187)                 | (976)     | 42,218      |
| Income taxes  | (458)                   | 22,105    | 26,139      |
| Other noncurrent liabilities  | 13,192                  | (7,758)   | 190         |
| Net cash provided by operating activities   | 417,846                 | 369,685   | 393,469     |
| Cash flows from investing activities:   |                         |           |             |
| Cash paid for acquisitions of businesses and equity investments                   | (66,247)                | (4,861)   | (1,787,516) |
| Capital expenditures  | (100,345)               | (92,072)  | (71,186)    |
| Purchase of company owned life insurance policies                                 | (1,500)                 | (1,577)   | —           |
| Cash received on derivative contracts   | 10,784                  | —         | —           |
| Cash paid on derivative contracts   | (104,880)               | (14,221)  | (25,575)    |
| Expenditures for identifiable intangible assets                                   | (1,076)                 | (3,329)   | (3,068)     |
| Liquidations of short-term investments  | —                       | —         | 6           |
| Proceeds from sale of property, plant and equipment                               | 3,033                   | 1,039     | 497         |
| Net cash used in investing activities   | (260,231)               | (115,021) | (1,886,842) |
| Cash flows from financing activities:   |                         |           |             |
| Proceeds from long-term borrowings, net of deferred financing costs               | 174,628                 | —         | 1,106,514   |
| Payments on long-term borrowings  | (251,383)               | —         | (251,932)   |

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-K

|  |            |            |            |
|--|------------|------------|------------|
| (Decrease) increase in short-term borrowings                                       | 57,261     | (228,912 ) | 270,209    |
| Proceeds from exercise of stock options  | 66,913     | 34,183     | 42,275     |
| Excess tax benefits from share based compensation                                  | 2,406      | 13,009     | 1,039      |
| Cash paid for contingent consideration on prior acquisitions                       | —          | (2,519 )   | (3,023 )   |
| Cash paid for acquisition of noncontrolling interests of consolidated subsidiaries | (8,960 )   | —          | (16,088 )  |
| Cash paid for treasury stock   | (118,024 ) | (38,837 )  | (79,500 )  |
| Cash dividends paid  | (34,874 )  | (31,425 )  | (28,632 )  |
| Cash received on derivative contracts  | 7          | —          | —          |
| Cash paid on derivative contracts  | (49,659 )  | (1,108 )   | (38,481 )  |
| Net cash (used in) provided by financing activities                                | (161,685 ) | (255,609 ) | 1,002,381  |
| Effect of exchange rate changes on cash and cash equivalents                       | (1,108 )   | 3,949      | 28,082     |
| Net (decrease) increase in cash and cash equivalents                               | (5,178 )   | 3,004      | (462,910 ) |
| Cash and cash equivalents at beginning of period                                   | 80,132     | 77,128     | 540,038    |
| Cash and cash equivalents at end of period   | \$74,954   | \$80,132   | \$77,128   |
| Supplemental disclosures of cash flow information:                                 |            |            |            |
| Interest paid, net of amounts capitalized  | \$50,469   | \$60,166   | \$34,048   |
| Income taxes paid  | \$49,832   | \$109,544  | \$58,646   |

The accompanying notes are an integral part of these financial statement

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Description of Business

DENTSPLY International Inc. (“DENTSPLY” or the “Company”), designs, develops, manufactures and markets a broad range of consumable dental products for the professional dental market. The Company believes that it is the world’s leading manufacturer and distributor of dental prosthetics, endodontic instruments and materials, and ultrasonic scalers; the leading U.S. manufacturer and distributor of denture teeth, dental handpieces, dental x-ray film holders, film mounts and prophylaxis paste; and a leading worldwide manufacturer or distributor of impression materials, orthodontic appliances, dental cutting instruments, dental implants and restorative dental materials, dental sealants, and crown and bridge materials. The Company also manufactures and distributes consumable medical device products consisting mainly of urological catheters and certain surgical products. The Company distributes its products in over 120 countries under some of the most well established brand names in the industry.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (“US GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company. The Company also consolidates all variable interest entities (“VIE”) where the Company has determined that it has the power to direct the activities that most significantly impact the VIE’s economic performance and shares in either the significant risks or rewards of the VIE. The Company continually reassesses its VIE to determine if consolidation is appropriate. All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in nonconsolidated affiliates (20-50 percent owned companies, joint ventures and partnerships as well as less than 20 percent ownership positions where the Company maintains significant influence over the subsidiary) are accounted for using the equity method.

The accompanying audited Consolidated Statements of Operations for the year ended December 31, 2011 include the results of operations for Astra Tech AB (“Astra Tech”) for the period September 1, 2011 to December 31, 2011.

Cash and Cash Equivalents

Cash and cash equivalents include deposits with banks as well as highly liquid time deposits with maturities at the date of purchase of ninety days or less.

Short-term Investments

Short-term investments are highly liquid time deposits with original maturities at the date of purchase greater than ninety days and with remaining maturities of one year or less.

#### Accounts and Notes Receivable-Trade

The Company sells dental and certain medical products through a worldwide network of distributors and directly to end users. For customers on credit terms, the Company performs ongoing credit evaluation of those customers' financial condition and generally does not require collateral from them. The Company establishes allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company records a provision for doubtful accounts, which is included in "Selling, general and administrative expenses" in the Consolidated Statements of Operations.

Accounts receivable – trade is stated net of these allowances that were \$14.2 million and \$13.6 million at December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, the Company wrote-off \$2.5 million and \$3.8 million, respectively, of accounts receivable that were previously reserved. The Company increased the provision for doubtful accounts by \$2.9 million and \$2.4 million during 2013 and 2012, respectively.

Additionally, notes receivable – trade is stated net of these allowances that were \$0.5 million and \$0.9 million at December 31, 2013 and 2012, respectively. The Company recorded provisions for doubtful accounts on notes receivable – trade of \$0.0 million for 2013 and \$0.1 million for 2012. Additionally, the Company wrote-off \$0.4 million and \$0.2 million in 2013 and 2012, respectively.

#### Inventories

Inventories are stated at the lower of cost or market. At December 31, 2013 and 2012, the cost of \$6.5 million and \$6.3 million, respectively, of inventories was determined by the last in, first-out (“LIFO”) method. The cost of other inventories was determined by the first-in, first-out (“FIFO”) or average cost methods. The Company establishes reserves for inventory estimated to be obsolete or unmarketable equal to the difference between the cost of inventory and estimated market value based upon assumptions about future demand and market conditions.

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 December 31, 2013 and 2012 by \$5.9 million and \$5.9 million, respectively.

#### Valuation of Goodwill and Other Long-Lived Assets

Assessment of the potential impairment of goodwill and other long-lived assets is an integral part of the Company’s normal ongoing review of operations. Testing for potential impairment of these assets is significantly dependent on assumptions and reflects management’s best estimates at a particular point in time. The dynamic economic environments in which the Company’s businesses operate and key economic and business assumptions with respect to projected selling prices, increased competition and introductions of new technologies can significantly affect the outcome of impairment tests. Estimates based on these assumptions may differ significantly from actual results. Changes in factors and assumptions used in assessing potential impairments can have a significant impact on the existence and magnitude of impairments, as well as the time at which such impairments are recognized. If there are unfavorable changes in these assumptions, future cash flows, a key variable in assessing the impairment of these assets, may decrease and as a result the Company may be required to recognize impairment charges. Future changes in the environment and the economic outlook for the assets being evaluated could also result in additional impairment charges being recognized. The following information outlines the Company’s significant accounting policies on long-lived assets by type.

#### Goodwill

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized. Goodwill is tested for impairment annually, during the Company’s second quarter, or when indications of potential impairment exist. The Company monitors for the existence of potential impairment throughout the year. This impairment assessment includes an evaluation of various reporting units, which is an operating segment or one reporting level below the operating segment. The Company performs impairment tests using a fair value approach. The Company compares the fair value of each reporting unit to its carrying amount to determine if there is potential goodwill impairment. If impairment is identified on goodwill, the resulting charge is determined by recalculating goodwill through a hypothetical purchase price allocation of the fair value and reducing the current carrying value to the extent it exceeds the recalculated goodwill.

The Company's fair value approach involves using 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 profit and operating expense assumptions consistent with its historical trends. The total cash flows were discounted based on market participant data, which included the Company's weighted-average cost of capital. The Company considered the current market conditions when determining its assumptions. Lastly, the Company reconciled the aggregate fair values of its reporting units to its market capitalization, which included a reasonable control premium based on market conditions. Additional information related to the testing for goodwill impairment is provided in Note 9, Goodwill and Intangible Assets.



#### Indefinite-Lived Intangible Assets

Indefinite-lived intangible assets consist of tradenames and are not subject to amortization. Valuations of identifiable intangibles assets acquired are based on information and assumptions available at the time of acquisition, using income and market model approaches to determine fair value. In-process research and development assets are not subject to amortization until the product associated with the research and development is substantially complete and is a viable product. At that time, the useful life to amortize the intangible asset is determined by identifying the period in which substantially all the cash flows are expected to be generated and the asset is moved to definite-lived.

These assets are reviewed for impairment annually or whenever events or circumstances suggest that the carrying amount of the asset may not be recoverable. The Company uses an income approach, more specifically a relief from royalty method. Significant management judgment is necessary to determine key assumptions, including projected revenue, royalty rates and appropriate discount rates. Royalty rates used are consistent with those assumed for the original purchase accounting valuation. Other assumptions are consistent with those applied to goodwill impairment testing. If the carrying value exceeds the fair value, an impairment loss in the amount equal to the excess is recognized.

#### Identifiable Definite-Lived Intangible Assets

Identifiable definite-lived intangible assets, which primarily consist of patents, trademarks, brand names, non-compete agreements and licensing agreements, are amortized on a straight-line basis over their estimated useful lives.

Valuations of identifiable intangibles assets acquired are based on information and assumptions available at the time of acquisition, using income and market model approaches to determine fair value.

These assets are reviewed for impairment whenever events or circumstances suggest that the carrying amount of the asset may not be recoverable. The Company closely monitors certain intangible assets related to new and existing technologies for indicators of impairment as these assets have more risk of becoming impaired. Impairment is based upon an initial evaluation of the identifiable undiscounted cash flows. If the initial evaluation identifies a potential impairment, a fair value is determined by using a discounted cash flows valuation. If impaired, the resulting charge reflects the excess of the asset's carrying cost over its fair value.

#### Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. Except for leasehold improvements, depreciation for financial reporting purposes is computed by the straight-line method over the following estimated useful lives: buildings - generally 40 years and machinery and equipment - 4 to 15 years. The cost of leasehold improvements is amortized over the shorter of the estimated useful life or the term of the lease. Maintenance and repairs are expensed as incurred to the statement of operations; replacements and major improvements are capitalized. These assets groups are reviewed for impairment whenever events or circumstances suggest that the carrying amount of the asset group may not be recoverable. Impairment is based upon an evaluation of the identifiable undiscounted cash flows. If impaired, the resulting charge reflects the excess of the asset group's carrying cost over its fair value.

#### Marketable Securities

The Company's marketable securities consist of debt instruments that are classified as available-for-sale in "Other noncurrent assets, net" on the Consolidated Balance Sheets as the instruments mature in December 2015. The Company determined the appropriate classification at the time of purchase and will re-evaluate such designation as of each balance sheet date. In addition, the Company reviews the securities each quarter for indications of possible

impairment. Once identified, the determination of whether the impairment is temporary or other-than-temporary requires significant judgment. The primary factors that the Company considers in classifying the impairment include the extent and time the fair value of each investment has been below cost and the existence of a credit loss. If a decline in fair value is judged other-than-temporary, the basis of the securities is written down to fair value and the amount of the write-down is included as a realized loss.

#### Derivative Financial Instruments

The Company records all derivative instruments on the consolidated balance sheet at fair value and changes in fair value are recorded each period in the consolidated statements of operations or accumulated other comprehensive income (“AOCI”).

The Company employs derivative financial instruments to hedge certain anticipated transactions, firm commitments, and assets and liabilities denominated in foreign currencies. Additionally, the Company utilizes interest rate swaps to convert floating

rate debt to fixed rate, fixed rate debt to floating rate, cross currency basis swaps to convert debt denominated in one currency to another currency, and commodity swaps to fix its variable raw materials costs.

#### Pension and Other Postemployment Benefits

Some of the employees of the Company and its subsidiaries are covered by government or Company-sponsored defined benefit plans. Many of the employees have available to them defined contribution plans. Additionally, certain union and salaried employee groups in the United States are covered by postemployment healthcare plans. Costs for Company-sponsored defined benefit and postemployment benefit plans are based on expected return on plan assets, discount rates, employee compensation increase rates and health care cost trends. Expected return on plan assets, discount rates and health care cost trend assumptions are particularly important when determining the Company's benefit obligations and net periodic benefit costs associated with postemployment benefits. Changes in these assumptions can impact the Company's earnings before income taxes. In determining the cost of postemployment benefits, certain assumptions are established annually to reflect market conditions and plan experience to appropriately reflect the expected costs as actuarially determined. These assumptions include medical inflation trend rates, discount rates, employee turnover and mortality rates. The Company predominantly uses liability durations in establishing its discount rates, which are observed from indices of high-grade corporate bond yields in the respective economic regions of the plans. The expected return on plan assets is the weighted average long-term expected return based upon asset allocations and historic average returns for the markets where the assets are invested, principally in foreign locations. The Company reports the funded status of its defined benefit pension and other postemployment benefit plans on its consolidated balance sheets as a net liability or asset. Additional information related to the impact of changes in these assumptions is provided in Note 15, Benefit Plans.

#### Accruals for Self-Insured Losses

The Company maintains insurance for certain risks, including workers' compensation, general liability, product liability and vehicle liability, and is self-insured for employee related healthcare benefits. The Company accrues for the expected costs associated with these risks by considering historical claims experience, demographic factors, severity factors and other relevant information. Costs are recognized in the period the claim is incurred, and the financial statement accruals include an estimate of claims incurred but not yet reported. The Company has stop-loss coverage to limit its exposure to any significant exposure on a per claim basis.

#### Litigation

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

#### Foreign Currency Translation

The functional currency for foreign operations, except for those in highly inflationary economies, generally has been determined to be the local currency.

Assets and liabilities of foreign subsidiaries are translated at foreign exchange rates on the balance sheet date; revenue and expenses are translated at the average year-to-date foreign exchange rates. The effects of these translation adjustments are reported in Equity within AOCI of the consolidated balance sheets. During the year ended December 31, 2013, the Company had gains of \$14.5 million on its loans designated as hedges of net investments and translation gains of \$72.2 million. During the year ended December 31, 2012, the Company had gains of \$10.1 million on its loans designated as hedges of net investments and translation gains of \$83.3 million.

Foreign exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved and remeasurement adjustments in countries with highly inflationary economies are included in income. Net foreign exchange transaction losses of \$9.0 million, \$2.7 million and \$1.7 million in 2013, 2012, and 2011, respectively, are included in "Other expense (income), net" on the Consolidated Statements of Operations.

## Revenue Recognition

Revenue, net of related discounts and allowances, is recognized when the earnings process is complete. This occurs when products are shipped to or received by the customer in accordance with the terms of the agreement, title and risk of loss have been transferred, collectability is reasonably assured and pricing is fixed or determinable. Net sales include shipping and handling costs collected from customers in connection with the sale. Sales taxes, value added taxes and other similar types of taxes collected from customers in connection with the sale are recorded by the Company on a net basis and are not included in the consolidated statement of operations.

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

A portion of the Company's net sales is comprised of sales of precious metals generated through its precious metal dental alloy product offerings. As the precious metal content of the Company's sales is largely a pass-through to customers, 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 alloy sale prices are typically adjusted when the prices of underlying precious metals change. The precious metals content of sales was \$179.1 million, \$213.7 million and \$205.1 million for 2013, 2012 and 2011, respectively.

## Cost of Products Sold

Cost of products sold represents costs directly related to the manufacture and distribution of the Company's products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling, warehousing and the depreciation of manufacturing, warehousing and distribution facilities. Overhead and related expenses include salaries, wages, employee benefits, utilities, lease costs, maintenance and property taxes.

## Warranties

The Company provides warranties on certain equipment products. Estimated warranty costs are accrued when sales are made to customers. Estimates for warranty costs are based primarily on historical warranty claim experience. Warranty costs are included in "Cost of products sold" in the Consolidated Statements of Operations.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses represent costs incurred in generating revenues and in managing the business of the Company. Such costs include advertising and other marketing expenses, salaries, employee benefits, incentive compensation, research and development, travel, office expenses, lease costs, amortization of capitalized software and depreciation of administrative facilities.

## Research and Development Costs

Research and development ("R&D") costs relate primarily to internal costs for salaries and direct overhead expenses. In addition, the Company contracts with outside vendors to conduct R&D activities. All such R&D costs are charged to expense when incurred. The Company capitalizes the costs of equipment that have general R&D uses and expenses

such equipment that is solely for specific R&D projects. The depreciation expense related to this capitalized equipment is included in the Company's R&D costs. R&D costs are included in "Selling, general and administrative expenses" in the Consolidated Statements of Operations and amounted to \$85.1 million, \$85.4 million and \$66.7 million for 2013, 2012 and 2011, respectively.

#### Stock Compensation

The Company recognizes the compensation cost relating to share-based payment transactions in the financial statements. The cost of share-based payment transactions is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity awards). The compensation cost is only recognized for the portion of the awards that are expected to vest.

## Income Taxes

The Company's tax expense includes U.S. and international income taxes plus the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be permanently invested. Tax credits and other incentives reduce tax expense in the year the credits are claimed. Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. Deferred tax assets are recognized if it is more likely than not that the assets will be realized in future years. The Company establishes a valuation allowance for deferred tax assets for which realization is not likely.

The Company applies a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company recognizes in the 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.

## Earnings Per Share

Basic earnings per share are calculated by dividing net earnings by the weighted average number of shares outstanding for the period. Diluted earnings per share is calculated by dividing net earnings by the weighted average number of shares outstanding for the period, adjusted for the effect of an assumed exercise of all dilutive options outstanding at the end of the period.

## Business Acquisitions

The Company acquires businesses as well as partial interests in businesses. Acquired businesses are accounted for using the acquisition method of accounting which requires the Company to record assets acquired and liabilities assumed at their respective fair values with the excess of the purchase price over estimated fair values recorded as goodwill. The assumptions made in determining the fair value of acquired assets and assumed liabilities as well as asset lives can materially impact the results of operations.

The Company obtains information during due diligence and through other sources to establish respective fair values. Examples of factors and information that the Company uses to determine the fair values include: tangible and intangible asset evaluations and appraisals; evaluations of existing contingencies and liabilities and product line information. If the initial valuation for an acquisition is incomplete by the end of the quarter in which the acquisition occurred, the Company will record a provisional estimate in the financial statements. The provisional estimate will be finalized as soon as information becomes available but will only occur up to one year from the acquisition date.

## Equity Method Investments

Investments in partnerships, joint ventures and less-than-majority-owned subsidiaries in which the Company has significant influence are accounted for under the equity method.

Equity investments are carried at original cost adjusted for the proportionate share of the investees' income, losses and distributions. The Company assesses the carrying value of its equity investments when an indicator of a loss in value is present and records a loss in value of the investment when the assessment indicates that an other-than-temporary decline in the investment exists.

The Company classifies its equity in net earnings of unconsolidated affiliates in the Consolidated Statements of Operations under the title of "Equity in net income (loss) of unconsolidated affiliated company."

### Noncontrolling Interests

The Company reports noncontrolling interest (“NCI”) in a subsidiary as a separate component of Equity in the Consolidated Balance Sheets. Additionally, the Company reports the portion of net income and comprehensive income (loss) attributed to the Company and NCI separately in the Consolidated Statements of Operations. The Company also includes a separate column for NCI in the Consolidated Statements of Changes in Equity.



### Variable Interest Entities

The Company consolidates all VIE where the Company has determined that it has the power to direct the activities that most significantly impact the VIE's economic performance and shares in either the significant risks or rewards of the VIE. The Company continually reassesses VIE to determine if consolidation is appropriate. The Company continues to believe that it is the primary beneficiary of one entity under this accounting guidance.

### Segment Reporting

The Company has numerous operating businesses covering a wide range of products and geographic regions, primarily serving the professional dental market and to a lesser extent the consumable medical device market. Professional dental products represented approximately 88%, 89%, and 93% of sales in 2013, 2012 and 2011, respectively. The Company has four reportable segments and a description of the activities of these segments is included in Note 5, Segment and Geographic Information.

During the year ended December 31, 2013, the Company realigned certain implant and implant related businesses as a result of changes to the business structure. These changes also helped the Company gain operating efficiencies and effectiveness. The segment information reflects the revised structure for all periods shown.

### Fair Value Measurement

#### Recurring Basis

The Company records certain financial assets and liabilities at fair value in accordance with the accounting guidance, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting guidance establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels defined by the fair value hierarchy are as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable reported date. The nature of these financial instruments include, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from, or corroborated by observable market data.

Level 3 - Instruments that have little to no pricing observability as of the reported date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The degree of judgment utilized in measuring the fair value of certain financial assets and liabilities generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument. Financial assets and liabilities with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial assets and liabilities rarely traded or not quoted will generally have less, or no pricing observability and a higher degree of judgment utilized in measuring fair value.

The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Company considers its credit risks and its counterparties' credit risks when determining the fair values of its financial assets and liabilities. The Company has presented the required disclosures in Note 18, Fair Value Measurement.

#### Non-Recurring Basis

When events or circumstances require an asset or liability to be fair valued that otherwise is generally recorded based on another valuation method, such as, net realizable value, the Company will utilize the valuation techniques described above.

## Reclassification of Prior Year Amounts

Certain reclassifications have been made to prior years' 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 - EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share:

| (in thousands, except for per share amounts)                 | Net income<br>attributable to<br>DENTSPLY<br>International | Shares  | Earnings per<br>common share |
|--|--|---------|------------------------------|
| Year Ended December 31, 2013                                 |  |         |                              |
| Basic  | \$ 313,192   | 142,663 | \$2.20                       |
| Incremental shares from assumed exercise of dilutive options |  | 2,302   |                              |
| Diluted  | \$ 313,192   | 144,965 | \$2.16                       |
| Year Ended December 31, 2012                                 |  |         |                              |
| Basic  | \$ 314,213   | 141,850 | \$2.22                       |
| Incremental shares from assumed exercise of dilutive options |  | 2,095   |                              |
| Diluted  | \$ 314,213   | 143,945 | \$2.18                       |
| Year Ended December 31, 2011                                 |  |         |                              |
| Basic  | \$ 244,520   | 141,386 | \$1.73                       |
| Incremental shares from assumed exercise of dilutive options |  | 2,167   |                              |
| Diluted  | \$ 244,520   | 143,553 | \$1.70                       |

Options to purchase 2.3 million, 4.1 million and 3.2 million shares of common stock that were outstanding during the years ended 2013, 2012 and 2011, respectively, were not included in the computation of diluted earnings per common share since the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

## NOTE 3 - COMPREHENSIVE INCOME

AOCI includes foreign currency translation adjustments related to the Company's foreign subsidiaries, net of the related changes in certain financial instruments hedging these foreign currency investments. In addition, changes in the Company's fair value of certain derivative financial instruments, net unrealized holding gain on available-for-sale securities and pension liability adjustments and prior service costs, net are recorded in AOCI. These changes are recorded in AOCI net of any related tax adjustments. For the years ended December 31, 2013, 2012 and 2011, these tax adjustments were \$205.1 million, \$185.6 million and \$167.5 million, respectively, primarily related to foreign currency translation adjustments.

The cumulative foreign currency translation adjustments included translation gains of \$249.9 million and \$177.7 million at December 31, 2013 and 2012, respectively, and were offset by losses of \$108.9 million and \$123.4 million, respectively, on loans designated as hedges of net investments.



Changes in AOCI, net of tax, by component for the years ended December 31, 2013, 2012 and 2011:

| (in thousands)  | Foreign<br>Currency<br>Translation<br>Adjustments | Gains and<br>(Loss) on<br>Derivative<br>Financial<br>Instruments | Net Unrealized<br>Holding Gain<br>(Loss) on<br>Available-for-Sale<br>Securities | Pension<br>Liability<br>Adjustments | Total        |
|---|---|--|---|-------------------------------------|--------------|
| Balance at December 31, 2012  | \$54,302  | \$(143,142 )   | \$ 17,822   | \$(73,182 )                         | \$(144,200 ) |
| Other comprehensive income (loss) before reclassifications              | 86,690  | (31,687 )  | (5,093 )  | 19,478                              | 69,388       |
| Amounts reclassified from accumulated other comprehensive income (loss) | —   | 1,962  | —   | 3,788                               | 5,750        |
| Net increase (decrease) in other comprehensive income                   | 86,690  | (29,725 )  | (5,093 )  | 23,266                              | 75,138       |
| Balance at December 31, 2013  | \$ 140,992  | \$(172,867 )   | \$ 12,729   | \$(49,916 )                         | \$(69,062 )  |
| (in thousands)  | Foreign<br>Currency<br>Translation<br>Adjustments | Gains and<br>(Loss) on<br>Derivative<br>Financial<br>Instruments | Net Unrealized<br>Holding Gain<br>(Loss) on<br>Available-for-Sale<br>Securities | Pension<br>Liability<br>Adjustments | Total        |
| Balance at December 31, 2011  | \$(39,078 )                                       | \$(117,390 )   | \$ (516 )   | \$(33,986 )                         | \$(190,970 ) |
| Other comprehensive income (loss) before reclassifications              | 93,380  | (20,903 )  | 18,338  | (40,474 )                           | 50,341       |
| Amounts reclassified from accumulated other comprehensive income (loss) | —   | (4,849 )   | —   | 1,278                               | (3,571 )     |
| Net increase (decrease) in other comprehensive income                   | 93,380  | (25,752 )  | 18,338  | (39,196 )                           | 46,770       |
| Balance at December 31, 2012  | \$54,302  | \$(143,142 )   | \$ 17,822   | \$(73,182 )                         | \$(144,200 ) |





Reclassification out of accumulated other comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011:

(in thousands)

| Details about AOCI Components  | Amounts Reclassified from AOCI |            |            | Affected Line Item in the Statements of Operations |
|--|--------------------------------|------------|------------|--|
|  | Year Ended December, 31        |            |            |  |
|  | 2013                           | 2012       | 2011       |  |
| <b>Gains and (loss) on derivative financial instruments:</b>                           |                                |            |            |  |
| Interest rate swaps  | \$(3,681                       | ) \$(3,611 | ) \$(4,903 | ) Interest expense                                 |
| Foreign exchange forward contracts   | 1,184                          | 8,029      | 1,503      | Cost of products sold                              |
| Foreign exchange forward contracts   | (147                           | ) 779      | 39         | SG&A expenses                                      |
| Commodity contracts  | (288                           | ) 136      | 273        | Cost of products sold                              |
|  | (2,932                         | ) 5,333    | (3,088     | ) Net (loss) gain before tax                       |
|  | 970                            | (484       | ) 644      | Tax benefit (expense)                              |
|  | \$(1,962                       | ) \$4,849  | \$ (2,444  | ) Net of tax                                       |
| <b>Amortization of defined benefit pension and other postemployment benefit items:</b> |                                |            |            |  |
| Amortization of prior service benefits   | \$ 141                         | \$ 138     | \$ 80      | (a)  |
| Amortization of net actuarial losses   | (5,532                         | ) (1,956   | ) (1,773   | ) (a)  |
|  | (5,391                         | ) (1,818   | ) (1,693   | ) Net loss before tax                              |
|  | 1,603                          | 540        | 526        | Tax benefit  |
|  | \$(3,788                       | ) \$(1,278 | ) \$(1,167 | ) Net of tax                                       |
| Total reclassifications for the period   | \$(5,750                       | ) \$3,571  | \$ (3,611  | )  |

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the years ended December 31, 2013, 2012, and 2011, respectively (see Note 15, Benefit Plans, for additional details).

#### NOTE 4 - BUSINESS ACQUISITIONS AND INVESTMENTS IN AFFILIATES

##### Business Acquisitions

##### 2013 Acquisitions

In November 2013, the Company purchased a Hong Kong-based direct dental selling organization and certain assets of a professional dental consumable New Zealand-based manufacturer. Total purchase price related to these two acquisitions was \$62.3 million subject to final purchase price adjustments. At December 31, 2013, the Company recorded a preliminary estimate of \$52.9 million in goodwill related to the difference between the fair value of assets acquired and liabilities assumed and the consideration given for the acquisitions. The results of operations for these business have been included in the accompanying financial statements as of the effective date of the respective transactions. The purchase prices have been assigned on the basis of preliminary estimates of the fair values of assets acquired and liabilities assumed. These transactions were immaterial to the Company's net sales and net income attributable to DENTSPLY. The Company expects to finalize the fair value of identifiable assets and liabilities assumed during 2014.

Additionally during the year, 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.

#### 2012 Acquisitions

The acquisition related activity for the year ended December 31, 2012 was \$7.4 million, which was related to one acquisition and one earn-out payment for a prior period acquisition. The results of operations for this acquisition have been included in the

69

---

accompanying financial statements as of the effective date of the respective transactions. This transaction was immaterial to the Company's net sales and net income attributable to DENTSPLY.

#### 2011 Acquisition of Astra Tech

On August 31, 2011, the Company acquired 100% of the outstanding common shares of Astra Tech using the available cash on hand and debt financing. Astra Tech is a leading developer, manufacturer and marketer of dental implants, customized implant abutments and consumable medical devices in the urology and surgery market segments. The Astra Tech acquisition was recorded in accordance with the business combinations provisions of US GAAP.

Astra Tech contributed net sales of \$207.1 million and an operating loss of \$18.5 million to the Company's consolidated statements of operations during the period from September 1, 2011 to December 31, 2011 and is included in the Implants/Endodontics/Healthcare/Pacific Rim segment.

The following unaudited pro forma financial information reflects the consolidated results of operations of the Company had the Astra Tech acquisition occurred on January 1, 2011. These amounts were calculated after conversion to US GAAP, applying the Company's accounting policies and adjusting Astra Tech's results to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment, inventory and intangible assets had been applied from January 1, 2011, together with the consequential tax effects at the statutory rate. These adjustments also reflect the additional interest expense incurred on the debt to finance the acquisition.

| (in thousands, except per share data) | Year Ended December 31,<br>2011 |
|---------------------------------------|---------------------------------|
| Net Sales                             | \$2,918,347                     |
| Net income attributable to DENTSPLY   | 250,363                         |
| Diluted earnings per common share     | \$1.74                          |

The pro forma financial information is based on the Company's final assignment of purchase price of the fair value of identifiable assets acquired and liabilities assumed. The Astra Tech financial information has been compiled in a manner consistent with the accounting policies adopted by DENTSPLY. Pro forma results do not include any anticipated synergies or other anticipated benefits of the acquisition. Accordingly, the unaudited pro forma financial information is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition occurred on January 1, 2011.

#### Investment in Affiliates

On December 9, 2010, the Company purchased an initial ownership interest of 17% of the outstanding shares of DIO Corporation ("DIO"). The Company accounts for the ownership in DIO under the equity method of accounting as it has significant influence over DIO. In addition, on December 9, 2010, the Company invested \$49.7 million in the corporate convertible bonds of DIO, which may be converted into common shares at any time. The contractual maturity of the bonds are in December 2015. The bonds are designated by the Company as available-for-sale securities which are reported in, "Other noncurrent assets, net," on the Consolidated Balance Sheets and the changes in fair value are reported in 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 bonds. The cash paid by the Company is equal to the face

value of the bonds issued by DIO, and therefore, the Company has not recorded any bond premium or discount on acquiring the bonds. The fair value of the DIO bonds was \$70.0 million and \$75.1 million at December 31, 2013 and 2012, respectively. For the year ended December 31, 2013, an unrealized holding loss of \$5.1 million on available-for-sale securities, net of tax, had been recorded in AOCI. For the years ended December 31, 2012 and 2011, an unrealized holding gain of \$18.3 million and an unrealized holding loss of \$11.5 million, respectively, were recorded on available-for-sale securities, net of tax, in AOCI.

#### NOTE 5 - SEGMENT AND GEOGRAPHIC INFORMATION

The 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 for the consolidated financial statements in the summary of significant accounting policies (see Note 1, Significant Accounting Policies). The Company measures segment income for reporting purposes as net operating income before restructuring, impairments, and other costs, interest and taxes. Additionally, the operating groups are measured on net third party sales, excluding precious metal content. A description of the products and services provided within each of the Company's four reportable segments is provided below.

During the year ended December 31, 2013, the Company realigned certain implant and implant related businesses as result of changes to the business structure. These changes also helped the Company gain operating efficiencies and effectiveness. The segment information below reflects the revised structure for all periods shown.

#### Dental Consumable and Laboratory Businesses

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

#### Orthodontics/Canada/Mexico/Japan

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

#### Select Distribution Businesses

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

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

This segment includes the responsibility for the design, manufacture, sales and distribution of most of the Company's dental implant and related products. This segment also includes the responsibility for the design and manufacturing of Endodontic products and is responsible for the sales and distribution of the Company's Endodontic products in the United States, Switzerland, and locations not covered by other selling divisions. In addition, this business group is also responsible for sales and distribution of certain Endodontic products in Germany, Asia and other parts of the world. Additionally, this segment is responsible for the design and manufacture of certain dental consumables and dental laboratory products and the sales and distribution of most dental products sold in Brazil, Latin America (excluding Mexico), Australia and most of Asia (excluding India and Japan). This segment is also responsible for the world-wide design, manufacturing, sales and distribution of the Company's medical 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 table sets forth information about the Company's segments for the years ended December 31, 2013, 2012 and 2011.

| Third Party Net Sales<br>(in thousands)     | 2013        | 2012        | 2011        |
|---|-------------|-------------|-------------|
| Dental Consumable and Laboratory Businesses | \$991,694   | \$993,624   | \$992,406   |
| Orthodontics/Canada/Mexico/Japan            | 307,160     | 320,614     | 309,143     |
| Select Distribution Businesses              | 267,949     | 252,632     | 253,421     |
| Implants/Endodontics/Healthcare/Pacific Rim | 1,388,152   | 1,365,231   | 987,778     |
| All Other (a)                               | (4,185      | ) (3,672    | ) (5,030    |
| Total net sales                             | \$2,950,770 | \$2,928,429 | \$2,537,718 |

(a) Includes amounts recorded at Corporate headquarters.

| Third Party Net Sales, Excluding Precious Metal Content<br>(in thousands) | 2013        | 2012        | 2011        |
|---|-------------|-------------|-------------|
| Dental Consumable and Laboratory Businesses                               | \$842,736   | \$816,281   | \$824,341   |
| Orthodontics/Canada/Mexico/Japan  | 278,994     | 286,680     | 276,228     |
| Select Distribution Businesses  | 267,300     | 252,064     | 252,539     |
| Implants/Endodontics/Healthcare/Pacific Rim                               | 1,386,883   | 1,363,344   | 984,509     |
| All Other (b)   | (4,185      | ) (3,671    | ) (5,030    |
| Total net sales, excluding precious metal content                         | \$2,771,728 | \$2,714,698 | \$2,332,587 |
| Precious metal content of sales   | 179,042     | 213,731     | 205,131     |
| Total net sales, including precious metal content                         | \$2,950,770 | \$2,928,429 | \$2,537,718 |

(b) Includes amounts recorded at Corporate headquarters.

| Intersegment Net Sales<br>(in thousands)    | 2013      | 2012       | 2011       |
|---|-----------|------------|------------|
| Dental Consumable and Laboratory Businesses | \$172,827 | \$173,194  | \$167,621  |
| Orthodontics/Canada/Mexico/Japan            | 3,913     | 4,000      | 4,065      |
| Select Distribution Businesses              | 2,129     | 1,534      | 1,549      |
| Implants/Endodontics/Healthcare/Pacific Rim | 143,455   | 139,460    | 158,724    |
| All Other (c)                               | 243,127   | 221,867    | 211,658    |
| Eliminations                                | (565,451  | ) (540,055 | ) (543,617 |
| Total                                       | \$—       | \$—        | \$—        |

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

| Depreciation and Amortization<br>(in thousands) | 2013      | 2012      | 2011     |
|---|-----------|-----------|----------|
| Dental Consumable and Laboratory Businesses     | \$31,137  | \$33,855  | \$34,575 |
| Orthodontics/Canada/Mexico/Japan                | 3,716     | 4,959     | 4,432    |
| Select Distribution Businesses                  | 931       | 964       | 875      |
| Implants/Endodontics/Healthcare/Pacific Rim     | 90,175    | 86,900    | 42,546   |
| All Other (d)                                   | 1,944     | 2,521     | 2,607    |
| Total   | \$127,903 | \$129,199 | \$85,035 |

(d) Includes amounts recorded at Corporate headquarters.





| Segment Operating Income (Loss)<br>(in thousands) | 2013      | 2012       | 2011       |
|---|-----------|------------|------------|
| Dental Consumable and Laboratory Businesses       | \$229,566 | \$223,702  | \$209,353  |
| Orthodontics/Canada/Mexico/Japan                  | 13,946    | 14,104     | 12,998     |
| Select Distribution Businesses                    | (1,005    | ) (4,191   | ) (1,358   |
| Implants/Endodontics/Healthcare/Pacific Rim       | 295,419   | 292,991    | 218,396    |
| All Other (e)                                     | (105,404  | ) (118,950 | ) (102,796 |
| Segment Operating Income                          | \$432,522 | \$407,656  | \$336,593  |
| Reconciling Items:                                |           |            |            |
| Restructuring and other costs                     | 13,356    | 25,717     | 35,865     |
| Interest expense                                  | 49,625    | 56,851     | 43,814     |
| Interest income                                   | (8,123    | ) (8,760   | ) (8,237   |
| Other expense (income), net                       | 8,329     | 3,169      | 9,040      |
| Income before income taxes                        | \$369,335 | \$330,679  | \$256,111  |

(e) Includes results of Corporate headquarters, inter-segment eliminations and one distribution warehouse not managed by named segments. Amount recorded in 2011 includes \$31.9 million of Astra Tech acquisition costs.

| Capital Expenditures<br>(in thousands)      | 2013      | 2012     | 2011     |
|---|-----------|----------|----------|
| Dental Consumable and Laboratory Businesses | \$21,122  | \$18,957 | \$20,693 |
| Orthodontics/Canada/Mexico/Japan            | 14,423    | 9,071    | 7,494    |
| Select Distribution Businesses              | 1,377     | 657      | 1,123    |
| Implants/Endodontics/Healthcare/Pacific Rim | 58,104    | 58,372   | 32,958   |
| All Other (f)                               | 5,319     | 5,015    | 8,918    |
| Total                                       | \$100,345 | \$92,072 | \$71,186 |

(f) Includes capital expenditures of Corporate headquarters.

| Assets<br>(in thousands)                    | 2013        | 2012        |
|---|-------------|-------------|
| Dental Consumable and Laboratory Businesses | \$961,989   | \$1,007,307 |
| Orthodontics/Canada/Mexico/Japan            | 308,393     | 294,348     |
| Select Distribution Businesses              | 166,679     | 192,684     |
| Implants/Endodontics/Healthcare/Pacific Rim | 3,450,670   | 3,195,382   |
| All Other (g)                               | 190,316     | 282,576     |
| Total                                       | \$5,078,047 | \$4,972,297 |

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

#### Geographic Information

The following table sets forth information about the Company's operations in different geographic areas for the years ended December 31, 2013, 2012 and 2011. Net sales reported below represent revenues for shipments made by operating businesses located in the country or territory identified, including export sales. Property, plant and equipment, net, represents those long-lived assets held by the operating businesses located in the respective geographic areas.



| (in thousands)                     | United States | Germany   | Sweden   | Other Foreign | Consolidated |
|------------------------------------|---------------|-----------|----------|---------------|--------------|
| 2013                               |               |           |          |               |              |
| Net sales                          | \$1,011,646   | \$559,109 | \$57,504 | \$1,322,511   | \$2,950,770  |
| Property, plant and equipment, net | 158,673       | 129,685   | 134,083  | 214,731       | 637,172      |
| 2012                               |               |           |          |               |              |
| Net sales                          | \$993,980     | \$546,092 | \$54,507 | \$1,333,850   | \$2,928,429  |
| Property, plant and equipment, net | 148,950       | 122,310   | 133,502  | 209,943       | 614,705      |
| 2011                               |               |           |          |               |              |
| Net sales                          | \$875,471     | \$515,819 | \$20,383 | \$1,126,045   | \$2,537,718  |
| Property, plant and equipment, net | 137,871       | 118,229   | 150,167  | 185,178       | 591,445      |

### Product and Customer Information

The following table presents net sales information by product category:

| (in thousands)                     | December 31, |             |             |
|------------------------------------|--------------|-------------|-------------|
|                                    | 2013         | 2012        | 2011        |
| Dental consumables products        | \$777,935    | \$768,098   | \$766,385   |
| Dental laboratory products         | 472,080      | 511,850     | 515,491     |
| Dental specialty products          | 1,347,417    | 1,313,035   | 1,087,551   |
| Consumable medical device products | 353,338      | 335,446     | 168,291     |
| Total net sales                    | \$2,950,770  | \$2,928,429 | \$2,537,718 |

Dental consumable products consist of value added dental supplies and small equipment products used in dental offices for the treatment of patients. DENTSPLY's products in this category include dental anesthetics, infection control products, prophylaxis paste, dental sealants, impression materials, restorative materials, bone grafting materials, tooth whiteners and topical fluoride. The Company manufactures thousands of different consumable products marketed under more than a hundred brand names. Small equipment products consist of various durable goods used in dental offices for treatment of patients. DENTSPLY's small equipment products include dental handpieces, intraoral curing light systems and ultrasonic scalers and polishers.

Dental laboratory products are used in dental laboratories in the preparation of dental appliances. DENTSPLY's products in this category include dental prosthetics, including artificial teeth, precious metal dental alloys, dental ceramics, crown and bridge materials, and equipment products used in laboratories consisting of computer aided design and machining (CAD/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 material, 3D digital scanning and treatment planning software, dental lasers and orthodontic appliances and accessories.

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

Both in 2013 and 2012, the Company did not have any single customer that represented ten percent or more of DENTSPLY's consolidated net sales. In 2011, one customer, Henry Schein Incorporated, accounted for 11% of DENTSPLY's consolidated net sales. Third party export sales from the U.S. are less than ten percent of consolidated net sales.

## NOTE 6 - OTHER EXPENSE (INCOME), NET

Other expense (income), net, consists of the following:

| (in thousands)                      | December 31, |         |         |
|-------------------------------------|--------------|---------|---------|
|                                     | 2013         | 2012    | 2011    |
| Foreign exchange transaction losses | \$8,982      | \$2,679 | \$1,713 |
| Other (income) expense, net         | (653         | ) 490   | 7,327   |
| Total other expense (income), net   | \$8,329      | \$3,169 | \$9,040 |

Foreign exchange transaction losses for the year ending December 31, 2013 and 2012, included approximately \$6.9 million of interest and fair value adjustments and \$1.3 million of interest on non-designated hedges, respectively. Other expense (income), net in the 2011 period included approximately \$2.9 million of interest rate swap terminations, \$3.8 million of Treasury rate lock ineffectiveness, and \$0.6 million of other non-operating expenses.

## NOTE 7 - INVENTORIES, NET

Inventories, net, consist of the following:

| (in thousands)             | December 31, |           |
|----------------------------|--------------|-----------|
|                            | 2013         | 2012      |
| Finished goods             | \$285,271    | \$248,870 |
| Work-in-process            | 67,718       | 72,533    |
| Raw materials and supplies | 85,570       | 81,537    |
| Inventories, net           | \$438,559    | \$402,940 |

The Company's inventory valuation reserve was \$34.2 million and \$32.6 million at December 31, 2013 and 2012, respectively.

## NOTE 8 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net, consist of the following:

| (in thousands)                     | December 31, |           |
|------------------------------------|--------------|-----------|
|                                    | 2013         | 2012      |
| Assets, at cost:                   |              |           |
| Land                               | \$47,616     | \$45,561  |
| Buildings and improvements         | 427,826      | 409,451   |
| Machinery and equipment            | 907,541      | 848,331   |
| Construction in progress           | 59,583       | 50,647    |
|                                    | 1,442,566    | 1,353,990 |
| Less: Accumulated depreciation     | 805,394      | 739,285   |
| Property, plant and equipment, net | \$637,172    | \$614,705 |

## NOTE 9 - GOODWILL AND INTANGIBLE ASSETS

The Company performed the required annual impairment tests of goodwill at 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

75

---

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.

Impairments of identifiable definite-lived and indefinite-lived intangible assets for the years ended December 31, 2013, 2012 and 2011 were \$2.0 million, \$5.2 million and \$1.5 million, respectively, and are included in “Restructuring and other costs” on the Consolidated Statements of Operations.

A reconciliation of changes in the Company’s goodwill by segment and in total are as follows:

| (in thousands)  | Dental Consumable and Laboratory Businesses | Orthodontics/Canada/Medical/Endodontics | 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 |
| Acquisition activity                                  | 42,998                                      | —                                       | —                              | 9,901                                       | 52,899      |
| Business unit transfers                               | (111,766 )                                  | (4,365 )                                | (29,510 )                      | 145,641                                     | —           |
| Additional consideration for post closing adjustments | —   | —                                       | —                              | 610   | 610         |
| Effect of exchange rate changes                       | 1,844                                       | (2,531 )                                | 3,571                          | 14,250                                      | 17,134      |
| Balance, at December 31, 2013                         | \$421,282                                   | \$ 95,169                               | \$66,534                       | \$ 1,698,611                                | \$2,281,596 |

During 2013, the Company transferred goodwill from other reporting units to the Implants/Endodontics/Healthcare/Pacific Rim segment due to changes in reporting units resulting from the integration of the implant businesses. Affected reporting units were tested for potential impairment of goodwill before and after the transfers. No impairment was identified.

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

| (in thousands)                       | December 31, 2013     |                          |                     | December 31, 2012     |                          |                     |
|--------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                      | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Patents                              | \$181,847             | \$(91,736 )              | \$90,111            | \$179,512             | \$(81,390 )              | \$98,122            |
| Trademarks                           | 85,922                | (35,994 )                | 49,928              | 83,073                | (33,129 )                | 49,944              |
| Licensing agreements                 | 31,950                | (20,992 )                | 10,958              | 30,695                | (18,966 )                | 11,729              |
| Customer relationships               | 497,108               | (82,381 )                | 414,727             | 491,859               | (50,632 )                | 441,227             |
| Total definite-lived                 | \$796,827             | \$(231,103 )             | \$565,724           | \$785,139             | \$(184,117 )             | \$601,022           |
| Trademarks and In-process R&D        | \$229,599             | \$—                      | \$229,599           | \$229,620             | \$—                      | \$229,620           |
| Total identifiable intangible assets | \$1,026,426           | \$(231,103 )             | \$795,323           | \$1,014,759           | \$(184,117 )             | \$830,642           |

Amortization expense for identifiable definite-lived intangible assets for 2013, 2012 and 2011 was \$46.2 million, \$49.7 million and \$21.0 million, respectively. The annual estimated amortization expense related to these intangible assets for each of the five succeeding fiscal years is \$47.7 million, \$46.9 million, \$46.3 million, \$45.6 million and \$44.3 million for 2014, 2015, 2016, 2017 and 2018, respectively.

76

---



## NOTE 10 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

| (in thousands)                            | December 31,<br>2013 | 2012      |
|---|----------------------|-----------|
| Deferred taxes                            | \$86,929             | \$80,903  |
| Prepaid expenses                          | 36,129               | 54,881    |
| Other current assets                      | 34,429               | 49,828    |
| Prepaid expenses and other current assets | \$157,487            | \$185,612 |

## NOTE 11 - ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| (in thousands)   | December 31,<br>2013 | 2012      |
|--|----------------------|-----------|
| Payroll, commissions, bonuses, other cash compensation and employee benefits | \$101,274            | \$96,206  |
| General insurance  | 12,178               | 12,204    |
| Sales and marketing programs   | 38,514               | 32,742    |
| Professional and legal costs   | 14,855               | 12,202    |
| Restructuring costs  | 8,608                | 14,452    |
| Warranty liabilities   | 3,608                | 3,693     |
| Deferred income  | 4,922                | 5,514     |
| Accrued vacation and holidays  | 29,944               | 29,804    |
| Third party royalties  | 11,494               | 11,288    |
| Current portion of derivatives   | 54,367               | 144,195   |
| Other  | 59,544               | 62,036    |
| Accrued liabilities  | \$339,308            | \$424,336 |



## NOTE 12 - FINANCING ARRANGEMENTS

## Short-Term Debt

Short-term debt consisted of the following:

| (in thousands)  | December 31,                 |                  |                              |                  |   |  |
|---|------------------------------|------------------|------------------------------|------------------|---|--|
|   | 2013<br>Principal<br>Balance | Interest<br>Rate | 2012<br>Principal<br>Balance | Interest<br>Rate |   |  |
| Bank overdrafts   | \$1,429                      | 1.0              | % \$123                      | —                | % |  |
| Corporate commercial paper facility                           | 101,900                      | 0.3              | % 45,000                     | 0.5              | % |  |
| Brazil short-term loans                                       | 1,314                        | 2.8              | % 1,000                      | 2.0              | % |  |
| Other short-term loans  | 563                          | 1.8              | % 1,962                      | 3.9              | % |  |
| Add: Current portion of long-term debt                        | 204,656                      |                  | 250,878                      |                  |   |  |
| Total short-term debt   | \$309,862                    |                  | \$298,963                    |                  |   |  |
|   | 2013                         |                  | 2012                         |                  |   |  |
| Maximum month-end short-term debt outstanding during the year | \$417,065                    |                  | \$399,931                    |                  |   |  |
| Average amount of short-term debt outstanding during the year | \$318,817                    |                  | \$248,318                    |                  |   |  |
| Weighted-average interest rate on short-term debt at year-end |                              | 1.6              | %                            | 0.6              | % |  |

## Short-Term Borrowings

The Company has a \$500.0 million commercial paper facility, at December 31, 2013 and 2012 amounts outstanding were \$101.9 million and \$45.0 million, respectively. The Company has a \$500.0 million five-year revolving credit agreement that expires in July 2016, that serves as back-up credit to this commercial paper facility. Amounts outstanding under the commercial paper facility, if any, reduce amounts available under the revolving credit agreement. Average outstanding issued commercial paper during 2013 was \$98.7 million. At December 31, 2013, the Company has classified the commercial paper as short-term debt, reflecting the Company's intent to repay over the next year.

## Long-Term Debt

Long-term debt consisted of the following:

| (in thousands)  | December 31,<br>2013 |                  | 2012                 |                  |   |
|---|----------------------|------------------|----------------------|------------------|---|
|   | Principal<br>Balance | Interest<br>Rate | Principal<br>Balance | Interest<br>Rate |   |
| Floating rate senior notes \$250 million due August 2013                                      | \$—                  | —                | % \$250,000          | 1.8              | % |
| Term loan Japanese yen denominated due September 2014   | 119,213              | 1.0              | % 144,681            | 1.1              | % |
| Private placement notes \$250 million due February 2016                                       | 252,370              | 4.1              | % 254,560            | 4.1              | % |
| Fixed rate senior notes \$300 million due August 2016   | 299,775              | 2.8              | % 299,689            | 2.8              | % |
| Term loan Swiss francs denominated due September 2016   | 72,829               | 1.1              | % 71,027             | 1.2              | % |
| Term loan \$175 million due August 2020   | 175,000              | 1.4              | % —                  | —                | % |
| Fixed rate senior notes \$450 million due August 2021   | 448,809              | 4.2              | % 448,653            | 4.2              | % |
| Other borrowings, various currencies and rates  | 2,838                |                  | 4,303                |                  |   |
|   | \$1,370,834          |                  | \$1,472,913          |                  |   |
| Less: Current portion<br>(included in notes payable and current portion of<br>long-term debt) | 204,656              |                  | 250,878              |                  |   |
| Long-term portion   | \$1,166,178          |                  | \$1,222,035          |                  |   |

The Company has a \$500.0 million five-year revolving credit agreement with participation from sixteen banks, which expires in July 2016. The revolving credit agreement contains a number of covenants and two financial ratios, which the Company is required to satisfy. The most restrictive of these covenants pertain to asset dispositions and prescribed ratios of indebtedness to total capital and operating income excluding depreciation and amortization to interest expense. Any breach of any such covenants or restrictions would result in a default under the existing borrowing documentation that would permit the lenders to declare all borrowings under such documentation to be immediately due and payable and, through cross default provisions, would entitle the Company's other lenders to accelerate their loans. At December 31, 2013, the Company was in compliance with these covenants.

The Company repaid the two-year floating rate senior notes in August 2013. On August 26, 2013, the Company entered into a \$175.0 million variable rate seven-year term loan that matures in August 2020. The term loan is pre-payable at par and has annual principal 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 London Inter-Bank Offered Rate ("LIBOR") plus 1.125%.

The Company's current portion of long-term debt includes a \$75.0 million tranche of the \$250.0 million private placement note ("PPN"), \$8.8 million of the \$175.0 million term loan and the balance of the Japanese yen term loan.

The term loans and PPN contain certain affirmative and negative covenants relating to the Company's operations and financial condition. At December 31, 2013, the Company was in compliance with all debt covenants.

At December 31, 2013, the Company had total unused lines of credit, including lines available under its short-term arrangements and revolving credit agreement, of \$469.7 million.

The table below reflects the contractual maturity dates of the various borrowings at December 31, 2013:

(in thousands)

|                 |             |
|-----------------|-------------|
| 2014            | \$204,656   |
| 2015            | 182,896     |
| 2016            | 384,992     |
| 2017            | 9,064       |
| 2018            | 8,920       |
| 2019 and beyond | 580,306     |
|                 | \$1,370,834 |

79

---

## NOTE 13 - EQUITY

At December 31, 2013, the Company had authorization to maintain up to 34.0 million shares of treasury stock under its stock repurchase program as approved by the Board of Directors. Under its stock repurchase program, the Company purchased 2,685,796 shares and 998,356 shares during 2013 and 2012, respectively, at an average price of \$43.94 and \$38.90, respectively. At both December 31, 2013 and 2012, the Company held 20.5 million of treasury stock shares. During 2013, the Company repurchased outstanding shares at a value of \$118.0 million. The Company also received proceeds of \$66.9 million primarily as a result of 2.3 million stock options exercised during the year ended December 31, 2013. During 2012, the Company repurchased outstanding shares at a value of \$38.8 million. The Company also received proceeds of \$34.2 million primarily as a result of 1.4 million stock options exercised during the year ended December 31, 2012. It is the Company's practice to issue shares from treasury stock when options are exercised. The tax benefit realized for the options exercised during the year ended December 31, 2013 and 2012 is \$3.0 million and \$6.8 million, respectively.

The following table represents total outstanding shares for the years ended December 31:

| (in thousands)                     | Common<br>Shares | Treasury<br>Shares | Outstanding<br>Shares |
|------------------------------------|------------------|--------------------|-----------------------|
| Balance at December 31, 2010       | 162,776          | (21,041            | ) 141,735             |
| Shares issued                      | —                | 2,084              | 2,084                 |
| Repurchase of common stock at cost | —                | (2,187             | ) (2,187 )            |
| Balance at December 31, 2011       | 162,776          | (21,144            | ) 141,632             |
| Shares issued                      | —                | 1,688              | 1,688                 |
| Repurchase of common stock at cost | —                | (998               | ) (998 )              |
| Balance at December 31, 2012       | 162,776          | (20,454            | ) 142,322             |
| Shares issued                      | —                | 2,605              | 2,605                 |
| Repurchase of common stock at cost | —                | (2,686             | ) (2,686 )            |
| Balance at December 31, 2013       | 162,776          | (20,535            | ) 142,241             |

The Company maintains the 2010 Equity Incentive Plan (the "Plan") under which it may grant non-qualified stock options ("NQSO"), incentive stock options, restricted stock, restricted stock units ("RSU") and stock appreciation rights, collectively referred to as "Awards." Awards are granted at exercise prices that are equal to the closing stock price on the date of grant. The Company authorized grants under the Plan of 13.0 million shares of common stock, plus any unexercised portion of cancelled or terminated stock options granted under the DENTSPLY International Inc. 2002 Equity Incentive Plan, as amended, subject to adjustment as follows: each January, if 7% of the total outstanding common shares of the Company exceed 13.0 million, the excess becomes available for grant under the Plan. No more than 2.5 million shares may be awarded as restricted stock and RSU, and no key employee may be granted restricted stock and RSU in excess of approximately 0.2 million shares of common stock in any calendar year. The number of shares available for grant under the 2010 Plan at December 31, 2013 is 9.4 million.

Stock options granted become exercisable over a period of three years after the date of grant at the rate of one-third per year and generally expire ten years after the date of grant under these plans. RSU vest 100% on the third anniversary of the date of grant and are subject to a service condition, which requires grantees to remain employed by the Company during the three-year period following the date of grant. Under the terms of the RSU, the three-year period is referred to as the restricted period. RSU and the rights under the award may not be sold, assigned,

transferred, donated, pledged or otherwise disposed of during the three-year restricted period prior to vesting. In addition to the service condition, certain key executives are granted RSU subject to performance requirements during the first year of the RSU award. If actual performance against the goals is not met the RSU granted is adjusted to reflect the achievement level. Upon the expiration of the applicable restricted period and the satisfaction of all conditions imposed, all restrictions imposed on RSU will lapse, and one share of common stock will be issued as payment for each vested RSU. All awards become immediately exercisable upon death, disability or qualified retirement. Awards are expensed as compensation over their respective vesting periods or to the eligible retirement date if shorter.

The following table represents total stock based compensation expense and the tax related benefit for the years ended:

| (in thousands)                         | December 31, |          |          |
|--|--------------|----------|----------|
|  | 2013         | 2012     | 2011     |
| Stock option expense                   | \$10,554     | \$11,126 | \$10,369 |
| RSU expense                            | 13,059       | 9,644    | 9,243    |
| Total stock based compensation expense | \$23,613     | \$20,770 | \$19,612 |
| Related deferred income tax benefit    | \$6,057      | \$5,775  | \$5,021  |

There were 2.1 million non-qualified stock options unvested at December 31, 2013. The remaining unamortized compensation cost related to non-qualified stock options is \$10.7 million, which will be expensed over the weighted average remaining vesting period of the options, or 1.3 years. The unamortized compensation cost related to RSU is \$17.7 million, which will be expensed over the remaining weighted average restricted period of the RSU, or 1.2 years.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of each option awarded. The following table sets forth the assumptions used to determine compensation cost for the Company's NQSO issued during the years ended:

|                                       | December 31, |        |        |   |   |
|---------------------------------------|--------------|--------|--------|---|---|
|                                       | 2013         | 2012   | 2011   |   |   |
| Weighted average fair value per share | \$9.30       | \$8.91 | \$8.86 |   |   |
| Expected dividend yield               | 0.53         | % 0.57 | % 0.55 | % | % |
| Risk-free interest rate               | 0.87         | % 0.93 | % 2.35 | % | % |
| Expected volatility                   | 25           | % 26   | % 24   | % | % |
| Expected life (years)                 | 4.98         | 5.10   | 5.07   |   |   |

The total intrinsic value of options exercised for the years ended December 31, 2013, 2012 and 2011 was \$34.3 million, \$21.1 million and \$27.0 million, respectively.

The following table summarizes the NQSO transactions for the year ended December 31, 2013:

| (in thousands, except per share amounts) | Outstanding |                                 | Aggregate Intrinsic Value | Exercisable |                                 |                           |
|--|-------------|---------------------------------|---------------------------|-------------|---------------------------------|---------------------------|
|  | Shares      | Weighted Average Exercise Price |                           | Shares      | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| December 31, 2012                        | 9,906       | \$33.18                         | \$69,079                  | 7,599       | \$31.79                         | \$64,819                  |
| Granted                                  | 923         | 40.63                           |                           |             |                                 |                           |
| Exercised                                | (2,309)     | 28.98                           |                           |             |                                 |                           |
| Cancelled                                | (31)        | 42.82                           |                           |             |                                 |                           |
| Forfeited                                | (194)       | 38.89                           |                           |             |                                 |                           |
| December 31, 2013                        | 8,295       | \$35.04                         | \$111,450                 | 6,225       | \$33.67                         | \$92,200                  |

The weighted average remaining contractual term of all outstanding options is 5.6 years and the weighted average remaining contractual term of exercisable options is 4.7 years.





The following table summarizes information about NQSO outstanding for the year ended December 31, 2013:

| (in thousands, except per share amounts and life) | Range of Exercise Prices | Outstanding                             |  |                                 | Exercisable                             |                                 |
|---|--------------------------|---|--|---------------------------------|---|---------------------------------|
|   |                          | Number Outstanding at December 31, 2013 | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price | Number Exercisable at December 31, 2013 | Weighted Average Exercise Price |
|   | 20.01 - 30.00            | 1,938                                   | 3.6  | \$26.83                         | 1,938                                   | \$26.83                         |
|   | 30.01 - 40.00            | 4,622                                   | 6.2  | 35.51                           | 3,408                                   | 34.64                           |
|   | 40.01 - 50.00            | 1,735                                   | 6.5  | 42.98                           | 879                                     | 44.97                           |
|   |                          | 8,295                                   | 5.6  | \$35.04                         | 6,225                                   | \$33.67                         |

The following table summarizes the unvested RSU transactions for the year ended December 31, 2013:

| (in thousands, except per share amounts) | Unvested Restricted Stock Units |  |
|--|---------------------------------|--|
|  | Shares                          | Weighted Average Grant Date Fair Value |
| Unvested at December 31, 2012            | 1,034                           | \$36.34                                |
| Granted                                  | 506                             | 40.92                                  |
| Vested                                   | (248)                           | ) 32.80                                |
| Forfeited                                | (161)                           | ) 38.82                                |
| Unvested at December 31, 2013            | 1,131                           | \$38.81                                |

#### NOTE 14 - INCOME TAXES

The components of income before income taxes from operations are as follows:

| (in thousands) | December 31, |           |           |
|----------------|--------------|-----------|-----------|
|                | 2013         | 2012      | 2011      |
| United States  | \$58,383     | \$67,668  | \$7,041   |
| Foreign        | 310,952      | 263,011   | 249,070   |
|                | \$369,335    | \$330,679 | \$256,111 |

The components of the provision for income taxes from operations are as follows:

| (in thousands)   | December 31, |              |             |
|------------------|--------------|--------------|-------------|
|                  | 2013         | 2012         | 2011        |
| <b>Current:</b>  |              |              |             |
| U.S. federal     | \$10,340     | \$23,412     | \$34,870    |
| U.S. state       | 4,660        | 2,788        | 5,151       |
| Foreign          | 66,306       | 69,954       | 59,397      |
| Total            | \$81,306     | \$96,154     | \$99,418    |
| <b>Deferred:</b> |              |              |             |
| U.S. federal     | \$(28,941 )  | \$(128,832 ) | \$(29,664 ) |
| U.S. state       | (1,377 )     | 11,730       | (4,089 )    |
| Foreign          | 1,162        | 29,868       | (54,649 )   |
| Total            | \$(29,156 )  | \$(87,234 )  | \$(88,402 ) |
|                  | \$52,150     | \$8,920      | \$11,016    |

The reconciliation of the U.S. federal statutory tax rate to the effective rate for the years ended is as follows:

|  | December 31, |         |         |   |  |
|--|--------------|---------|---------|---|--|
|  | 2013         | 2012    | 2011    |   |  |
| Statutory U. S. federal income tax rate                            | 35.0         | % 35.0  | % 35.0  | % |  |
| Effect of:   |              |         |         |   |  |
| State income taxes, net of federal benefit                         | 0.7          | 0.7     | 0.3     |   |  |
| Federal benefit of R&D and foreign tax credits                     | (5.9 )       | (7.2 )  | (8.6 )  | ) |  |
| Tax effect of international operations                             | (10.2 )      | (7.4 )  | (7.9 )  | ) |  |
| Net effect of tax audit activity                                   | 1.9          | (0.6 )  | 2.1     |   |  |
| Tax effect of enacted statutory rate changes                       | 0.1          | (3.7 )  | 0.2     |   |  |
| Federal tax on unremitted earnings of certain foreign subsidiaries | —            | 0.1     | 0.1     |   |  |
| Valuation allowance adjustments                                    | (0.6 )       | 12.0    | (18.1 ) | ) |  |
| Tax effect of enacted U.S. federal legislation                     | (2.6 )       | —       | —       |   |  |
| Foreign outside basis differences                                  | (1.5 )       | (26.5 ) | —       | ) |  |
| Other  | (2.8 )       | 0.3     | 1.2     |   |  |
| Effective income tax rate on operations                            | 14.1         | % 2.7   | % 4.3   | % |  |



The tax effect of significant temporary differences giving rise to deferred tax assets and liabilities are as follows:

| (in thousands)                                       | December 31, 2013  |                        | December 31, 2012  |                        |
|--|--------------------|------------------------|--------------------|------------------------|
|  | Deferred Tax Asset | Deferred Tax Liability | Deferred Tax Asset | Deferred Tax Liability |
| Commission and bonus accrual                         | \$5,793            | \$—                    | \$2,529            | \$—                    |
| Employee benefit accruals                            | 46,740             | —                      | 44,266             | —                      |
| Foreign outside basis difference                     | —                  | —                      | 189,125            | —                      |
| Inventory  | 21,941             | —                      | 21,173             | —                      |
| Identifiable intangible assets                       | —                  | 374,240                | —                  | 359,303                |
| Insurance premium accruals                           | 4,402              | —                      | 4,381              | —                      |
| Miscellaneous accruals                               | 10,089             | —                      | 12,685             | —                      |
| Other  | 35,734             | —                      | 15,844             | —                      |
| Unrealized losses included in AOCI                   | 32,908             | —                      | 39,879             | —                      |
| Property, plant and equipment                        | —                  | 49,368                 | —                  | 51,020                 |
| Product warranty accruals                            | 1,069              | —                      | 1,154              | —                      |
| Foreign tax credit carryforward                      | 48,450             | —                      | —                  | —                      |
| Restructuring and other cost accruals                | 956                | —                      | 1,048              | —                      |
| Sales and marketing accrual                          | 5,768              | —                      | 4,480              | —                      |
| Taxes on unremitted earnings of foreign subsidiaries | —                  | 2,506                  | —                  | 2,556                  |
| Tax loss carryforwards and other tax attributes      | 389,614            | —                      | 187,449            | —                      |
| Valuation allowance                                  | (228,846)          | ) —                    | (179,699)          | ) —                    |
|  | \$374,618          | \$426,114              | \$344,314          | \$412,879              |

Deferred tax assets and liabilities are included in the following consolidated balance sheet line items:

| (in thousands)                            | December 31, |          |
|---|--------------|----------|
|   | 2013         | 2012     |
| Prepaid expenses and other current assets | \$86,929     | \$80,903 |
| Income taxes payable                      | 4,416        | 2,856    |
| Other noncurrent assets, net              | 104,385      | 86,029   |
| Deferred income taxes                     | 238,394      | 232,641  |

The Company has \$48.5 million of foreign tax credit carryforwards at December 31, 2013, which will expire in 2023.

The deferred tax asset recorded during 2012 for foreign outside basis differences in a wholly owned subsidiary was realized as a deduction for U.S. income tax purposes during 2013, thus the deferred tax asset remaining at December 31, 2013 is now reflected as a tax loss carryforward. This federal tax loss carryforward of \$430.2 million will expire in 2033. The Company also has tax loss carryforwards related to certain foreign and domestic subsidiaries of approximately \$1.0 billion at December 31, 2013, of which \$563.8 million expires at various times through 2033 and \$456.4 million may be carried forward indefinitely. Included in deferred income tax assets at December 31, 2013 are tax benefits totaling \$315.4 million, before valuation allowances, for the tax loss carryforwards.

The Company has recorded \$147.1 million of valuation allowance to offset the tax benefit of net operating losses and \$81.7 million of valuation allowance for other deferred tax assets. The Company has recorded these valuation allowances due to the uncertainty that these assets can be realized in the future.

Federal and state tax loss carryforwards that result from the exercise of employee stock options are not recorded on the Company's Consolidated Balance Sheets. These tax loss carryforwards are accounted for as a credit to additional paid-in capital when realized through a reduction in income taxes payable. The amount incurred during 2013 for tax loss carryforwards, both federal and state, was \$17.2 million.

The Company has provided federal income taxes on certain undistributed earnings of its foreign subsidiaries that the Company anticipates will be repatriated. Deferred federal income taxes have not been provided on \$1.3 billion of cumulative earnings of foreign subsidiaries that the Company has determined to be permanently reinvested. It is not practicable to estimate the amount of tax that might be payable on these permanently reinvested earnings.

#### Tax Contingencies

The Company applies a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company recognizes in the 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.

The total amount of gross unrecognized tax benefits at December 31, 2013 is approximately \$25.9 million, of this total, approximately \$24.5 million represents the amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate. 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 \$1.1 million.

The total amount of accrued interest and penalties were \$7.9 million and \$6.1 million at December 31, 2013 and 2012, respectively. The Company has consistently classified interest and penalties recognized in its consolidated financial statements as income taxes based on the accounting policy election of the Company. During the year ended December 31, 2013, the Company recognized income tax expense of \$1.7 million in interest and penalties. During the year ended December 31, 2012, the Company recognized income tax benefit in the amount of \$0.9 million for interest and penalties and during the year ended December 31, 2011, the Company recognized income tax expense in the amount of \$0.9 million.

The Company is subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The significant jurisdictions include the U.S., Germany and Switzerland. The Company has substantially concluded all U.S. federal income tax matters for years through 2009, resulting in the years 2010 through 2012 being subject to future potential tax audit adjustments while years prior to 2010 are settled. The Company has concluded audits in Germany through the tax year 2008 and is currently under audit for the years 2009 through 2011. The taxable years that remain open for Switzerland are 2003 through 2012.

The Company had the following activity recorded for unrecognized tax benefits:

| (in thousands)   | December 31, |          |          |   |
|--|--------------|----------|----------|---|
|  | 2013         | 2012     | 2011     |   |
| Unrecognized tax benefits at beginning of period         | \$12,264     | \$14,956 | \$13,143 |   |
| Gross change for prior period positions                  | 2,471        | (3,029   | ) 1,425  |   |
| Gross change for current year positions                  | 4,517        | 268      | 640      |   |
| Decrease due to settlements and payments                 | —            | —        | —        |   |
| Decrease due to statute expirations                      | (1,381       | ) —      | (123     | ) |
| Increase due to effect of foreign currency translation   | —            | —        | —        |   |
| Decrease due to effect from foreign currency translation | 126          | 69       | (129     | ) |
| Unrecognized tax benefits at end of period               | \$17,997     | \$12,264 | \$14,956 |   |

#### NOTE 15 - BENEFIT PLANS

#### Defined Contribution Plans

The DENTSPLY Employee Stock Ownership Plan (“ESOP”) and 401(k) plans are designed to have contribution allocations of eligible compensation, with a targeted 3% going into the ESOP in Company stock and a targeted 3% going into the 401(k) as a non-elective contribution in cash. The Company sponsors an employee 401(k) savings plan for its U.S. workforce to which enrolled participants may contribute up to Internal Revenue Service defined limits. The ESOP is a non-contributory defined contribution plan that covers substantially all of the U.S. based non-union employees of the Company. All future ESOP allocations will come from a combination of forfeited shares and shares acquired in the open market. The share allocation will be accounted

85

---



at fair value at the point of allocation, which is normally year-end. In addition to these plans, the Company also maintains various other U.S. and non-U.S. defined contribution and non-qualified deferred compensation plans. The annual expense, net of forfeitures, were \$25.8 million, \$26.1 million and \$17.5 million for 2013, 2012 and 2011, respectively.

#### Defined Benefit Plans

The Company maintains a number of separate contributory and non-contributory qualified defined benefit pension plans for certain union and salaried employee groups in the United States. Pension benefits for salaried plans are based on salary and years of service; hourly plans are based on negotiated benefits and years of service. Annual contributions to the pension plans are sufficient to satisfy minimum funding requirements. Pension plan assets are held in trust and consist mainly of common stock and fixed income investments. The U.S. plans are funded in excess of the funding required by the U.S. Department of Labor.

In addition to the U.S. plans, the Company maintains defined benefit pension plans for certain employees in Austria, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland and Taiwan. These plans provide benefits based upon age, years of service and remuneration. Other foreign plans are not significant individually or in the aggregate. Substantially all of the German and Sweden plans are unfunded book reserve plans. Most employees and retirees outside the U.S. are covered by government health plans.

#### Defined Benefit Pension Plan Assets

The primary investment strategy is to ensure that the assets of the plans, along with anticipated future contributions, will be invested in order that the benefit entitlements of employees, pensioners and beneficiaries covered under the plan can be met when due with high probability. Pension plan assets consist mainly of common stock and fixed income investments. The target allocations for defined benefit plan assets are 30% to 65% equity securities, 30% to 65% fixed income securities, 0% to 15% real estate, and 0% to 25% in all other types of investments. Equity securities include investments in companies located both in and outside the U.S. Equity securities do not include common stock of the Company. Fixed income securities include corporate bonds of companies from diversified industries, government bonds, mortgage notes and pledge letters. Other types of investments include investments in mutual funds, common trusts, insurance contracts, hedge funds and real estate. These plan assets are not recorded on the Company's Consolidated Balance Sheet as they are held in trust or other off-balance sheet investment vehicles.

The defined benefit pension plan assets in the U.S. are held in trust and the investment policies of the plans are generally to invest the plans assets in equities and fixed income investments. The objective is to achieve a long-term rate of return in excess of 5% while at the same time mitigating the impact of investment risk associated with investment categories that are expected to yield greater than average returns. In accordance with the investment policies of the U.S. plans, the plans assets were invested in the following investment categories: interest-bearing cash, registered investment companies (e.g. mutual funds), common/collective trusts, master trust investment accounts and insurance company general accounts. The investment objective is for assets to be invested in a manner consistent with the fiduciary standards of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

The defined benefit pension plan assets maintained in Austria, Germany, Japan, Norway, the Netherlands, Switzerland and Taiwan all have separate investment policies but generally have an objective to achieve a long-term rate of return in excess 4% while at the same time mitigating the impact of investment risk associated with investment categories that are expected to yield greater than average returns. In accordance with the investment policies for the plans outside the U.S., the plans' assets were invested in the following investment categories: interest-bearing cash, U.S. and foreign equities, foreign fixed income securities (primarily corporate and government bonds), insurance company contracts, real estate and hedge funds.

### Postemployment Healthcare

The Company sponsors postemployment healthcare plans that cover certain union and salaried employee groups in the U.S. and is contributory, with retiree contributions adjusted annually to limit the Company's contribution for participants who retired after June 1, 1985. The plans for postemployment healthcare have no plan assets. The Company also sponsors unfunded non-contributory postemployment medical plans for a limited number of union employees and their spouses and retirees of a discontinued operation.

Reconciliations of changes in the defined benefit and postemployment healthcare plans' benefit obligations, fair value of assets and statement of funded status are as follows:

| (in thousands)                                 | Pension Benefits  |               | Other Postemployment Benefits |              |
|--|-------------------|---------------|-------------------------------|--------------|
|  | December 31, 2013 | 2012          | December 31, 2013             | 2012         |
| <b>Change in Benefit Obligation</b>            |                   |               |                               |              |
| Benefit obligation at beginning of year        | \$355,766         | \$270,607     | \$14,218                      | \$12,217     |
| Service cost                                   | 14,863            | 12,178        | 234                           | 195          |
| Interest cost                                  | 9,901             | 10,600        | 464                           | 490          |
| Participant contributions                      | 3,968             | 3,638         | 515                           | 535          |
| Actuarial (gains) losses                       | (20,727)          | ) 59,461      | (2,708)                       | ) 1,601      |
| Plan amendments                                | —                 | (93)          | ) 11                          | —            |
| Acquisitions/Divestitures                      | 30                | 3,745         | —                             | —            |
| Effect of exchange rate changes                | 8,248             | 8,100         | —                             | —            |
| Foreign plan additions                         | —                 | 540           | —                             | —            |
| Foreign plan deletions                         | (524)             | ) —           | —                             | —            |
| Plan curtailments                              | (1,669)           | ) (310)       | ) —                           | —            |
| Benefits paid                                  | (10,440)          | ) (12,700)    | ) (798)                       | ) (820)      |
| Benefit obligation at end of year              | \$359,416         | \$355,766     | \$11,936                      | \$14,218     |
| <b>Change in Plan Assets</b>                   |                   |               |                               |              |
| Fair value of plan assets at beginning of year | \$124,884         | \$108,708     | \$—                           | \$—          |
| Actual return on assets                        | 9,658             | 10,732        | —                             | —            |
| Effect of exchange rate changes                | 2,377             | 2,362         | —                             | —            |
| Employer contributions                         | 12,718            | 12,144        | 283                           | 285          |
| Participant contributions                      | 3,968             | 3,638         | 515                           | 535          |
| Benefits paid                                  | (10,440)          | ) (12,700)    | ) (798)                       | ) (820)      |
| Fair value of plan assets at end of year       | \$143,165         | \$124,884     | \$—                           | \$—          |
| Funded status at end of year                   | \$(216,251)       | ) \$(230,882) | ) \$(11,936)                  | ) \$(14,218) |

The amounts recognized in the accompanying Consolidated Balance Sheets, net of tax effects, are as follows:

| (in thousands)               | Pension Benefits  |               | Other Postemployment Benefits |              |
|------------------------------|-------------------|---------------|-------------------------------|--------------|
|                              | December 31, 2013 | 2012          | December 31, 2013             | 2012         |
| Other noncurrent assets, net | \$23              | \$263         | \$—                           | \$—          |
| Deferred tax asset           | 19,618            | 26,421        | 605                           | 1,764        |
| Total assets                 | \$19,641          | \$26,684      | \$605                         | \$1,764      |
| Current liabilities          | (5,097)           | ) (4,561)     | ) (491)                       | ) (654)      |
| Other noncurrent liabilities | (211,177)         | ) (226,584)   | ) (11,445)                    | ) (13,564)   |
| Deferred tax liability       | (644)             | ) (449)       | ) —                           | ) —          |
| Total liabilities            | \$(216,918)       | ) \$(231,594) | ) \$(11,936)                  | ) \$(14,218) |

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-K

|  |             |             |            |           |
|--|-------------|-------------|------------|-----------|
| Accumulated other comprehensive income | 48,957      | 70,377      | 961        | 2,805     |
| Net amount recognized                  | \$(148,320) | \$(134,533) | \$(10,370) | \$(9,649) |

87

---

Amounts recognized in AOCI consist of:

| (in thousands)         | Pension Benefits  |          | Other Postemployment Benefits |         |
|------------------------|-------------------|----------|-------------------------------|---------|
|                        | December 31, 2013 | 2012     | December 31, 2013             | 2012    |
| Net actuarial loss     | \$70,615          | \$99,129 | \$1,557                       | \$4,569 |
| Net prior service cost | (2,684)           | (2,780)  | 9                             | —       |
| Before tax AOCI        | \$67,931          | \$96,349 | \$1,566                       | \$4,569 |
| Less: Deferred taxes   | 18,974            | 25,972   | 605                           | 1,764   |
| Net of tax AOCI        | \$48,957          | \$70,377 | \$961                         | \$2,805 |

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

| (in thousands)                 | December 31, |           |
|--------------------------------|--------------|-----------|
|                                | 2013         | 2012      |
| Projected benefit obligation   | \$357,459    | \$344,653 |
| Accumulated benefit obligation | 330,215      | 315,963   |
| Fair value of plan assets      | 141,186      | 117,413   |

Components of net periodic benefit cost:

| (in thousands)                              | Pension Benefits |          |          | Other Postemployment Benefits |       |       |
|---|------------------|----------|----------|-------------------------------|-------|-------|
|   | 2013             | 2012     | 2011     | 2013                          | 2012  | 2011  |
| Service cost                                | \$14,863         | \$12,178 | \$10,950 | \$234                         | \$195 | \$61  |
| Interest cost                               | 9,901            | 10,600   | 9,633    | 464                           | 490   | 553   |
| Expected return on assets                   | (4,998)          | (4,727)  | (5,184)  | —                             | —     | —     |
| Amortization of prior service cost (credit) | (133)            | (138)    | 80       | 2                             | —     | —     |
| Amortization of net actuarial loss          | 5,150            | 1,995    | 1,584    | 303                           | 264   | 189   |
| Curtailment and settlement gains            | (1,600)          | (303)    | 4        | —                             | —     | —     |
| Net periodic benefit cost                   | \$23,183         | \$19,605 | \$17,067 | \$1,003                       | \$949 | \$803 |

Other changes in plan assets and benefit obligations recognized in AOCI:

| (in thousands)   | Pension Benefits |          |          | Other Postemployment Benefits |         |         |
|--|------------------|----------|----------|-------------------------------|---------|---------|
|  | 2013             | 2012     | 2011     | 2013                          | 2012    | 2011    |
| Net actuarial (gain) loss                              | \$(23,364)       | \$55,662 | \$8,352  | \$(2,709)                     | \$1,601 | \$537   |
| Net prior service (credit)                             | (37)             | (161)    | (2,845)  | 11                            | —       | —       |
| Amortization   | (5,017)          | (1,857)  | (1,664)  | (305)                         | (264)   | (189)   |
| Total recognized in AOCI                               | \$(28,418)       | \$53,644 | \$3,843  | \$(3,003)                     | \$1,337 | \$348   |
| Total recognized in net periodic benefit cost and AOCI | \$(5,235)        | \$73,249 | \$20,910 | \$(2,000)                     | \$2,286 | \$1,151 |

The estimated net loss, prior service cost and transition obligation for the defined benefit plans that will be amortized from AOCI into net periodic benefit cost over the next fiscal year are \$2.7 million. There will be an immaterial amount of estimated

88

---

net loss and prior service credit for the other postemployment plans that will be amortized from AOCI into net periodic benefit cost over the next fiscal year.

The amounts in AOCI that are expected to be amortized as net expense (income) during fiscal year 2014 are as follows:

| (in thousands)                            | Pension Benefits | Other Postemployment Benefits |
|---|------------------|-------------------------------|
| Amount of net prior service cost (credit) | \$(138           | ) \$2                         |
| Amount of net loss                        | 2,838            | 43                            |

The weighted average assumptions used to determine benefit obligations for the Company's plans, principally in foreign locations, at December 31, 2013, 2012 and 2011 are as follows:

|                                       | Pension Benefits |       |       | Other Postemployment Benefits |       |       |   |
|---------------------------------------|------------------|-------|-------|-------------------------------|-------|-------|---|
|                                       | 2013             | 2012  | 2011  | 2013                          | 2012  | 2011  |   |
| Discount rate                         | 3.2              | % 2.8 | % 4.0 | % 4.8                         | % 3.5 | % 4.0 | % |
| Rate of compensation increase         | 2.7              | % 2.7 | % 2.8 | % n/a                         | n/a   | n/a   |   |
| Health care cost trend                | n/a              | n/a   | n/a   | 8.5                           | % 8.0 | % 7.5 | % |
| Ultimate health care cost trend       | n/a              | n/a   | n/a   | 5.0                           | % 5.0 | % 5.0 | % |
| Years until ultimate trend is reached | n/a              | n/a   | n/a   | 8.0                           | 7.0   | 6.0   |   |

The weighted average assumptions used to determine net periodic benefit cost for the Company's plans, principally in foreign locations, for the years ended December 31, 2013, 2012 and 2011 are as follows:

|                                       | Pension Benefits |            |            | Other Postemployment Benefits |            |            |   |
|---------------------------------------|------------------|------------|------------|-------------------------------|------------|------------|---|
|                                       | 2013             | 2012       | 2011       | 2013                          | 2012       | 2011       |   |
| Discount rate                         | 2.8              | % 4.0      | % 4.1      | % 3.5                         | % 4.0      | % 5.0      | % |
| Expected return on plan assets        | 4.3              | % 4.1      | % 4.8      | % n/a                         | n/a        | n/a        |   |
| Rate of compensation increase         | 2.7              | % 2.8      | % 2.6      | % n/a                         | n/a        | n/a        |   |
| Health care cost trend                | n/a              | n/a        | n/a        | 8.5                           | % 8.0      | % 7.5      | % |
| Ultimate health care cost trend       | n/a              | n/a        | n/a        | 5.0                           | % 5.0      | % 5.0      | % |
| Years until ultimate trend is reached | n/a              | n/a        | n/a        | 8.0                           | 7.0        | 6.0        |   |
| Measurement Date                      | 12/31/2013       | 12/31/2012 | 12/31/2011 | 12/31/2013                    | 12/31/2012 | 12/31/2011 |   |

To develop the assumptions for the expected long-term rate of return on assets, the Company considered the current level of expected returns on risk free investments (primarily U.S. government bonds), the historical level of the risk premium associated with the other asset classes in which the assets are invested and the expectations for future returns

of each asset class. The expected return for each asset class was then weighted based on the target asset allocations to develop the assumptions for the expected long-term rate of return on assets.



Assumed health care cost trend rates have an impact on the amounts reported for postemployment benefits. An ongoing one percentage point change in assumed healthcare cost trend rates would have had the following effects for the year ended December 31, 2013:

| (in thousands)  | Other Postemployment Benefits |             |
|---|-------------------------------|-------------|
|   | 1% Increase                   | 1% Decrease |
| Effect on total of service and interest cost components | \$ 161                        | \$(123 )    |
| Effect on postemployment benefit obligation             | 2,104                         | (1,656 )    |

#### Fair Value Measurements of Plan Assets

The fair value of the Company's pension plan assets at December 31, 2013 is presented in the table below by asset category. Approximately 82% of the total plan assets are categorized as Level 1, and therefore, the values assigned to these pension assets are based on quoted prices available in active markets. For the other category levels, a description of the valuation is provided in Note 1, Significant Accounting Policies, under the "Fair Value Measurement" heading.

| (in thousands)              | December 31, 2013 |            |           |           |
|-----------------------------|-------------------|------------|-----------|-----------|
|                             | Total             | Level 1    | Level 2   | Level 3   |
| Assets Category             |                   |            |           |           |
| Cash and cash equivalents   | \$ 15,231         | \$ 15,231  | \$—       | \$—       |
| Equity securities:          |                   |            |           |           |
| U. S.                       | 929               | 929        | —         | —         |
| International               | 37,904            | 37,904     | —         | —         |
| Fixed income securities:    |                   |            |           |           |
| Fixed rate bonds (a)        | 51,066            | 51,066     | —         | —         |
| Other types of investments: |                   |            |           |           |
| Mutual funds (b)            | 3,367             | 3,367      | —         | —         |
| Real estate mutual funds    | 8,906             | 8,906      | —         | —         |
| Common trusts (c)           | 10,100            | —          | 6,802     | 3,298     |
| Insurance contracts         | 13,240            | —          | 3,739     | 9,501     |
| Hedge funds                 | 2,046             | —          | —         | 2,046     |
| Real estate                 | 376               | —          | —         | 376       |
| Total                       | \$ 143,165        | \$ 117,403 | \$ 10,541 | \$ 15,221 |

| (in thousands)              | December 31, 2012 |          |          |          |
|-----------------------------|-------------------|----------|----------|----------|
|                             | Total             | Level 1  | Level 2  | Level 3  |
| Assets Category             |                   |          |          |          |
| Cash and cash equivalents   | \$5,930           | \$5,930  | \$—      | \$—      |
| Equity securities:          |                   |          |          |          |
| U. S.                       | 1,015             | 1,015    | —        | —        |
| International               | 34,197            | 34,197   | —        | —        |
| Fixed income securities:    |                   |          |          |          |
| Fixed rate bonds (a)        | 48,450            | 48,450   | —        | —        |
| Other types of investments: |                   |          |          |          |
| Mutual funds (b)            | 8,994             | —        | 8,994    | —        |
| Real estate mutual funds    | 9,713             | 9,713    | —        | —        |
| Common trusts (c)           | 2,708             | —        | —        | 2,708    |
| Insurance contracts         | 12,199            | —        | 3,865    | 8,334    |
| Hedge funds                 | 1,311             | —        | —        | 1,311    |
| Real estate                 | 367               | —        | —        | 367      |
| Total                       | \$124,884         | \$99,305 | \$12,859 | \$12,720 |

(a) This category includes fixed income securities invested primarily in Swiss bonds, foreign bonds denominated in Swiss francs, foreign currency bonds, mortgage notes and pledged letters.

(b) This category includes mutual funds balanced between moderate-income generation and moderate capital appreciation with investment allocations of approximately 50% equities and 50% fixed income investments.

(c) This category includes common/collective funds with investments in approximately 65% equities and 35% in fixed income investments.

The following table provides a reconciliation from December 31, 2012 to December 31, 2013 for the plans assets categorized as Level 3. No assets were transferred in or out of the Level 3 category during the year ended December 31, 2013.

| (in thousands)                                      | Changes within Level 3 Category for<br>Year Ended December 31, 2013 |                        |                |                |          |
|---|---|------------------------|----------------|----------------|----------|
|   | Common<br>Trust   | Insurance<br>Contracts | Hedge<br>Funds | Real<br>Estate | Total    |
| Balance at December 31, 2012                        | \$2,708   | \$8,334                | \$1,311        | \$367          | \$12,720 |
| Actual return on plan assets:                       |   |                        |                |                |          |
| Relating to assets still held at the reporting date | 409   | 421                    | 82             | —              | 912      |
| Relating to assets sold during the period           | 99  | —                      | —              | —              | 99       |
| Purchases, sales and settlements, net               | 82  | 637                    | 596            | —              | 1,315    |
| Effect of exchange rate changes                     | —   | 109                    | 57             | 9              | 175      |
| Balance at December 31, 2013                        | \$3,298   | \$9,501                | \$2,046        | \$376          | \$15,221 |



The following tables provide a reconciliation from December 31, 2011 to December 31, 2012 for the plans assets categorized as Level 3. No assets were transferred in or out of the Level 3 category during the year ended December 31, 2012.

| (in thousands)                                      | Changes within Level 3 Category for<br>Year Ended December 31, 2012 |                        |                |                | Total    |
|---|---|------------------------|----------------|----------------|----------|
|   | Common<br>Trust   | Insurance<br>Contracts | Hedge<br>Funds | Real<br>Estate |          |
| Balance at December 31, 2011                        | \$2,083   | \$5,820                | \$890          | \$358          | \$9,151  |
| Actual return on plan assets:                       |   |                        |                |                |          |
| Relating to assets still held at the reporting date | 284   | 1,700                  | 52             | —              | 2,036    |
| Relating to assets sold during the period           | 8   | —                      | 6              | —              | 14       |
| Purchases, sales and settlements, net               | 333   | 533                    | 331            | —              | 1,197    |
| Effect of exchange rate changes                     | —   | 281                    | 32             | 9              | 322      |
| Balance at December 31, 2012                        | \$2,708   | \$8,334                | \$1,311        | \$367          | \$12,720 |

Fair values for Level 3 assets are determined as follows:

**Common Trusts and Hedge Funds:** The investments are valued using the net asset value provided by the administrator of the trust or fund, which is based on the fair value of the underlying securities.

**Real Estate:** Investment is stated by its appraised value.

**Insurance Contracts:** The value of the asset represents the mathematical reserve of the insurance policies and is calculated by the insurance firms using their own assumptions.

#### Cash Flows

In 2014, the Company expects to make contributions and direct benefit payments of \$12.1 million to its defined benefit pension plans and \$0.5 million to its postemployment medical plans.

#### Estimated Future Benefit Payments

| (in thousands) | Pension<br>Benefits | Other<br>Postemployment<br>Benefits |
|----------------|---------------------|-------------------------------------|
| 2014           | \$10,595            | \$502                               |
| 2015           | 11,697              | 497                                 |
| 2016           | 11,171              | 487                                 |
| 2017           | 12,221              | 504                                 |
| 2018           | 14,437              | 524                                 |
| 2019-2022      | 82,030              | 2,794                               |

The above table reflects the total employer contributions and benefits expected to be paid from the plan and does not include the participants' share of the cost.

#### NOTE 16 - RESTRUCTURING AND OTHER COSTS

##### Restructuring Costs

Restructuring costs of \$12.0 million and \$17.8 million for 2013 and 2012, respectively, are reflected in “Restructuring and other costs” in the Consolidated Statement of Operations and the associated liabilities are recorded in “Accrued liabilities” and “Other noncurrent liabilities” in the Consolidated Balance Sheet. These costs consist of employee severance benefits, payments due under operating contracts, and other restructuring costs.

During 2013, the Company initiated several restructuring plans primarily related to closing locations as a result of integration activities as the Company realigned certain implant and implant related businesses to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. These restructuring costs were offset by changes in estimates of \$2.3 million, related to adjustments to 2012 and 2011 and prior plans.

During 2012, the Company initiated several restructuring plans primarily related to the closure and/or consolidation of certain production and selling facilities in Europe to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. These restructuring costs were offset by changes in estimates of \$0.8 million, related to adjustments to 2011 and 2010 and prior plans.

During 2011, as a result of the impact of the Japan natural disaster, the Company initiated a restructuring plan related to the Orthodontic business during the second quarter. The restructuring plan addressed overhead costs related to the business and has reduced those costs as the Orthodontic business. The Company recorded \$1.7 million of charges for the year ended December 31, 2011 for this plan. In addition to the restructuring charges, for the year ended December 31, 2011, the Company incurred approximately \$3.3 million of selling, general and administrative expenses related to costs of maintaining the critical Orthodontic business processes and structures during the lack of product supply.

In addition to the Orthodontic restructuring plans during 2011, the Company also initiated several restructuring plans primarily related to the closure and/or consolidation of certain production and selling facilities in Europe and South America to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. The Company incurred \$1.9 million of costs related to other restructuring plans, offset by income of \$0.5 million for adjustments to 2010 plans and 2009 and prior plans. These adjustments were primarily related to revised estimates of severance costs.

At December 31, 2013, the Company's restructuring accruals were as follows:

| (in thousands)               | Severances              |            |            |           |
|------------------------------|-------------------------|------------|------------|-----------|
|                              | 2011 and<br>Prior Plans | 2012 Plans | 2013 Plans | Total     |
| Balance at December 31, 2012 | \$ 1,495                | \$ 11,412  | \$—        | \$ 12,907 |
| Provisions and adjustments   | —                       | 1,314      | 8,615      | 9,929     |
| Amounts applied              | (1,069)                 | (9,832)    | (2,615)    | (13,516)  |
| Change in estimates          | (24)                    | (2,014)    | (236)      | (2,274)   |
| Balance at December 31, 2013 | \$ 402                  | \$ 880     | \$ 5,764   | \$ 7,046  |

| (in thousands)               | Lease/Contract Terminations |            |            |          |
|------------------------------|-----------------------------|------------|------------|----------|
|                              | 2011 and<br>Prior Plans     | 2012 Plans | 2013 Plans | Total    |
| Balance at December 31, 2012 | \$ 792                      | \$ 682     | \$—        | \$ 1,474 |
| Provisions and adjustments   | —                           | 77         | 1,999      | 2,076    |
| Amounts applied              | (136)                       | (626)      | (1,887)    | (2,649)  |
| Change in estimates          | \$—                         | (41)       | (14)       | (55)     |
| Balance at December 31, 2013 | \$ 656                      | \$ 92      | \$ 98      | \$ 846   |



| (in thousands)               | Other Restructuring Costs |            |          |
|------------------------------|---------------------------|------------|----------|
|                              | 2012 Plans                | 2013 Plans | Total    |
| Balance at December 31, 2012 | \$94                      | \$—        | \$94     |
| Provisions and adjustments   | 957                       | 1,383      | 2,340    |
| Amounts applied              | (994                      | ) (716     | ) (1,710 |
| Change in estimates          | 1                         | (9         | ) (8     |
| Balance at December 31, 2013 | \$58                      | \$658      | \$716    |

The following table provides the cumulative amounts for the provisions and adjustments and amounts applied for all the plans by segment:

| (in thousands)                                 | December 31,<br>2012 | Provisions and<br>Adjustments | Amounts<br>Applied | Change in<br>Estimates | December 31,<br>2013 |
|--|----------------------|-------------------------------|--------------------|------------------------|----------------------|
| Dental Consumable and Laboratory<br>Businesses | \$9,132              | \$1,236                       | \$(7,635           | ) \$(1,390             | ) \$1,343            |
| Orthodontics/Canada/Mexico/Japan               | 361                  | 164                           | (415               | ) (4                   | ) 106                |
| Select Distribution Businesses                 | 222                  | 383                           | (266               | ) —                    | 339                  |
| Implants/Endodontics/Healthcare/Pacific<br>Rim | 4,760                | 11,869                        | (9,242             | ) (943                 | ) 6,444              |
| All Other                                      | —                    | 693                           | (317               | ) —                    | 376                  |
| Total  | \$14,475             | \$14,345                      | \$(17,875          | ) \$(2,337             | ) \$8,608            |

#### Other Costs

For the year ended December 31, 2013, the Company recorded other costs of \$1.4 million which included a \$2.4 million impairment of certain previously acquired technology offset by net gain for legal settlements. For the year ended December 31, 2012, the Company recorded other costs of \$7.9 million, other costs including \$5.2 million impairments of certain previously acquired technologies and the impact of the U.S. presidential executive order updating trade sanctions. On October 9, 2012, President Obama issued an executive order making it illegal for non-U.S. subsidiaries of U.S. companies to engage in certain transactions involving Iran without a license. The Company reserved appropriate allowances against accounts receivable in its controlled foreign subsidiaries and has discontinued such sales activities. There can be no assurance as to when such sales may be resumed to this region.

#### NOTE 17 - 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 at December 31, 2013 are summarized in the tables that follow.

On December 20, 2012, the Company established hedges totaling 241.4 million Swiss francs to offset an intercompany Swiss franc note receivable at a U.S. dollar functional entity that was created by a net dividend of 241.4 million Swiss francs. The change in the value of the hedges offset the change in the value of the Swiss franc denominated intercompany note receivable held at a U.S. dollar functional entity. During the year ending December 31, 2013, the Company adjusted the amount of the hedge each quarter to reflect note repayments and maintain an offset to the currency revaluation of the Swiss franc note receivable outstanding. The note and the hedge decreased by 142.3 million Swiss francs as the note was repaid. The hedge settlements resulted in \$7.0 million cash receipt. On January 10, 2013, the Company entered into 347.8 million euros of cross currency basis swaps to hedge a balance sheet liability resulting from a legal entity restructuring pursuant to the Company's acquisition integration plans. The hedges had an original exchange rate of approximately 1.32 U.S. dollars per euro and offset currency revaluation of a euro note payable by a U.S. dollar functional company. On June 19, 2013, the Company terminated these swaps resulting in a cash receipt of \$2.2 million. 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. These trades matured during the fourth quarter of 2013, resulting in a net cash payment of \$3.7 million. The change in the value of the hedges offset the change in the value of a euro denominated intercompany note receivable held at a U.S. dollar functional entity.

#### Derivative Instruments Designated as Hedging

##### 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 on 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 at December 31, 2013 are summarized in the tables that follow.

##### Interest Rate Risk Management

The Company uses interest rate swaps to convert a portion of its variable interest rate debt to fixed interest rate debt. At December 31, 2013, the Company has two groups of significant interest rate swaps. One of the groups of swaps has notional amounts totaling 12.6 billion Japanese yen, and effectively converts the underlying variable interest rates to an average fixed interest rate of 0.2% for a term of three years, ending in September 2014. Another swap has a notional amount of 65.0 million Swiss francs, and effectively converts the underlying variable interest rates to a fixed interest rate of 0.7% for a term of five years, ending in September 2016.

The Company enters into interest rate swap contracts infrequently as they are only used to manage interest rate risk on long-term debt instruments and not for speculative purposes. Any cash flows associated with these instruments are included in cash from operating activities on 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 at December 31, 2013 are summarized in the tables that follow.

#### Commodity Risk Management

The Company selectively enters into commodity swaps to effectively fix certain variable raw material costs. These swaps are used 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 on 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 December 31, 2013:

| Foreign Exchange Forward Contracts<br>(in thousands) | Notional<br>Amounts Maturing in the Year |            | Fair Value Net<br>Asset (Liability)<br>December 31,<br>2013 |       |                    |   |
|--|--|------------|---|-------|--------------------|---|
|  | 2014                                     | 2015       |   |       |                    |   |
| Forward sale, 14.9 million Australian dollars        | \$12,331                                 | \$1,610    | \$757   |       |                    |   |
| Forward purchase, 12.6 million British pounds        | (20,916)                                 | ) —        | 193   |       |                    |   |
| Forward sale, 46.5 million Canadian dollars          | 35,861                                   | 8,247      | 1,045   |       |                    |   |
| Forward purchase, 22.7 million Danish kroner         | (4,181)                                  | ) —        | (4 )  |       |                    |   |
| Forward sale, 212.9 million euros                    | 243,739                                  | 47,344     | (2,755 )  |       |                    |   |
| Forward sale, 23.3 million Hong Kong dollars         | 3,006                                    | —          | 133   |       |                    |   |
| Forward sale, 870.6 million Japanese yen             | 8,263                                    | —          | (626 )  |       |                    |   |
| Forward sale, 180.9 million Mexican pesos            | 13,837                                   | —          | 46  |       |                    |   |
| Forward purchase, 12.9 million Norwegian kroner      | (2,118)                                  | ) —        | (2 )  |       |                    |   |
| Forward sale, 0.5 million New Zealand dollars        | 417                                      | —          | 2   |       |                    |   |
| Forward sale, 17.0 million Polish zlotys             | 5,621                                    | —          | (73 )   |       |                    |   |
| Forward sale, 3.2 million Singapore dollars          | 2,515                                    | —          | 7   |       |                    |   |
| Forward sale, 4.2 billion South Korean won           | 4,000                                    | —          | 1   |       |                    |   |
| Forward purchase, 1.3 billion Swedish kronor         | (183,015)                                | ) (28,429) | ) (1,282 )  |       |                    |   |
| Forward purchase, 48.1 million Swiss francs          | (62,278)                                 | ) 7,225    | (1,009 )  |       |                    |   |
| Forward sale, 71.6 million Taiwanese dollars         | 2,401                                    | —          | 31  |       |                    |   |
| Total foreign exchange forward contracts             | \$59,483                                 | \$35,997   | \$(3,536 )  |       |                    |   |
| Interest Rate Swaps<br>(in thousands)                | Notional Amounts Maturing in the Year    |            |   |       |                    | Fair Value Net<br>Asset (Liability)<br>December 31,<br>2013 |
|  | 2014                                     | 2015       | 2016  | 2017  | 2018 and<br>Beyond |   |
| Euro   | \$993                                    | \$993      | \$993   | \$993 | \$248              | \$(341 )  |
| Japanese yen   | 119,213                                  | —          | —   | —     | —                  | 47  |
| Swiss francs   | —  | —          | 72,829  | —     | —                  | (885 )  |
| Total interest rate swaps                            | \$120,206                                | \$993      | \$73,822  | \$993 | \$248              | \$(1,179 )  |

| Commodity Swap Contracts<br>(in thousands) | Notional<br>Amounts Maturing in the<br>Year |       | Fair Value Net<br>Asset (Liability) |
|--|---|-------|-------------------------------------|
|  | 2014  | 2015  | December 31, 2013                   |
| Silver swap - U.S. dollar                  | \$1,446                                     | \$112 | \$(343 )                            |
| Platinum swap - U.S. dollar                | 1,351                                       | 101   | (91 )                               |
| Total commodity contracts                  | \$2,797                                     | \$213 | \$(434 )                            |

  

| Cross Currency Basis Swaps<br>(in thousands)  | Notional<br>Amounts Maturing in the Year |          | Fair Value Net<br>Asset<br>(Liability) |
|---|--|----------|--|
|   | 2014                                     | 2015     | December 31,<br>2013                   |
| 449.8 million euros at 1.45 pay U.S. dollar three-month LIBOR<br>receive three-month Euro Inter-Bank Offered Rate | \$618,449                                | \$—      | \$(33,800 )                            |
| 141.4 million Swiss francs at 0.93 pay Swiss francs three-month<br>LIBOR receive U.S. dollar three-month LIBOR    | 112,045                                  | 46,370   | (6,692 )                               |
| Total cross currency basis swaps  | \$730,494                                | \$46,370 | \$(40,492 )                            |

At December 31, 2013, deferred net losses on derivative instruments of \$7.7 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.

During the fourth quarter of 2013, the Company settled and replaced net investment hedges totaling 533.8 million euros. The settled hedge instruments were cross currency basis swaps that matured in October and December of 2013. The Company replaced these hedges with new foreign exchange forward contracts that have layered maturity dates from March 2014 to June 2015. These net investment hedges were traded at an exchange rate of approximately 1.37 U.S. dollars per euro which resulted in cash payments totaling \$52.7 million to settle the hedges during the fourth quarter of 2013. On December 30, 2013, the Company entered into 22.0 million euros of additional foreign exchange forward contracts designated as hedges of net investments, maturing June 2015. The hedges had an original exchange rate of approximately 1.38 U.S. dollars per euro.

On January 17, 2013, the Company extended 295.5 million Swiss francs of cross currency basis swaps maturing in February, March and April of 2013 with five new forward starting swaps totaling 295.5 million Swiss francs maturing in February 2016, March 2017 and April 2018. These net investment hedges were traded at an exchange rate of approximately .93 Swiss francs per U.S. dollar which resulted in cash payments totaling \$55.2 million to settle the hedges in February, March, and April of 2013. The Company will receive three-month U.S. dollar LIBOR and pay three-month Swiss franc LIBOR minus 31.6 basis points.

At December 31, 2013 and 2012, the Company had debt, cross currency basis swaps and foreign exchange forward contracts 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 and foreign exchange forward contracts 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 December 31, 2013 and 2012, the estimated net fair values of the cross currency interest rate swap agreements was a liability of \$18.1 million and a liability of \$90.7 million, respectively. At December 31, 2013, the estimated net fair values of the foreign exchange forward contracts was a liability of \$5.1 million; the Company did not hold similar contracts at December 31, 2012. The effective portion of the change in the value of these derivatives is recorded in AOCI, net of tax effects. At December 31, 2013 and 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 \$10.1 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 hedges of net investments in foreign operations at December 31, 2013:

| Foreign Exchange Forward Contracts<br><br>(in thousands) | Notional Amounts<br>Maturing in the Year |          | Fair Value Net<br>Asset (Liability)<br>December 31,<br>2013 |
|--|--|----------|---|
|  | 2014                                     | 2015     |   |
| Forward sale, 555.8 million euros                        | \$705,078                                | \$59,127 | \$(5,112 )  |
| Total foreign exchange forward contracts                 | \$705,078                                | \$59,127 | \$(5,112 )  |

| Cross Currency Basis Swaps<br><br>(in thousands)   | Notional Amounts Maturing in the Year |          |           |           |           | Fair Value Net<br>Asset (Liability)<br>December 31,<br>2013 |
|--|---------------------------------------|----------|-----------|-----------|-----------|---|
|  | 2014                                  | 2015     | 2016      | 2017      | 2018      |   |
| 432.5 million Swiss francs at 0.93 pay<br>Swiss francs three-month LIBOR<br>receive U.S. dollar three-month<br>LIBOR | \$90,084                              | \$63,417 | \$112,045 | \$112,045 | \$107,003 | \$(18,106 )   |
| Total cross currency basis swaps   | \$90,084                              | \$63,417 | \$112,045 | \$112,045 | \$107,003 | \$(18,106 )   |

#### 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 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 Statements of Operations. At December 31, 2013, the estimated net fair value of these interest rate swaps was an asset of \$2.4 million.

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

| Interest Rate Swaps<br><br>(in thousands) | Notional Amounts Maturing in the Year |      |      | Fair Value Net<br>Asset (Liability)<br>December 31,<br>2013 |
|---|---------------------------------------|------|------|---|
|   | 2014                                  | 2015 | 2016 |   |

|                           |          |          |          |         |
|---------------------------|----------|----------|----------|---------|
| U.S. dollar               | \$45,000 | \$60,000 | \$45,000 | \$2,359 |
| Total interest rate swaps | \$45,000 | \$60,000 | \$45,000 | \$2,359 |



The following tables summarize the fair value and location of the Company's derivatives on the Consolidated Balance Sheets at December 31, 2013 and 2012:

| (in thousands)                     | December 31, 2013                         |                              |                     |                              |
|------------------------------------|---|------------------------------|---------------------|------------------------------|
|                                    | Prepaid Expenses and Other Current Assets | Other Noncurrent Assets, Net | Accrued Liabilities | Other Noncurrent Liabilities |
| <b>Designated as Hedges</b>        |   |                              |                     |                              |
| Foreign exchange forward contracts | \$1,517                                   | \$255                        | \$10,280            | \$940                        |
| Commodity contracts                | —   | 1                            | 434                 | 1                            |
| Interest rate swaps                | 789                                       | 1,617                        | 466                 | 419                          |
| Cross currency basis swaps         | 530                                       | —                            | 2,223               | 16,413                       |
| Total                              | \$2,836                                   | \$1,873                      | \$13,403            | \$17,773                     |
| <b>Not Designated as Hedges</b>    |   |                              |                     |                              |
| Foreign exchange forward contracts | \$3,128                                   | \$—                          | \$2,328             | \$—                          |
| DIO equity option contracts        | —   | —                            | —                   | 142                          |
| Interest rate swaps                | —   | —                            | 85                  | 256                          |
| Cross currency basis swaps         | —   | —                            | 38,551              | 1,941                        |
| Total                              | \$3,128                                   | \$—                          | \$40,964            | \$2,339                      |
| (in thousands)                     | December 31, 2012                         |                              |                     |                              |
|                                    | Prepaid Expenses and Other Current Assets | Other Noncurrent Assets, Net | Accrued Liabilities | Other Noncurrent Liabilities |
| <b>Designated as Hedges</b>        |   |                              |                     |                              |
| 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                      |
| <b>Not Designated as Hedges</b>    |   |                              |                     |                              |
| 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 on the Consolidated Balance Sheets.



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

| (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 |              |
| <b>Assets</b>                      |                          |  |  |   |                                  |              |
| Foreign exchange forward contracts | \$4,900                  | \$—  | \$4,900  | \$(4,641)   | \$—                              | \$259        |
| Commodity contracts                | 1                        | —  | 1  | (1)   | —                                | —            |
| Interest rate swaps                | 2,406                    | —  | 2,406  | (1,979)   | —                                | 427          |
| Cross currency basis swaps         | 530                      | —  | 530  | (530)   | —                                | —            |
| <b>Total Assets</b>                | <b>\$7,837</b>           | <b>\$—</b>   | <b>\$7,837</b>   | <b>\$(7,151)</b>  | <b>\$—</b>                       | <b>\$686</b> |

| (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 |                 |
| <b>Liabilities</b>                 |                          |  |  |   |                                  |                 |
| Foreign exchange forward contracts | \$13,548                 | \$—  | \$13,548   | \$(3,467)   | \$—                              | \$10,081        |
| Commodity contracts                | 435                      | —  | 435  | (1)   | —                                | 434             |
| DIO equity option contracts        | 142                      | —  | 142  | —   | —                                | 142             |
| Interest rate swaps                | 1,226                    | —  | 1,226  | (62)  | —                                | 1,164           |
| Cross currency basis swaps         | 59,128                   | —  | 59,128   | (3,621)   | —                                | 55,507          |
| <b>Total Liabilities</b>           | <b>\$74,479</b>          | <b>\$—</b>   | <b>\$74,479</b>  | <b>\$(7,151)</b>  | <b>\$—</b>                       | <b>\$67,328</b> |



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 |                |
| <b>Assets</b>                      |                          |  |  |   |                                  |                |
| Foreign exchange forward contracts | \$9,070                  | \$—  | \$9,070  | \$(6,131)   | \$—                              | \$2,939        |
| Interest rate swaps                | 4,727                    | —  | 4,727  | (3,146)   | —                                | 1,581          |
| Cross currency basis swaps         | 8,728                    | —  | 8,728  | (7,821)   | —                                | 907            |
| <b>Total Assets</b>                | <b>\$22,525</b>          | <b>\$—</b>   | <b>\$22,525</b>  | <b>\$(17,098)</b>   | <b>\$—</b>                       | <b>\$5,427</b> |

| (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 |                  |
| <b>Liabilities</b>                 |                          |  |  |   |                                  |                  |
| Foreign exchange forward contracts | \$4,440                  | \$—  | \$4,440  | \$(2,339)   | \$—                              | \$2,101          |
| Commodity contracts                | 95                       | —  | 95   | —   | —                                | 95               |
| DIO equity option contracts        | 153                      | —  | 153  | —   | —                                | 153              |
| Interest rate swaps                | 2,003                    | —  | 2,003  | (1,339)   | —                                | 664              |
| Cross currency basis swaps         | 194,753                  | —  | 194,753  | (13,420)  | —                                | 181,333          |
| <b>Total Liabilities</b>           | <b>\$201,444</b>         | <b>\$—</b>   | <b>\$201,444</b>   | <b>\$(17,098)</b>   | <b>\$—</b>                       | <b>\$184,346</b> |

The following tables summarize the amount of gains (losses) recorded in the Company's Consolidated Statements of Operations related to the Company's cash flow hedges for the years ended December 31, 2013 and 2012:

December 31, 2013

| Derivatives in Cash Flow Hedging   | Gain (Loss) in AOCI | Affected Line Item in the Consolidated Statements of Operations | Effective Portion Reclassified from AOCI into Income |
|------------------------------------|---------------------|---|--|
| (in thousands)                     |                     |   |  |
| Interest rate swaps                | \$(166)             | Interest expense  | \$(3,681)  |
| Foreign exchange forward contracts | (6,550)             | Cost of products sold   | 1,184  |
| Foreign exchange forward contracts | (294)               | SG&A expenses   | (147)  |

|                     |          |   |                       |          |   |
|---------------------|----------|---|-----------------------|----------|---|
| Commodity contracts | (1,004   | ) | Cost of products sold | (288     | ) |
| Total               | \$(8,014 | ) |                       | \$(2,932 | ) |

101

---

| Derivatives in Cash Flow Hedging<br>(in thousands) | Affected Line Item in the<br>Consolidated Statements<br>of Operations | Ineffective Portion<br>Recognized<br>in Income |
|--|---|--|
| Foreign exchange forward contracts                 | Other expense (income),<br>net  | \$666  |
| Commodity contracts                                | Interest expense  | (56 )  |
| Total  |   | \$610  |

December 31, 2012

| Derivatives in Cash Flow Hedging<br>(in thousands) | Gain (Loss)<br>in AOCI | Affected Line Item in the<br>Consolidated Statements<br>of Operations | Effective Portion<br>Reclassified from<br>AOCI into Income |
|--|------------------------|---|--|
| Interest rate swaps                                | \$(1,987 )             | Interest expense  | \$(3,611 )   |
| Foreign exchange forward contracts                 | 1,027                  | Cost of products sold   | 8,029  |
| Foreign exchange forward contracts                 | 80                     | SG&A expenses   | 779  |
| Commodity contracts                                | 472                    | Cost of products sold   | 136  |
| Total  | \$(408 )               |   | \$5,333  |

| Derivatives in Cash Flow Hedging<br>(in thousands) | Affected Line Item in the<br>Consolidated Statements<br>of Operations | Ineffective Portion<br>Recognized<br>in Income |
|--|---|--|
| Foreign exchange forward contracts                 | Other expense (income),<br>net  | \$915  |
| Commodity contracts                                | Interest expense  | (25 )  |
| Total  |   | \$890  |

The following tables summarize the amount of gains (losses) recorded in the Company's Consolidated Statements of Operations related to the Company's hedges of net investments for the years ended December 31, 2013 and 2012:

| Derivatives in Net Investment Hedging<br>(in thousands) | Gain (Loss)<br>in AOCI | Affected Line Item in the<br>Consolidated Statements of<br>Operations | Gain (Loss)<br>Recognized<br>in Income |
|---|------------------------|---|--|
| Cross currency basis swaps                              | \$(36,035 )            | Interest income   | \$4,771                                |
|   |                        | Interest expense  | 1,432                                  |
| Foreign exchange forward contracts                      | (5,419 )               | Other expense (income), net   | 284                                    |
| Total   | \$(41,454 )            |   | \$6,487                                |

December 31, 2012

| Derivatives in Net Investment Hedging<br>(in thousands) | Gain (Loss)<br>in AOCI | Affected Line Item in the<br>Consolidated Statements of<br>Operations | Gain (Loss)<br>Recognized<br>in Income |
|---|------------------------|---|--|
|---|------------------------|---|--|

|                            |           |   |                  |         |   |
|----------------------------|-----------|---|------------------|---------|---|
| Cross currency basis swaps | \$(34,216 | ) | Interest income  | \$4,264 |   |
|                            |           |   | Interest expense | (1,885  | ) |
| Total                      | \$(34,216 | ) |                  | \$2,379 |   |

102

---



The following tables summarize the amount of gains (losses) recorded in the Company's Consolidated Statements of Operations related to the Company's hedges of fair value for the years ended December 31, 2013 and 2012:

| Derivatives in Fair Value Hedging<br><br>(in thousands) | Affected Line Item in the<br>Consolidated Statements<br>of Operations | Gain (Loss) Recognized in<br>Income |         |
|---|---|-------------------------------------|---------|
|   |   | 2013                                | 2012    |
| Interest rate swaps                                     | Interest expense  | \$ 320                              | \$2,284 |
| Total   |   | \$320                               | \$2,284 |

The following table summarizes the amounts of gains (losses) recorded in the Company's Consolidated Statements of Operations related to the Company's hedges not designated as hedging for the years ended December 31, 2013 and 2012:

| Derivatives Not Designated as Hedging<br><br>(in thousands) | Affected Line Item in the<br>Consolidated Statements<br>of Operations | Gain (Loss) Recognized in<br>Income |            |
|---|---|-------------------------------------|------------|
|   |   | 2013                                | 2012       |
| Foreign exchange forward contracts (a)                      | Other expense (income),<br>net  | \$6,733                             | \$(1,224 ) |
| DIO equity option contracts                                 | Other expense (income),<br>net  | 17                                  | 272        |
| Interest rate swaps   | Interest expense  | 6                                   | (155 )     |
| Cross currency basis swaps (a)                              | Other expense (income),<br>net  | 15,483                              | 12,323     |
| Total   |   | \$22,239                            | \$11,216   |

(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 at:

| (in thousands, net of tax)                | December 31, |             |
|---|--------------|-------------|
|   | 2013         | 2012        |
| Beginning balance                         | \$(17,481 )  | \$(12,737 ) |
| Changes in fair value of derivatives      | (6,234 )     | 105         |
| Reclassifications to earnings from equity | 1,964        | (4,849 )    |
| Total activity                            | (4,270 )     | (4,744 )    |
| Ending balance                            | \$(21,751 )  | \$(17,481 ) |

Amounts recorded in AOCI related to hedges of net investments in foreign operations at:

| (in thousands, net of tax)              | December 31, |              |
|---|--------------|--------------|
|   | 2013         | 2012         |
| Beginning balance                       | \$(71,358 )  | \$(143,730 ) |
| Foreign currency translation adjustment | 72,159       | 83,283       |
| Changes in fair value of:               |              |              |

Edgar Filing: DENTSPLY INTERNATIONAL INC /DE/ - Form 10-K

|                              |           |             |   |
|------------------------------|-----------|-------------|---|
| Foreign currency debt        | 14,531    | 10,097      |   |
| Derivative hedge instruments | (25,453   | ) (21,008   | ) |
| Total activity               | 61,237    | 72,372      |   |
| Ending balance               | \$(10,121 | ) \$(71,358 | ) |

103

---

## NOTE 18 - 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 its total long-term debt, including current portion, was \$1,387.7 million and \$1,370.8 million, respectively, at December 31, 2013. At December 31, 2012, the Company estimated the fair value and carrying value 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 Private Placement Notes are fixed rates of 4.2%, 2.8% and 4.1%, respectively, and their fair value is based on the interest rates at December 31, 2013. The interest rates on variable rate term loan debt and commercial paper are consistent with current market conditions, therefore the fair value of these instruments approximates their carrying values.

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

| (in thousands)                     | December 31, 2013 |         |           |          |
|------------------------------------|-------------------|---------|-----------|----------|
|                                    | Total             | Level 1 | Level 2   | Level 3  |
| <b>Assets</b>                      |                   |         |           |          |
| Interest rate swaps                | \$2,406           | \$—     | \$2,406   | \$—      |
| Commodity contracts                | 1                 | —       | 1         | —        |
| Cross currency basis swaps         | 530               | —       | 530       | —        |
| Foreign exchange forward contracts | 4,900             | —       | 4,900     | —        |
| Corporate convertible bonds        | 70,019            | —       | —         | 70,019   |
| Total assets                       | \$77,856          | \$—     | \$7,837   | \$70,019 |
| <b>Liabilities</b>                 |                   |         |           |          |
| Interest rate swaps                | \$1,226           | \$—     | \$1,226   | \$—      |
| Commodity contracts                | 435               | —       | 435       | —        |
| Cross currency basis swaps         | 59,128            | —       | 59,128    | —        |
| Foreign exchange forward contracts | 13,548            | —       | 13,548    | —        |
| Long-term debt                     | 152,370           | —       | 152,370   | —        |
| DIO equity option contracts        | 142               | —       | —         | 142      |
| Total liabilities                  | \$226,849         | \$—     | \$226,707 | \$142    |



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

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 investment in foreign operations as discussed in Note 17, Financial Instruments and Derivatives.

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

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

For the year ended December 31, 2013, there were no purchases, issuances or transfers of Level 3 financial instruments.

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)                       | Corporate<br>Convertible<br>Bonds | DIO Equity<br>Options<br>Contracts |
|--------------------------------------|-----------------------------------|------------------------------------|
| Balance at December 31, 2012         | \$75,143                          | \$(153 )                           |
| Unrealized loss:<br>Reported in AOCI | (7,592 )                          | —                                  |

Unrealized gain:

|   |          |        |   |
|---|----------|--------|---|
| Reported in other expense (income), net | —        | 17     |   |
| Effect of exchange rate changes         | 2,468    | (6     | ) |
| Balance at December 31, 2013            | \$70,019 | \$(142 | ) |

## NOTE 19 - COMMITMENTS AND CONTINGENCIES

## Leases

The Company leases automobiles and machinery and equipment and certain office, warehouse and manufacturing facilities under non-cancellable leases. The leases generally require the Company to pay insurance, taxes and other expenses related to the leased property. Total rental expense for all operating leases was \$39.7 million, \$42.3 million and \$39.0 million for 2013, 2012 and 2011, respectively.

Rental commitments, principally for real estate (exclusive of taxes, insurance and maintenance), automobiles and office equipment are as follows:

(in thousands)

|                     |           |
|---------------------|-----------|
| 2014                | \$35,002  |
| 2015                | 25,679    |
| 2016                | 20,496    |
| 2017                | 16,475    |
| 2018                | 14,350    |
| 2019 and thereafter | 20,149    |
|                     | \$132,151 |

## 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.” The case went to trial in September 2013, and on January 22, 2014, the San Francisco Superior Court issued its decision in the Company’s favor, rejecting all of the plaintiffs’ claims.

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, Center City Periodontists.. 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 subsequently 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 plaintiffs have moved to have the case certified as a class action, to which the Company has objected and filed its brief.

On January 20, 2014, the Company was served with a qui tam complaint filed by two former and one current employee of the Company under the Federal False Claims Act and equivalent state and city laws. The lawsuit was previously under seal in the U.S. District Court for the Eastern District of Pennsylvania. The complaint alleges, among other things, that the Company engaged in various illegal marketing activities, and thereby caused dental and other healthcare professionals to file false claims for reimbursement with Federal and State governments. The relators seek injunctive relief, fines, treble damages, and attorneys' fees and costs. On January 27, 2014, the United States filed with the Court a notice that it had elected not to intervene in the qui tam action at this time. The United States' notice indicated that the named state and city co-plaintiffs had authorized the United States to communicate to the Court that they also had decided not to intervene at this time. These non-intervention decisions do not prevent the qui tam relators from litigating this action, and the United States and/or the named states and/or cities may seek to



intervene in the action at a later time. The Company is reviewing the allegations in the complaint and intends to vigorously defend itself in the litigation.

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 and Other 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.

The Company has employment agreements with its executive officers. These agreements generally provide for salary continuation for a specified number of months under certain circumstances. If all of the employees under contract were to be terminated by the Company without cause, as defined in the agreements, the Company's liability would be approximately \$15.8 million at December 31, 2013.

The Company is required to complete the purchase of the remaining shares of one VIE, acquired in 2008, during 2014. The final purchase price is subject to adjustments but is currently expected to be approximately 62.0 million euros.

## QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

## DENTSPLY INTERNATIONAL INC.

## Quarterly Financial Information (Unaudited)

(in thousands, except per share amounts)

|  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Rounding | Total<br>Year |
|--|------------------|-------------------|------------------|-------------------|----------|---------------|
| 2013   |                  |                   |                  |                   |          |               |
| Net sales  | \$732,084        | \$761,010         | \$704,018        | \$753,658         | \$—      | \$2,950,770   |
| Gross profit   | 388,200          | 414,956           | 376,417          | 397,839           | —        | 1,577,412     |
| Operating income                                     | 93,858           | 122,866           | 105,021          | 97,421            | —        | 419,166       |
| Net income attributable to<br>DENTSPLY International | 71,685           | 87,228            | 79,851           | 74,428            | —        | 313,192       |
| Earnings per common share - basic                    | \$0.50           | \$0.61            | \$0.56           | \$0.52            | \$0.01   | \$2.20        |
| Earnings per common share - diluted                  | \$0.49           | \$0.60            | \$0.55           | \$0.51            | \$0.01   | \$2.16        |
| Cash dividends declared per common<br>share          | \$0.0625         | \$0.0625          | \$0.0625         | \$0.0625          | \$—      | \$0.25        |
| 2012   |                  |                   |                  |                   |          |               |
| Net sales  | \$716,413        | \$762,994         | \$695,734        | \$753,288         | \$—      | \$2,928,429   |
| Gross profit   | 392,750          | 407,469           | 364,115          | 392,053           | —        | 1,556,387     |
| Operating income                                     | 87,160           | 108,907           | 88,666           | 97,207            | (1 )     | 381,939       |
| Net income attributable to<br>DENTSPLY International | 53,284           | 80,764            | 53,364           | 126,800           | 1        | 314,213       |
| Earnings per common share - basic                    | \$0.38           | \$0.57            | \$0.38           | \$0.89            | \$—      | \$2.22        |
| Earnings per common share - diluted                  | \$0.37           | \$0.56            | \$0.37           | \$0.88            | \$—      | \$2.18        |
| Cash dividends declared per common<br>share          | \$0.055          | \$0.055           | \$0.055          | \$0.055           | \$—      | \$0.220       |

Net sales, excluding precious metal content, were \$672.6 million, \$716.0 million, \$669.4 million and \$713.7 million, respectively, for the first, second, third and fourth quarters of 2013. Net sales, excluding precious metal content, were \$665.6 million, \$698.5 million, \$647.1 million and \$703.5 million, respectively, for the first, second, third and fourth quarters of 2012. This measurement should be considered a non-US GAAP measure as discussed further in Management's Discussion and Analysis of Financial Condition and Results of Operations.



|  |                           |
|--|---------------------------|
| /s/ Willie A. Deese<br>Willie A. Deese<br>Director     | February 20, 2014<br>Date |
| /s/ William F. Hecht<br>William F. Hecht<br>Director   | February 20, 2014<br>Date |
| /s/ Leslie A. Jones<br>Leslie A. Jones<br>Director     | February 20, 2014<br>Date |
| /s/ Francis J. Lunger<br>Francis J. Lunger<br>Director | February 20, 2014<br>Date |
| /s/ John L. Miclot<br>John L. Miclot<br>Director       | February 20, 2014<br>Date |
| /s/ John C. Miles II<br>John C. Miles II<br>Director   | February 20, 2014<br>Date |