

DENTSPLY INTERNATIONAL INC /DE/
Form 10-Q
November 02, 2007
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from _____ to _____

Commission File Number 0-16211

DENTSPLY International Inc.

(Exact name of registrant as specified in its charter)

Delaware

39-1434669

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

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

221 West Philadelphia Street, York, PA

17405-0872

(Address of principal executive offices)

(Zip Code)

(717) 845-7511

(Registrant's telephone number, including area code)

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

Yes X 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 X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer Non-accelerated filer

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

Yes No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: At November 1, 2007 DENTSPLY International Inc. (the "Company") had 151,451,981 shares of Common Stock outstanding, with a par value of \$.01 per share.

DENTSPLY International Inc.

FORM 10-Q

For Quarter Ended September 30, 2007

INDEX

Page No.

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements (unaudited)

Consolidated Condensed Statements of Income	3
Consolidated Condensed Balance Sheets	4
Consolidated Condensed Statements of Cash Flows	5
Notes to Unaudited Interim Consolidated Condensed	

Financial Statements	6
----------------------	---

Item 2 - Management's Discussion and Analysis of

Financial Condition and Results of Operations	20
---	----

Item 3 - Quantitative and Qualitative Disclosures

About Market Risk	31
-------------------	----

Item 4 - Controls and Procedures	31
----------------------------------	----

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings	32
Item 1A - Risk Factors	33
Item 2 - Unregistered Sales of Securities and Use of Proceeds	33
Item 4 - Submission of Matters to a Vote of Security Holders	33
Item 6 - Exhibits	33
Signatures	34

**DENTSPLY INTERNATIONAL
INC. AND SUBSIDIARIES
CONSOLIDATED
CONDENSED STATEMENTS
OF INCOME**

(unaudited)

	Three Months Ended		Nine Months Ended			
	September 30, 2007	2006	September 30, 2007	2006		
	(in thousands, except per share amounts)					
Net sales			\$ 488,103	\$ 435,725	\$ 1,468,329	\$ 1,339,165
Cost of products sold			235,113	209,814	700,277	650,964
Gross profit			252,990	225,911	768,052	688,201
Selling, general and administrative expenses			165,708	148,521	501,869	446,878
Restructuring and other costs (income) (Note 9)			4,692	(1,149)	8,889	6,184
Operating income			82,590	78,539	257,294	235,139
Other income and expenses:						
Interest expense			7,138	9,062	16,803	25,207
Interest income			(6,613)	(9,646)	(20,109)	(26,917)
Other (income) expense, net			220	638	(337)	1,089
Income before income taxes			81,845	78,485	260,937	235,760
Provision for income taxes			16,126	29,036	71,313	76,991
Net income			\$ 65,719	\$ 49,449	\$ 189,624	\$ 158,769
Earnings per common share (Note 4):						
-Basic			\$ 0.43	\$ 0.32	\$ 1.25	\$ 1.02
-Diluted			\$ 0.42	\$ 0.31	\$ 1.23	\$ 1.00
Cash dividends declared per common share			\$ 0.040	\$ 0.035	\$ 0.120	\$ 0.105
Weighted average common shares outstanding (Note 4):						
-Basic			151,632	153,968	151,886	156,246
-Diluted			154,736	157,153	154,735	159,344

See accompanying notes to Unaudited Interim Consolidated Condensed Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(unaudited)

	September 30, 2007	December 31, 2006
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 141,821	\$ 65,064
Short-term investments	118,921	79
Accounts and notes receivable-trade, net (Note 1)	326,012	290,791
Inventories, net (Note 7)	277,057	232,441
Prepaid expenses and other current assets	110,125	129,816
Total Current Assets	973,936	718,191
Property, plant and equipment, net	351,566	329,616
Identifiable intangible assets, net	71,518	67,648
Goodwill, net	1,121,810	995,382
Other noncurrent assets, net	96,087	70,513
Total Assets	\$ 2,614,917	\$ 2,181,350
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 87,154	\$ 79,951
Accrued liabilities	193,837	181,196
Income taxes payable	34,407	47,292
Notes payable and current portion of long-term debt	7,020	2,995
Total Current Liabilities	322,418	311,434
Long-term debt (Note 12)	495,668	367,161
Deferred income taxes	51,717	53,191
Other noncurrent liabilities	291,199	175,507
Total Liabilities	1,161,002	907,293
Minority interests in consolidated subsidiaries	280	222
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock, \$.01 par value; .25 million shares authorized; no shares issued	-	-
Common stock, \$.01 par value; 200 million shares authorized; 162.8 million shares issued at September 30, 2007 and December 31, 2006	1,628	1,628
Capital in excess of par value	169,409	168,135
Retained earnings	1,519,461	1,352,342
Accumulated other comprehensive income (Note 3)	124,136	79,914
Treasury stock, at cost, 11.4 million shares at September 30, 2007 and 11.0 million shares at December 31, 2006	(360,999)	(328,184)
Total Stockholders' Equity	1,453,635	1,273,835

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

Total Liabilities and Stockholders' Equity \$ 2,614,917 \$ 2,181,350

See accompanying notes to Unaudited Interim Consolidated Condensed Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

Nine Months Ended
September 30,
2007 2006
(in thousands)

Cash flows from operating activities:

Net income	\$ 189,624	\$ 158,769
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	32,212	30,446
Amortization	5,608	5,179
Share-based compensation expense	11,541	13,129
Restructuring and other costs	8,889	1,034
Other, net	9,022	(49,102)
Net cash provided by operating activities	256,896	159,455

Cash flows from investing activities:

Capital expenditures	(37,840)	(34,810)
Cash paid for acquisitions of businesses and equity investment	(100,635)	(31,974)
Purchases of short-term investments	(112,771)	(282,462)
Liquidation of short-term investments	69	157,023
Expenditures for identifiable intangible assets	(781)	(223)
Other, net	2,881	2,313
Net cash used in investing activities	(249,077)	(190,133)

Cash flows from financing activities:

Net change in short-term borrowings	3,356	5,991
Cash paid for treasury stock	(88,142)	(166,768)
Cash dividends paid	(19,071)	(16,475)
Proceeds from long-term borrowings	170,255	94,799
Payments on long-term borrowings	(49,562)	(42,100)
Proceeds from exercise of stock options	38,696	25,993
Excess tax benefits from share-based compensation	5,412	5,486
Net cash provided by (used in) financing activities	60,944	(93,074)

Effect of exchange rate changes on cash and cash equivalents 7,994 21,593

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

Net increase (decrease) in cash and cash equivalents	76,757	(102,159)
Cash and cash equivalents at beginning of period	65,064	433,984
Cash and cash equivalents at end of period	\$ 141,821	\$ 331,825

See accompanying notes to Unaudited Interim Consolidated Condensed Financial Statements.

DENTSPLY International Inc.

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

September 30, 2007

The accompanying Unaudited Interim Consolidated Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial statements and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. Results for interim periods should not be considered indicative of results for a full year. These financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's most recent Form 10-K filed February 23, 2007.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of DENTSPLY International Inc., as applied in the consolidated interim financial statements presented herein, are substantially the same as presented on pages 56 through 63 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2006, except for the following:

FIN 48

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes," which clarifies the accounting for income taxes. FIN 48 prescribes 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 Interpretation requires that the Company recognize 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1,

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

2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. As a result of the implementation the Company recognized a \$3.8 million increase to reserves for uncertain tax positions.

The total amount of gross unrecognized tax benefits, as of the date of adoption, is approximately \$48.7 million. Of this total, approximately \$37.8 million (net of the federal benefit of state issues) 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 12 months of the reporting date of the Company's consolidated financial statements. Expiration of statutes of limitation in various jurisdictions could include unrecognized tax benefits of approximately \$7.1 million, \$2.0 million of which will have no impact upon the effective income tax rate. A decrease of unrecognized tax benefits of approximately \$10.7 million, \$5.1 million of which will have no impact upon the effective income tax rate could occur as a result of final settlement and resolution of outstanding tax matters in foreign jurisdictions during the next twelve months.

As a result of the adoption of FIN 48, the Company had a material change to the scheduled contractual cash obligations disclosed in its 2006 Annual Report on Form 10-K filed February 23, 2007. As of September 30, 2007, the Company's contractual obligation related to the adoption of FIN 48 is \$48.7 million.

The total amounts of interest and penalties, as of the date of adoption, were \$7.8 million and \$3.9 million, 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.

The Company is subject to United States federal income tax as well as income tax of multiple state and foreign jurisdictions. The significant jurisdictions include the United States, Switzerland and Germany. The Company has substantially concluded all United States federal income tax matters for years through 2003, resulting in the years 2004 through 2006 being subject to future potential tax audit adjustments while years prior to 2004 are settled. The Company has been notified that it will be audited for United States Federal Income Tax purposes for the tax year 2005 and for Germany from 2001 through 2003. The taxable years that remain open for Switzerland are years 1996 through 2006. For Germany the open years are from 1998 through 2006.

Accounts and Notes Receivable-Trade

Accounts and notes receivable-trade are stated net of allowances for doubtful accounts and trade discounts, which were \$19.2 million and \$16.6 million at September 30, 2007 and December 31, 2006, respectively.

Revisions in Classification

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

New Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This will allow entities the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective for financial statements issued for fiscal years ending after November 15, 2007. The Statement should not be applied retrospectively to fiscal years beginning prior to that effective date, except as permitted for early adoption. The Company is currently evaluating the impact of adopting SFAS 159 on the financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements," which requires the Company to define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 157 on the financial statements.

NOTE 2 – STOCK COMPENSATION

The Company has stock options outstanding under three stock option/equity incentive plans (1993 Plan, 1998 Plan and 2002 Amended and Restated Plan ("the 2002 Plan")). Further grants can only be made under the 2002 Plan. Under the 1993 and 1998 Plans, a committee appointed by the Board of Directors granted to key employees and directors of the Company, options to purchase shares of common stock at an exercise price determined by the fair market value of the common stock on the date of grant. Stock options generally expire ten years after the date of grant under these plans and grants become exercisable over a period of three years after the date of grant at the rate of one-third per year, except when they become immediately exercisable upon death, disability or qualified retirement.

Effective May 15, 2007, the stockholders of the Company approved an amendment to the 2002 Plan. The purpose of the amendment was to eliminate the automatic stock option grants to outside directors and include performance criteria with respect to the grant of performance-based restricted stock and restricted stock units. Under the amended 2002 Plan, no more than 2,000,000

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

shares may be awarded as restricted stock and restricted stock units, and no key employee may be granted restricted stock units in excess of 150,000 shares of common stock in any calendar year.

The 2002 Plan authorized grants of 14,000,000 shares of common stock, plus any unexercised portion of cancelled or terminated stock options granted under the DENTSPLY International Inc. 1993 and 1998 Plans, subject to adjustment as follows: each January, if 7% of the outstanding common shares of the Company exceed 14,000,000, the excess becomes available for grant under the Plan. The 2002 Plan enables the Company to grant "incentive stock options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, to key employees of the Company, and "non-qualified stock options" ("NSOs"), which do not constitute ISOs to key employees and non-employee directors of the Company. The 2002 Plan also enables the Company to grant stock, which is subject to certain forfeiture risks and restrictions ("Restricted Stock"), stock delivered upon vesting of units ("Restricted Stock Units" or "RSUs") and stock appreciation rights ("SARs"). ISOs and NSOs are collectively referred to as "options." Options, Restricted Stock, Restricted Stock Units and SARs are collectively referred to as "awards." Such awards are granted at exercise prices not less than the fair market value of the common stock on the grant date. The number of shares available for grant under the 2002 Plan as of September 30, 2007 was 6,548,286 shares.

Non-Qualified Stock Options

The total compensation cost related to non-qualified stock options recognized in the operating results for the three months and nine months ended September 30, 2007 was \$3.3 million and \$9.5 million, respectively. The total compensation cost related to non-qualified stock options recognized in the operating results for the three months and nine months ended September 30, 2006 was \$4.5 million and \$12.9 million, respectively, including the cost for stock-based awards granted prior to January 1, 2006, but not yet vested as of that date. These costs were allocated appropriately to either cost of products sold or selling, general and administrative expenses. The associated future income tax benefit recognized during the three months and nine months ended September 30, 2007 was \$0.4 million and \$2.0 million, respectively. The associated future income tax benefit recognized during the three months and nine months ended September 30, 2006 was \$0.9 million and \$3.3 million, respectively.

There were 3,136,756 non-qualified stock options unvested as of September 30, 2007. The remaining unamortized compensation cost related to non-qualified stock options is \$14.7 million, which will be expensed over the weighted average remaining vesting period of the options, or 1.2 years. Cash received from stock option exercises for the three months and nine months ended September 30, 2007 was \$12.4 million and \$38.7 million, respectively. It is the Company's practice to issue shares from treasury stock when options are exercised. The future estimated income tax benefit to be realized for the options exercised in the three months and nine months ended September 30, 2007 was \$2.7 million and \$9.9 million, respectively. The future estimated income tax benefit to be realized for the options exercised in the three months and nine months ended September 30, 2006 was \$1.0 million and \$8.1 million, respectively. The aggregate intrinsic value of stock options exercised in the three months and nine months ended September 30, 2007 was \$9.7 million and \$31.3 million, respectively. The aggregate intrinsic value of the outstanding stock options as of September 30, 2007 was \$172.2 million.

Under SFAS 123(R), the Company continues to use 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 our non-qualified stock options issued during the three months and nine months ended September 30, 2007:

	Weighted Average Three Months Ended September 30, 2007	Weighted Average Nine Months Ended September 30, 2007
Per share fair value	\$ 10.58	\$ 8.99

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

Expected dividend yield	0.42%	0.47%
Risk-free interest rate	4.46%	4.54%
Expected volatility	21%	18%
Expected life (years)	5.33	5.40

The following is a summary of the status of the Plans as of September 30, 2007 and changes during the quarter then ended:

	Outstanding	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
	Shares		Shares	
December 31, 2006	11,563,791	\$ 22.97	7,912,549	\$ 20.21
Granted	159,164	34.88		
Exercised	(1,962,831)	19.71		
Expired/Canceled	(128,169)	27.77		
September 30, 2007	9,631,955	\$ 23.77	6,495,199	\$ 20.93

The weighted average remaining contractual term of all outstanding options is 6.3 years and the weighted average remaining contractual term of exercisable options is 5.2 years.

Restricted Stock Units

During the first nine months of 2007, the Company granted a total of 223,100 RSUs to key employees and Board members. As of September 30, 2007, a total of 5,480 RSUs were cancelled and 217,620 RSUs remained outstanding. The RSUs outstanding have a weighted-average fair value per share of \$30.98, which was the fair value of the Company's stock as measured on the date of grant. RSUs 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. In addition to the service condition, certain key executives are subject to performance requirements. The fair value of each RSU assumes that performance goals will be achieved. If such goals are not met, no compensation cost is recognized and any recognized compensation cost is reversed. Under the terms of the RSUs, the three year period is referred to as the restricted period. RSUs 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. Upon the expiration of the applicable restricted period and the satisfaction of all conditions imposed, all restrictions imposed on Restricted Stock Units will lapse, and one share of common stock will be issued as payment for each vested RSU.

During the restricted period, the Company will pay cash dividends on the RSUs, in the form of additional RSUs on each date that the Company pays a cash dividend to holders of common stock. The additional RSUs are subject to the same terms and conditions as the original RSUs and vest when the restrictions lapse.

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

The total compensation cost related to RSUs recognized in the operating results for the three months and nine months ended September 30, 2007 was \$0.5 million and \$1.3 million, respectively. These amounts represent the aggregate fair value of stock units that were expensed during the third quarter and first nine months of 2007, but not yet vested as of that date. These costs were included in the cost of products sold and selling, general and administrative expenses. The associated future income tax benefit recognized during the three months and nine months ended September 30, 2007 was \$0.2 million and \$0.4 million, respectively. All 218,087 RSUs and RSU dividends remained unvested as of September 30, 2007. The unamortized compensation cost related to RSUs is \$4.9 million, which will be expensed over the remaining restricted period of the RSUs, or 2.4 years. The aggregate intrinsic value of the outstanding RSUs as of September 30, 2007 was \$9.3 million.

NOTE 3 – COMPREHENSIVE INCOME

The components of comprehensive income, net of tax, are as follows:

	Three Months Ended September 30, 2007		September 30, 2006	
			September 30, 2006	
	(in thousands)			
Net income	\$ 65,719	\$ 49,449	\$ 189,624	\$ 158,769
Other comprehensive income:				
Foreign currency translation adjustments	55,414	(5,176)	82,950	43,708
Net loss on derivative financial instruments	(30,582)	5,922	(36,437)	(31,711)
Unrealized loss on available-for-sale securities	(89)	(47)	(227)	(6)
Amortization of unrecognized losses and prior year service cost, net	(2,465)	-	(2,064)	-
Total comprehensive income	\$ 87,997	\$ 50,148	\$ 233,846	\$ 170,760

During the quarter ended September 30, 2007, foreign currency translation adjustments included currency translation gains of \$63.0 million and losses of \$7.6 million on the Company's loans designated as hedges of net investments. During the quarter ended September 30, 2006, foreign currency translation adjustments included currency translation losses of \$9.5 million and partially offset by gains of \$4.3 million on the Company's loans designated as hedges of net investments. During the nine months ended September 30, 2007, foreign currency translation adjustments included currency translation gains of \$87.8 million and losses of \$4.8 million on the Company's loans designated as hedges of net investments. During the nine months ended September 30, 2006, foreign currency translation adjustments included currency translation gains of \$51.2 million offset by losses of \$7.5 million on the Company's loans designated as hedges of net investments. As a result of the Company's adoption of Statement of Financial Accounting Standards No. 158 ("SFAS 158") on January 1, 2007, the Company recognized \$0.4 million of the unrecognized losses and prior service cost, net in comprehensive income. The \$0.4 million was derived using the average exchange rate for the current period, which may differ from the exchange rate used to record the unrecognized losses and prior service cost, net.

The balances included in accumulated other comprehensive income in the consolidated balance sheets are as follows:

	September 30, 2007	December 31, 2006
	(in thousands)	
Foreign currency translation adjustments	\$ 218,291	\$ 135,341

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

Net loss on derivative financial instruments	(69,002)	(32,565)
Unrealized gain on available-for-sale securities	106	333
Unrecognized losses and prior service cost, net	(25,259)	(23,195)
	\$ 124,136	\$ 79,914

The cumulative foreign currency translation adjustments included translation gains of \$304.7 million and \$216.9 million as of September 30, 2007 and December 31, 2006, respectively, offset by losses of \$86.4 million and \$81.6 million, respectively, on loans designated as hedges of net investments.

NOTE 4 - EARNINGS PER COMMON SHARE

The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands, except per share amounts)			
<u>Basic Earnings Per Common Share Computation</u>				
Net income	\$ 65,719	\$ 49,449	\$189,624	\$158,769
Common shares outstanding	151,632	153,968	151,886	156,246
Earnings per common share - basic	\$ 0.43	\$ 0.32	\$ 1.25	\$ 1.02
<u>Diluted Earnings Per Common Share Computation</u>				
Net income	\$ 65,719	\$ 49,449	\$189,624	\$158,769
Common shares outstanding	151,632	153,968	151,886	156,246
Incremental shares from assumed exercise of dilutive options	3,104	3,185	2,849	3,098
Total shares	154,736	157,153	154,735	159,344
Earnings per common share - diluted	\$ 0.42	\$ 0.31	\$ 1.23	\$ 1.00

Options to purchase 102,237 and 2,263,367 shares of common stock that were outstanding during the quarters ended September 30, 2007 and September 30, 2006, respectively, were not included in the computation of diluted earnings per share since the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. Antidilutive options outstanding during the nine months ended September 30, 2007 and September 30, 2006 were 1,423,623 and 2,634,220, respectively.

NOTE 5 - BUSINESS ACQUISITIONS

The acquisition related activity for the nine months ended September 30, 2007 of \$104.6 million, net of cash acquired, was related to five acquisitions in 2007 and earn-out payments on acquisitions from prior years. The following list provides information about the acquired companies:

- Sultan Healthcare, Inc., based in New Jersey, is a well-known United States dental consumable manufacturer recognized primarily for infection control products, dental materials and preventive products;
- DFT Dis Hekimligi Urunleri A.S. Ata Anil ("DFT") is a sales and marketing organization for implant products in Turkey;
- NEKS Technologies, Inc. is a dental equipment manufacturer in Quebec, Canada, which develops and commercializes proprietary, non-invasive, handheld dental instruments for early diagnosis of pathologies;
- TMV Medica SA is a sales and marketing organization for implant products in Spain; and
- Sportswire LLC is a manufacturer of Endodontic materials based in Oklahoma.

The purchase agreements for the Sultan Healthcare, Inc. and DFT acquisitions provide for additional payments to be made based upon the operating performance of the business. The NEKS Technologies, Inc. purchase agreement also provides for an additional payment to be made based upon the operating performance of the business through 2010. The results of operations for the five businesses have been included in the accompanying financial statements since the effective date of the respective transaction.

The purchase prices have been allocated on the basis of preliminary estimates of the fair values of assets acquired and liabilities assumed. As of September 30, 2007, the Company has recorded a total of \$86.1 million in goodwill related to the unallocated portions of the respective purchase prices. Of this total amount of goodwill, \$83.8 million is expected to be fully deductible for tax purposes. Goodwill was assigned to the following 3 segments:

- \$75.7 million to United States, Germany, and Certain Other European Regions Consumable Businesses;
- \$8.1 million Canada/ Latin America/ Endodontics/ Orthodontics; and,
- \$2.3 million to Global Dental Laboratory Business/ Implants/Non-Dental.

Several of the Company's 2005 acquisitions included provisions for possible additional payments based on the performance of the individual businesses post closing (generally for two to three years). During the first half of 2007, the Company paid \$7.2 million in additional purchase price under these agreements.

NOTE 6 - SEGMENT INFORMATION

The Company follows Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 establishes standards for disclosing information about reportable segments in financial statements. The Company has numerous operating businesses covering a wide range of products and geographic regions, primarily serving the professional dental market. Professional dental products represented approximately 97% and 98% of sales for the periods ended September 30, 2007 and 2006, respectively.

The operating businesses are combined into operating groups which have overlapping product offerings, geographical presence, customer bases, distribution channels, and regulatory oversight. These operating groups are considered the Company's reportable segments under SFAS 131 as the Company's chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company's operations. The accounting policies of the groups are consistent with those described in the most recently filed 10-K Consolidated Financial Statements in the summary of significant accounting policies. The Company measures segment income for reporting purposes as net operating profit before restructuring, interest and taxes.

In January 2007, the Company reorganized its operating group structure expanding into four operating groups from the three groups under the prior management structure. The segment information below reflects this revised structure and the services provided with each segment for all periods shown.

United States, Germany, and Certain Other European Regions Consumable Businesses

This business group includes responsibility for the design, manufacturing, sales, and distribution for certain small equipment and chairside consumable products in the United States, Germany, and certain other European regions.

France, United Kingdom, Italy, CIS, Middle East, Africa, Pacific Rim Businesses

This business group includes responsibility for the sales and distribution for chairside consumable products and certain small equipment, certain laboratory products, and certain Endodontic products in France, United Kingdom, Italy, the Commonwealth of Independent States ("CIS"), Middle East, Africa, Asia, Japan, and Australia, as well as the sale and distribution of implant products and bone substitute/grafting materials in Italy, Asia and Australia. This business group also includes the manufacturing and sale of Orthodontic products, the manufacturing of certain laboratory products in Japan, and the manufacturing of certain laboratory and certain Endodontic products in Asia.

Canada/Latin America/Endodontics/Orthodontics

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

Global Dental Laboratory Business/Implants/Non-Dental

This business group includes the responsibility for the design, manufacture, world-wide sales and distribution for laboratory products, excluding certain laboratory products mentioned earlier, and the design, manufacture, and/or sales and distribution of the Company's dental implant products and bone substitute/grafting materials, excluding sales and distribution of implants and bone substitute/grafting materials in the United States, Italy, Asia, Australia and sales and distribution of implants in Brazil. This business group is also responsible for the Company's non-dental business.

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

Generally, the Company evaluates performance of the operating groups based on the groups' operating income and net third party sales excluding precious metal content. The following tables set forth information about the Company's operating groups for the three months and nine months ended September 30, 2007 and 2006:

Third Party Net Sales

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in thousands)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 120,313	\$ 110,517	\$ 326,947	\$ 308,666
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	85,748	76,599	270,458	236,888
Canada/Latin America/Endodontics/Orthodontics	142,437	124,352	426,890	385,331
Global Dental Laboratory Business/Implants/Non-Dental	141,047	126,727	447,790	412,765
All Other (a)	(1,442)	(2,470)	(3,756)	(4,485)
Total	\$ 488,103	\$ 435,725	\$ 1,468,329	\$ 1,339,165

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

Third Party Net Sales, excluding precious metal content

	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
	(in thousands)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 120,313	\$ 110,516	\$ 326,947	\$ 308,666
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	80,635	71,000	252,698	220,356
Canada/Latin America/Endodontics/Orthodontics	141,588	123,545	424,067	382,851
Global Dental Laboratory Business/Implants/Non-Dental	104,238	92,253	330,750	294,395
All Other (a)	(1,442)	(2,469)	(3,756)	(4,484)
Total excluding Precious Metal Content	445,332	394,845	1,330,706	1,201,784
Precious Metal Content	42,771	40,880	137,623	137,381
Total including Precious Metal Content	\$ 488,103	\$ 435,725	\$ 1,468,329	\$ 1,339,165

(a) Includes: amounts recorded at Corporate headquarters.

Inter-segment Net Sales

	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
	(in thousands)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 36,096	\$ 34,709	\$ 108,464	\$ 104,172
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	2,028	2,565	8,402	7,314
Canada/Latin America/Endodontics/Orthodontics	21,515	16,503	66,334	53,209
Global Dental Laboratory Business/Implants/Non-Dental	11,124	25,003	59,492	59,556
All Other (a)	36,675	31,257	108,876	95,002
Eliminations	(107,438)	(110,037)	(351,568)	(319,253)
Total	\$ -	\$ -	\$ -	\$ -

Segment Operating Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in thousands)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 38,823	\$ 45,843	\$ 110,625	\$ 116,914
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	1,373	(573)	6,091	147
Canada/Latin America/Endodontics/Orthodontics	43,386	38,756	131,954	128,578
Global Dental Laboratory Business/Implants/Non-Dental	21,675	18,963	79,202	66,715
All Other (b)	(17,975)	(25,599)	(61,689)	(71,031)
Segment Operating Income	87,282	77,390	266,183	241,323
Reconciling Items:				
Restructuring and other costs	(4,692)	1,149	(8,889)	(6,184)
Interest Expense	(7,138)	(9,062)	(16,803)	(25,207)
Interest Income	6,613	9,646	20,109	26,917
Other income (expense), net	(220)	(638)	337	(1,089)
Income before income taxes	\$ 81,845	\$ 78,485	\$ 260,937	\$ 235,760

(a) Includes: the results of Corporate headquarters and one distribution warehouse not managed by named segments.

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

Assets

	September 30, 2007 (in thousands)	December 31, 2006
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 297,355	\$ 273,233
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	308,370	271,999
Canada/Latin America/Endodontics/Orthodontics	748,609	