DENTSPLY INTERNATIONAL INC /DE/
Form 10-Q
July 30, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015
OR

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

For the transition period from ______________ to _______________

Commission File Number 0-16211

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

Delaware (State or other jurisdiction of incorporation or organization)	39-1434669 (I.R.S. Employer Identification No.)
221 West Philadelphia Street, York, PA (Address of principal executive offices)	17405-2558 (Zip Code)

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

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

Yes x No o

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

Yes x No o

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

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

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

Yes o No x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: At
July 21, 2015, DENTSPLY International Inc. had 139,808,237 shares of Common Stock outstanding, with a par value of $.01 per share.

DENTSPLY International Inc.

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales	$698,006	$765,225	$1,354,326	$1,495,339
Cost of products sold	298,345	340,756	581,297	676,665
Gross profit	399,661	424,469	773,029	818,674
Selling, general and administrative expenses	274,979	296,121	545,212	583,963
Restructuring and other costs	38,881	1,242	44,307	2,035
Operating income	85,801	127,106	183,510	232,676
Other income and expenses:				
Interest expense	9,824	11,798	20,492	22,753
Interest income	(660)	(1,744)	(1,402)	(3,179)
Other expense (income), net	(376)	575	232	963
Income before income taxes	77,013	116,477	164,188	212,139
Provision for income taxes	24,775	26,096	43,628	48,548
Equity in net loss of unconsolidated affiliated company	(8,174)	(367)	(12,541)	(657)
Net income	44,064	90,014	108,019	162,934
Less: Net (loss) income attributable to noncontrolling interests	(35)	21	(42)	63
Net income attributable to DENTSPLY International	$44,099	$89,993	$108,061	$162,871
Earnings per common share:				
Basic	$0.32	$0.63	$0.77	$1.15
Diluted	$0.31	$0.62	$0.76	$1.13
Weighted average common shares outstanding:				
Basic	139,813	141,790	140,054	141,921
Diluted	142,262	144,164	142,521	144,288

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$44,064	$90,014	$108,019	$162,934
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	75,972	(27,640)	(112,932)	(28,675)
Net (loss) gain on derivative financial instruments	(16,824)	440	7,928	2,197
Net unrealized holding gain (loss) on available-for-sale securities	39,416	(1,762)	70,267	(3,803)
Pension liability adjustments	(8)	823	1,409	1,141
Total other comprehensive income (loss), net of tax	98,556	(28,139)	(33,328)	(29,140)
Total comprehensive income	142,620	61,875	74,691	133,794
Less: Comprehensive income (loss) attributable to noncontrolling interests	(40)	(254)	500	(140)
Comprehensive income attributable to DENTSPLY International	$142,660	$62,129	$74,191	$133,934

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)
(unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$96,472	$151,639
Accounts and notes receivables-trade, net	447,500	426,606
Inventories, net	374,820	387,095
Prepaid expenses and other current assets, net	351,538	241,630
Total Current Assets	1,270,330	1,206,970
Property, plant and equipment, net	568,036	588,845
Identifiable intangible assets, net	616,669	670,840
Goodwill, net	1,998,608	2,089,339
Other noncurrent assets, net	43,113	90,465
Total Assets	$4,496,756	$4,646,459
Liabilities and Equity		
Current Liabilities:		
Accounts payable	$132,966	$132,611
Accrued liabilities	296,280	379,202
Income taxes payable	64,023	28,948
Notes payable and current portion of long-term debt	119,704	111,823
Total Current Liabilities	612,973	652,584
Long-term debt	1,077,779	1,150,084
Deferred income taxes	155,587	165,551
Other noncurrent liabilities	334,128	356,042
Total Liabilities	2,180,467	2,324,261
Commitments and contingencies		
Equity:		
Preferred stock, $1.00 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 June 30, 2015 and December 31, 2014	1,628	1,628
Capital in excess of par value	225,002	221,669
Retained earnings	3,468,364	3,380,748
Accumulated other comprehensive loss	(475,006)	(441,136)
Treasury stock, at cost, 23.0 million and 21.9 million shares at June 30, 2015 and December 31, 2014, respectively	(905,118)	(841,630)

Total DENTSPLY International Equity	2,314,870	2,321,279
Noncontrolling interests	1,419	919
Total Equity	2,316,289	2,322,198
Total Liabilities and Equity	$4,496,756	$4,646,459

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

	Six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$108,019	$162,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,782	42,325
Amortization	21,846	24,493
Amortization of deferred financing costs	2,177	2,285
Deferred income taxes	28,697	(4,893)
Share-based compensation expense	11,830	13,358
Restructuring and other costs - non-cash	45,814	—
Stock option income tax benefit	(8,822)	(349)
Equity in net loss from unconsolidated affiliates	12,541	657
Other non-cash income	(13,725)	(9,110)
Loss on disposal of property, plant and equipment	481	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts and notes receivable-trade, net	(39,997)	(31,505)
Inventories, net	4,126	(22,427)
Prepaid expenses and other current assets, net	1,832	(6,068)
Other noncurrent assets, net	720	1,096
Accounts payable	4,938	10,613
Accrued liabilities	(17,678)	(6,228)
Income taxes	(74)	35,532
Other noncurrent liabilities	9,738	7,532
Net cash provided by operating activities	211,245	220,245
Cash flows from investing activities:		
Capital expenditures	(33,434)	(48,831)
Cash paid for acquisitions of businesses, net of cash acquired	(3,305)	(2,009)
Cash received on derivatives contracts	14,267	1,674
Cash paid on derivatives contracts	(810)	(4,006)
Expenditures for identifiable intangible assets	—	(1,316)
Purchase of short-term investments	—	(1,135)
Proceeds from sale of property, plant and equipment, net	303	277
Net cash used in investing activities	(22,979)	(55,346)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	33,370	(38,087)
Cash paid for treasury stock	(98,975)	(54,586)

Cash dividends paid	(19,640)	(18,453)
Cash paid for acquisition of noncontrolling interests of consolidated subsidiary	(80,452)	(33)
Repayments on long-term borrowings	(100,232)	(75,371)
Proceeds from exercised stock options	18,597	12,736
Excess tax benefits from share-based compensation	8,822	349
Net cash used in financing activities	(238,510)	(173,445)
Effect of exchange rate changes on cash and cash equivalents	(4,923)	521
Net decrease in cash and cash equivalents	(55,167)	(8,025)
Cash and cash equivalents at beginning of period	151,639	74,954
Cash and cash equivalents at end of period	$96,472	$66,929

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2013	$1,628	$255,272	$3,095,721	$ (69,062)	$(748,506)	$ 2,535,053	$ 42,921	$2,577,974
Net income	—	—	162,871	—	—	162,871	63	162,934
Other comprehensive loss	—	—	—	(23,407)	—	(23,407)	(203)	(23,610)
Acquisition of noncontrolling interest	—	(40,283)	—	(5,530)	—	(45,813)	(41,470)	(87,283)
Exercise of stock options	—	(2,204)	—	—	14,940	12,736	—	12,736
Tax benefit from stock options exercised	—	349	—	—	—	349	—	349
Share based compensation expense	—	13,358	—	—	—	13,358	—	13,358
Funding of Employee Stock Ownership Plan	—	1,535	—	—	4,418	5,953	—	5,953
Treasury shares purchased	—	—	—	—	(54,586)	(54,586)	—	(54,586)
RSU distributions	—	(10,917)	—	—	6,653	(4,264)	—	(4,264)
RSU dividends	—	164	(164)	—	—	—	—	—
Cash dividends ($0.13250 per share)	—	—	(18,787)	—	—	(18,787)	—	(18,787)
Balance at June 30, 2014	$1,628	$217,274	$3,239,641	$ (97,999)	$(777,081)	$ 2,583,463	$ 1,311	$2,584,774

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity
	$1,628	$221,669	$3,380,748	$ (441,136)	$(841,630)	$ 2,321,279	$ 919	$2,322,198

Balance at December 31, 2014								
Net income	—	—	108,061	—	—	108,061	(42)	108,019
Other comprehensive loss	—	—	—	(33,870)	—	(33,870)	542	(33,328)
Exercise of stock options	—	(4,688)	—	—	23,285	18,597	—	18,597
Tax benefit from stock options exercised	—	8,822	—	—	—	8,822	—	8,822
Share based compensation expense	—	11,830	—	—	—	11,830	—	11,830
Funding of Employee Stock Ownership Plan	—	1,077	—	—	3,650	4,727	—	4,727
Treasury shares purchased	—	—	—	—	(98,998)	(98,998)	—	(98,998)
RSU distributions	—	(13,878)	—	—	8,575	(5,303)	—	(5,303)
RSU dividends	—	170	(170)	—	—	—	—	—
Cash dividends ($0.14500 per share)	—	—	(20,275)	—	—	(20,275)	—	(20,275)
Balance at June 30, 2015	$1,628	$225,002	$3,468,364	$(475,006)	$(905,118)	$2,314,870	$1,419	$2,316,289

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY International Inc. and Subsidiaries

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and the rules of the United States Securities and Exchange Commission ("SEC"). The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by 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 and related notes contain the accounts of DENTSPLY International Inc. and Subsidiaries ("DENTSPLY" or the "Company") on a consolidated basis and should be read in conjunction with the consolidated financial statements and notes included in the Company's most recent Form 10-K for the year ended December 31, 2014.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company, as applied in the interim consolidated financial statements presented herein are substantially the same as presented in the Company's Form 10-K for the year ended December 31, 2014, except as may be indicated below:

Accounts and Notes Receivable

The Company records a provision for doubtful accounts, which is included in "Selling, general and administrative expenses" in the Consolidated Statements of Operations.

Accounts and notes receivables – trade, net are stated net of allowances for doubtful accounts and trade discounts, which were $9.2 million at June 30, 2015 and $8.8 million at December 31, 2014.

Marketable Securities

The Company's marketable securities consist of corporate convertible bonds that are classified as available-for-sale in "Prepaid expenses and other current assets" on the Consolidated Balance Sheets as the instruments mature in December 2015. The Company determined the appropriate classification at the time of purchase and will re-evaluate such designation as of each balance sheet date. In addition, the Company reviews the securities each quarter for indications of possible impairment. If an impairment is identified, the determination of whether the impairment is temporary or other-than-temporary requires significant judgment. The primary factors that the Company considers in making this judgment include the extent and time the fair value of each investment has been below cost and the existence of a credit loss. If a decline in fair value is judged other-than-temporary, the basis of the securities is written down to fair value and the amount of the write-down is included as a realized loss in the Consolidated Statement of Operations. Changes in fair value are reported in accumulated other comprehensive income ("AOCI").

The convertible element of the bonds has not been bifurcated from the underlying bonds as the element does not contain a net-settlement feature, nor would the Company be able to achieve a hypothetical net-settlement that would substantially place the Company in a comparable cash settlement position. As such, the derivative is not accounted for separately from the bond. The cash paid by the Company was equal to the face value of the bonds issued, and therefore, the Company has not recorded any bond premium or discount on acquiring the bonds. The fair value of the bonds was $153.6 million and $57.7 million at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015 and December 31, 2014, a cumulative unrealized holding gain of $70.3 million and $8.5 million, respectively, on available-for-sale securities, net of tax, has been recorded in AOCI. As this investment is held by a euro-denominated subsidiary of the Company, the investment's value is also impacted by changing foreign currency rates which accounts for the remaining difference between the period end values and the change in cumulative gain.

New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This newly issued accounting standard changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. This standard will have the impact of reducing the frequency of disposals reported as discontinued operations, by requiring such a disposal to represent a strategic shift that has or will have a major effect on entity's operations and financial results. Additionally, existing provisions that prohibit an entity from reporting a discontinued operation if it has certain continuing cash flows or involvement with the component after a disposal are eliminated by this standard. The ASU also expands the disclosures for discontinued operations and requires new disclosures related to individually significant disposals that do not qualify as discontinued operations. This Company adopted this accounting standard for the quarter ended March 31, 2015. The adoption of this standard did not materially impact the Company's financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" that seeks to provide a single, comprehensive revenue recognition model for all contracts with customers that improve comparability within industries, across industries and across capital markets. Under this standard, an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to be entitled to receive for those goods or services. Enhanced disclosure requirements regarding the nature, timing and uncertainty of revenue and related cash flows exist. To assist entities in applying the standard, a five step model for recognizing and measuring revenue from contracts with customers has been introduced. Entities have the option to apply the new guidance retrospectively to each prior reporting period presented (full retrospective approach) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method). The Company expects to adopt this accounting standard for the quarter ended March 31, 2017. Early adoption is not permitted. On April 1, 2015, the FASB proposed deferring the effective date by one year to annual reporting periods beginning after December 15, 2017. The proposal has not been ratified. The Company is currently assessing the impact that ASU No. 2014-09 may have on their financial positions, results of operations, cash flows and disclosures, as well as, the transition method they will use to adopt the guidance

In January 2015, the FASB issued ASU No. 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items" This newly issued accounting standard eliminates from generally accepted accounting principles the concept of Extraordinary items, events or transactions that are unusual in nature and occur infrequently. The amendments in this update are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. Prospective application and early adoption is permitted. The adoption of this standard is not expected to impact the Company's financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This newly issued accounting standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability. Retrospective application is required. The amendments in this standard are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company adopted this standard during the second quarter of 2015, applying retrospective application to the periods presented in this Form 10-Q. The following is a summary of the adjustment to the financial statement line items impacted by this accounting update:

December 31, 2014				
(in thousands)	As Reported			
Consolidated Balance Sheet Line Item	Balance	Adjustment		Adjusted Balance
Other noncurrent assets, net	$94,271	(3,806	)	$90,465
Notes payable and current portion of long-term debt	112,831	(1,008	)	111,823
Long-term debt	1,152,882	(2,798	)	1,150,084

March 31, 2015				
(in thousands)	As Reported			
Consolidated Balance Sheet Line Item	Balance	Adjustment		Adjusted Balance
Other noncurrent assets, net	$61,254	(3,568	)	$57,686
Notes payable and current portion of long-term debt	247,631	(948	)	246,683
Long-term debt	1,078,823	(2,620	)	1,076,203

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NOTE 2 – STOCK COMPENSATION

The following table represents total stock based compensation expense for non-qualified stock options, restricted stock units (“RSU”) and the tax related benefit for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended		Six Months Ended	
(in thousands)	2015	2014	2015	2014
Stock option expense	$2,330	$2,829	$3,775	$4,503
RSU expense	4,272	4,366	7,408	8,085
Total stock based compensation expense	$6,602	$7,195	$11,183	$12,588
Total related tax benefit	$1,838	$1,979	$3,385	$3,543

For the three and six months ended June 30, 2015, stock compensation expense of $6.6 million and $11.2 million, respectively, of which, $6.4 million and $10.8 million, respectively, was recorded in Selling, general and administrative expense and $0.2 million and $0.3 million, respectively, was recorded in Cost of products sold on the Consolidated Statement of Operations. For the three and six months ended June 30, 2014, stock compensation expense of $7.2 million and $12.6 million, respectively, of which, $7.0 million and $12.2 million, respectively, was recorded in Selling, general and administrative expense and $0.2 million and $0.4 million, respectively, was recorded in Cost of products sold on the Consolidated Statement of Operations.

At June 30, 2015, the remaining unamortized compensation cost related to non-qualified stock options is $13.7 million, which will be expensed over the weighted average remaining vesting period of the options, or approximately 1.8 years. At June 30, 2015, the unamortized compensation cost related to RSU is $26.5 million, which will be expensed over the weighted average remaining restricted period of the RSU, or approximately 1.5 years.

NOTE 3 – COMPREHENSIVE INCOME

During the quarter ended June 30, 2015, foreign currency translation adjustments included currency translation losses of $74.9 million and losses on the Company’s loans designated as hedges of net investments of $0.4 million. During the quarter ended June 30, 2014, foreign currency translation adjustments included currency translation losses of $20.6 million and losses of $1.2 million on the Company’s loans designated as hedges of net investments. During the six months ended June 30, 2015, foreign currency translation adjustments included currency translation losses of $113.7 million and losses on the Company’s loans designated as hedges of net investments of $1.2 million. During the six months ended June 30, 2014, foreign currency translation adjustments included currency translation losses of $19.7 million and losses on the Company’s loans designated as hedges of net investments of $3.2 million.

The cumulative foreign currency translation adjustments included translation losses of $230.7 million and $117.1 million at June 30, 2015 and December 31, 2014, respectively, and losses on loans designated as hedges of net investments of $96.7 million and $95.4 million, respectively. These foreign currency translation adjustments were partially offset by movements on derivative financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

Changes in AOCI, net of tax, by component for the six months ended June 30, 2015 and 2014:

(in thousands)	Foreign Currency Translation Adjustments	Gain and (Loss) on Derivative Financial Instruments Designated as Cash Flow Hedges	Gain and (Loss) on Derivative Financial Instruments Designated as Net Investment Hedges	Net Unrealized Holding Gain (Loss) on Available-for-Sale Securities	Pension Liability Adjustments	Total
Balance at December 31, 2014	$(212,490)	$(10,825)	$(112,728)	$ 8,481	$(113,574)	$(441,136)
Other comprehensive income (loss) before reclassifications	(114,891)	18,446	(2,345)	70,267	—	(28,523)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(8,173)	—	—	2,826	(5,347)
Net (decrease) increase in other comprehensive income	(114,891)	10,273	(2,345)	70,267	2,826	(33,870)
Balance at June 30, 2015	$(327,381)	$(552)	$(115,073)	$ 78,748	$(110,748)	$(475,006)

(in thousands)	Foreign Currency Translation Adjustments	Gain and (Loss) on Derivative Financial Instruments Designated as Cash Flow Hedges	Gain and (Loss) on Derivative Financial Instruments Designated as Net Investment Hedges	Net Unrealized Holding Gain (Loss)on Available-for-Sale Securities	Pension Liability Adjustments	Total
Balance at December 31, 2013	$140,992	$(21,753)	$(151,114)	$ 12,729	$(49,916)	$(69,062)
Other comprehensive income (loss) before reclassifications	(22,942)	(2,717)	849	(3,803)	197	(28,416)
Amounts reclassified from accumulated other comprehensive income (loss)	—	4,065	—	—	944	5,009

Net (decrease) increase in other comprehensive income	(22,942)	1,348	849	(3,803)	1,141	(23,407)
Foreign currency translation related to acquisition of noncontrolling interests	(5,530)	—	—	—	—	(5,530)
Balance at June 30, 2014	$112,520	$(20,405)	$(150,265)	$ 8,926	$(48,775)	$(97,999)

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Reclassifications out of accumulated other comprehensive income (expense) to the Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014:

(in thousands)

Details about AOCI Components	Amounts Reclassified from AOCI Three Months Ended June 30, 2015	2014	Affected Line Item in the Statements of Operations
Gains and (losses) on derivative financial instruments:			
Interest rate swaps	$(1,074)	$(929)	Interest expense
Foreign exchange forward contracts	6,839	(1,651)	Cost of products sold
Foreign exchange forward contracts	181	(58)	SG&A expenses
Commodity contracts	(121)	(158)	Cost of products sold
	5,825	(2,796)	Net gain (loss) before tax
	(1,189)	819	Tax (expense) benefit
	$4,636	$(1,977)	Net of tax
Amortization of defined benefit pension and other postemployment benefit items:			
Amortization of prior service benefits	$34	$35	(a)
Amortization of net actuarial losses	(2,015)	(721)	(a)
	(1,981)	(686)	Net loss before tax
	572	213	Tax benefit
	$(1,409)	$(473)	Net of tax
Total reclassifications for the period	$3,227	$(2,450)	

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the three months ended June 30, 2015 and 2014 (see Note 8, Benefit Plans, for additional details).

(in thousands)

Details about AOCI Components	Amounts Reclassified from AOCI Six Months Ended June 30,		Affected Line Item in the Statements of Operations
	2015	2014	
Gains and (losses) on derivative financial instruments:			
Interest rate swaps	$(2,040)	$(1,856)	Interest expense
Foreign exchange forward contracts	10,726	(3,296)	Cost of products sold
Foreign exchange forward contracts	344	(157)	SG&A expenses
Commodity contracts	(250)	(403)	Cost of products sold
	8,780	(5,712)	Net gain (loss) before tax
	(607)	1,647	Tax (expense) benefit
	$8,173	$(4,065)	Net of tax
Amortization of defined benefit pension and other postemployment benefit items:			
Amortization of prior service benefits	$68	$69	(a)
Amortization of net actuarial losses	(4,041)	(1,439)	(a)
	(3,973)	(1,370)	Net loss before tax
	1,147	426	Tax benefit
	$(2,826)	$(944)	Net of tax
Total reclassifications for the period	$5,347	$(5,009)	

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the six months ended June 30, 2015 and 2014 (see Note 8, Benefit Plans, for additional details).

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NOTE 4 – EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share for the three and six months ended June 30, 2015 and 2014:

Basic Earnings Per Common Share Computation	Three Months Ended		Six Months Ended	
(in thousands, except per share amounts)	2015	2014	2015	2014
Net income attributable to DENTSPLY International	$44,099	$89,993	$108,061	$162,871
Weighted average common shares outstanding	139,813	141,790	140,054	141,921
Earnings per common share - basic	$0.32	$0.63	$0.77	$1.15
Diluted Earnings Per Common Share Computation				
(in thousands, except per share amounts)				
Net income attributable to DENTSPLY International	$44,099	$89,993	$108,061	$162,871
Weighted average common shares outstanding	139,813	141,790	140,054	141,921
Incremental weighted average shares from assumed exercise of dilutive options from stock-based compensation awards	2,449	2,374	2,467	2,367
Total weighted average diluted shares outstanding	142,262	144,164	142,521	144,288
Earnings per common share - diluted	$0.31	$0.62	$0.76	$1.13

The calculation of weighted average diluted shares outstanding excludes stock options and RSU of 0.8 million and 1.0 million shares of common stock that were outstanding during the three and six months ended June 30, 2015, respectively, because their effect would be antidilutive.

NOTE 5 – BUSINESS COMBINATIONS

Effective January 1, 2014, the Company recorded a liability for the contractual purchase of the remaining shares of one variable interest entity. The Company paid this obligation during the first quarter of 2015.

NOTE 6 – SEGMENT INFORMATION

The Company has numerous operating businesses covering a wide range of dental and certain healthcare products and geographic regions, primarily serving the professional dental market. Professional dental products represented approximately 88% of net sales for the three and six months ended June 30, 2015 and 2014, respectively.

The operating businesses are combined into operating groups, which generally have overlapping product offerings, geographical presence, customer bases, distribution channels, and regulatory oversight. These operating groups are considered the Company’s reportable segments as the Company’s chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company’s operations. The accounting policies of the segments are consistent with those described in the Company’s most recently filed Form 10-K in the summary of significant accounting policies. The Company evaluates performance of the segments based on the groups’ net third party sales, excluding precious metal content, and segment income. The Company defines net third party sales excluding precious metal content as the Company’s net sales excluding the precious metal cost within the products sold, and this is considered a non-US GAAP measure. The Company's exclusion of precious metal content in the measurement of net third party sales enhances comparability of performance between periods as it excludes the fluctuating market prices of the precious metal content. The Company defines segment income as net operating income after the assignment of certain direct corporate costs and before restructuring and other costs, interest expense, interest income, other expense (income), net and provision for income taxes. A description of the products and services provided within each of the Company's three reportable segments is provided below.

Significant interdependencies exist among the Company's operations in certain geographic areas. Inter-segment 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.

During the March 31, 2015 quarter, the Company realigned reporting responsibilities for multiple locations as a result of changes to the management structure. The segment information below reflects the revised structure for all periods shown.

Dental Consumables, Endodontic and Dental Laboratory Businesses

This segment includes responsibility for the design and manufacture of the Company's chairside consumable products. It also has responsibilities for sales and distribution of certain small equipment and chairside consumable products in the United States, Germany and certain other European regions as well as responsibility for the sales and distribution of certain endodontic products in Germany and certain other European regions. In addition, this segment is responsible for the design, manufacture, sales and distribution of most of the Company's dental laboratory products. This segment is also responsible for the design, manufacture, worldwide distribution and sales of certain non-dental products, excluding urological and surgery-related products

Healthcare, Orthodontic and Implant Businesses

This segment is responsible for the worldwide design, manufacture, sales and distribution of the Company's healthcare products, primarily urological and surgery-related products, throughout most of the world. This segment also includes responsibility for the design, manufacture, sales and distribution of orthodontic and implant products, in most regions of the world. Additionally, segment is also responsible for the sales and distribution of most of the Company's other dental products, including most dental consumables within Canada.

Select Developed and Emerging Markets Businesses

This segment has responsibilities for sales and distribution of chairside consumable, endodontic and dental laboratory products within certain European regions, Japan and Australia. This segment also includes the responsibility for the sales and distribution of most of the Company's dental products, including most dental consumables, sold in Eastern Europe, Middle East, South America, Latin America including Mexico, Asia and Africa.

The following tables set forth information about the Company's segments for the three and six months ended June 30, 2015 and 2014:

Third Party Net Sales

	Three Months Ended		Six Months Ended	
(in thousands)	2015	2014	2015	2014
Dental Consumables, Endodontic and Dental Laboratory Businesses	$317,376	$346,264	$627,693	$685,545
Healthcare, Orthodontic and Implant Businesses	252,845	279,696	488,838	544,107
Select Developed and Emerging Markets Businesses	127,785	139,265	237,795	265,687
Total net sales	$698,006	$765,225	$1,354,326	$1,495,339

Third Party Net Sales, Excluding Precious Metal Content

	Three Months Ended		Six Months Ended	

(in thousands)	2015	2014	2015	2014
Dental Consumables, Endodontic and Dental Laboratory Businesses	$301,299	$319,978	$593,390	$625,050
Healthcare, Orthodontic and Implant Businesses	252,665	279,478	488,476	543,681
Select Developed and Emerging Markets Businesses	120,734	131,442	224,379	251,350
Total net sales, excluding precious metal content	674,698	730,898	1,306,245	1,420,081
Precious metal content of sales	23,308	34,327	48,081	75,258
Total net sales, including precious metal content	$698,006	$765,225	$1,354,326	$1,495,339

Inter-segment Net Sales

(in thousands)	Three Months Ended 2015	2014	Six Months Ended 2015	2,014
Dental Consumables, Endodontic and Dental Laboratory Businesses	$89,324	$93,642	$173,213	$183,100
Healthcare, Orthodontic and Implant Businesses	1,578	1,970	3,352	4,431
Select Developed and Emerging Markets Businesses	3,437	2,722	6,313	6,239
All Other (a)	67,116	75,860	132,166	150,482
Eliminations	(161,455)	(174,194)	(315,044)	(344,252)
Total	$—	$—	$—	$—

(a) Includes amounts recorded at one distribution warehouse not managed by named segments.

Segment Operating Income (Loss)

(in thousands)	Three Months Ended 2015	2014	Six Months Ended 2015	2014
Dental Consumables, Endodontic and Dental Laboratory Businesses	$110,787	$117,976	$214,193	$224,745
Healthcare, Orthodontic and Implant Businesses	27,906	32,049	54,435	56,574
Select Developed and Emerging Markets Businesses	(3,464)	(1,211)	(7,350)	(2,503)
Segment operating income	135,229	148,814	261,278	278,816
Reconciling Items (income) expense:				
All Other (b)	10,547	20,466	33,461	44,105
Restructuring and other costs	38,881	1,242	44,307	2,035
Interest expense	9,824	11,798	20,492	22,753
Interest income	(660)	(1,744)	(1,402)	(3,179)
Other expense (income), net	(376)	575	232	963
Income before income taxes	$77,013	$116,477	$164,188	$212,139

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

Assets

(in thousands)	June 30, 2015	December 31, 2014
Dental Consumables, Endodontic and Dental Laboratory Businesses	$1,360,187	$1,358,018
Healthcare, Orthodontic and Implant Businesses	2,508,278	2,655,622
Select Developed and Emerging Markets Businesses	352,866	369,844
All Other (c)	275,425	262,975
Total	$4,496,756	$4,646,459

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

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NOTE 7 – INVENTORIES

Inventories are stated at the lower of cost or market. The cost of inventories determined by the last-in, first-out ("LIFO") method at June 30, 2015 and December 31, 2014 were $7.0 million and $6.3 million, respectively. The cost of other inventories was determined by the first-in, first-out ("FIFO") or average cost methods. If the FIFO method had been used to determine the cost of LIFO inventories, the amounts at which net inventories are stated would be higher than reported at June 30, 2015 and December 31, 2014 by $6.2 million and $6.1 million, respectively.

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

(in thousands)	June 30, 2015	December 31, 2014
Finished goods	$242,921	$253,333
Work-in-process	59,858	58,329
Raw materials and supplies	72,041	75,433
Inventories, net	$374,820	$387,095

The inventory valuation reserves were $36.3 million and $34.1 million at June 30, 2015 and December 31, 2014, respectively.

NOTE 8 – BENEFIT PLANS

The following sets forth the components of net periodic benefit cost of the Company's defined benefit plans and for the Company's other postemployment benefit plans for the three and six months ended June 30, 2015 and 2014:

Defined Benefit Plans	Three Months Ended		Six Months Ended	
(in thousands)	2015	2014	2015	2014
Service cost	$4,343	$3,549	$8,691	$7,101
Interest cost	1,843	2,861	3,697	5,726
Expected return on plan assets	(1,399)	(1,391)	(2,777)	(2,777)
Amortization of prior service credit	(35)	(35)	(69)	(69)
Amortization of net actuarial loss	1,963	709	3,947	1,417
Net periodic benefit cost	$6,715	$5,693	$13,489	$11,398

Other Postemployment Benefit Plans	Three Months Ended		Six Months Ended	
(in thousands)	2015	2014	2015	2014
Service cost	$88	$44	$177	$89
Interest cost	144	140	288	280
Amortization of net actuarial loss	43	12	85	22
Net periodic benefit cost	$275	$196	$550	$391

The following sets forth the information related to the contributions to the Company's benefit plans for 2015:

(in thousands)	Pension Benefits	Other Postemployment Benefits

Actual contributions through June 30, 2015	$5,559	$192
Projected contributions for the remainder of the year	5,945	449
Total projected contributions	$11,504	$641

NOTE 9 – RESTRUCTURING AND OTHER COSTS

Restructuring Costs

During the three and six months ended June 30, 2015, the Company recorded net restructuring costs and other costs of $38.9 million and $44.3 million, respectively. On May 22, 2015, the Company announced that it reorganized portions of its laboratory business and associated manufacturing capabilities within the Dental Consumables, Endodontics and Dental Laboratory Businesses segment. During the June 2015 quarter, the Company recorded $31.0 million of costs that consist primarily of employee severance benefits related to these and other similar actions. Also during the three and six months ended June 30, 2015, the Company recorded restructuring costs of $2.7 million and $7.5 million, respectively, within the Healthcare, Orthodontic and Implant Businesses segment primarily related to the global efficiency initiative During the three and six months ended June 30, 2014, the Company recorded net restructuring and other costs of $1.2 million and $2.0 million. These costs are recorded in “Restructuring and other costs” in the Consolidated Statements of Operations and the associated liabilities are recorded in “Accrued liabilities” in the Consolidated Balance Sheets.

At June 30, 2015, the Company’s restructuring accruals were as follows:

(in thousands)	Severance 2013 and Prior Plans	2014 Plans	2015 Plans	Total
Balance at December 31, 2014	$951	$5,062	$—	$6,013
Provisions	81	431	40,958	41,470
Amounts applied	(635)	(3,084)	(3,542)	(7,261)
Change in estimates	(76)	(74)	(547)	(697)
Balance at June 30, 2015	$321	$2,335	$36,869	$39,525

(in thousands)	Lease/Contract Terminations 2013 and Prior Plans	2014 Plans	2015 Plans	Total
Balance at December 31, 2014	$535	$1,636	$—	$2,171
Provisions	—	12	270	282
Amounts applied	(105)	(384)	—	(489)
Change in estimates	—	(10)	—	(10)
Balance at June 30, 2015	$430	$1,254	$270	$1,954

(in thousands)	Other Restructuring Costs 2013 and Prior Plans	2014 Plans	2015 Plans	Total
Balance at December 31, 2014	$25	$1,049	$—	$1,074
Provisions	2	168	577	747
Amounts applied	(2)	(799)	(227)	(1,028)
Change in estimate	—	28	—	28
Balance at June 30, 2015	$25	$446	$350	$821

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

(in thousands)	December 31, 2014	Provisions	Amounts Applied	Change in Estimates	June 30, 2015
Dental Consumables, Endodontic and Dental Laboratory Businesses	$5,272	$31,522	$(3,941)	$—	$32,853
Healthcare, Orthodontic and Implant Businesses	3,828	7,517	(4,558)	(679)	6,108
Select Developed and Emerging Markets Businesses	91	1,719	(177)	—	1,633
All Other	67	1,741	(102)	—	1,706
Total	$9,258	$42,499	$(8,778)	$(679)	$42,300

NOTE 10 – FINANCIAL INSTRUMENTS AND DERIVATIVES

Derivative Instruments and Hedging Activities

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

Derivative Instruments Designated as Hedging

Cash Flow Hedges

The following table summarizes the notional amounts of cash flow hedges by derivative instrument type at June 30, 2015 and the notional amounts expected to mature during the next 12 months, with a discussion of the various cash flow hedges by derivative instrument type following the table:

(in thousands)	Aggregate Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Foreign exchange forward contracts	$337,017	$253,842
Interest rate swaps	172,169	—
Commodity contracts	1,396	1,396
Total derivative instruments designated as cash flow hedges	$510,582	$255,238

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 designated 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. The Company hedges various currencies, with the most significant activity occurring in euros, Swedish kronor, Canadian dollars, and Swiss francs.

These foreign exchange forward contracts generally have maturities up to 18 months and the counterparties to the transactions are typically large international financial institutions.

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 June 30, 2015, the Company has two significant exposures hedged with interest rate contracts. One exposure is hedged with derivative contracts having notional amounts totaling 12.6 billion Japanese yen, which effectively converts the underlying variable interest rate debt facility to a fixed interest rate of 0.9% for an intial term of five years ending September 2019. Another exposure hedged with derivative contracts has a notional amount of 65.0 million Swiss francs, and effectively converts the underlying variable interest rate of a Swiss franc denominated loan to a fixed interest rate of 0.7% for an initial 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.

Commodity Risk Management

The Company enters into precious metal commodity swap contracts to effectively fix certain variable raw material costs typically for up to 18 months. 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.

The following tables summarize the amount of gains (losses) recorded in AOCI in the Consolidated Balance Sheets and income (expense) in the Company's Consolidated Statements of Operations related to all cash flow hedges for the three months ended June 30, 2015 and 2014:

June 30, 2015

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
Effective Portion:				
Interest rate swaps	$(58)	Interest expense	$(1,074)	$—
Foreign exchange forward contracts	(2,069)	Cost of products sold	6,839	—
Foreign exchange forward contracts	(139)	SG&A expenses	181	—
Commodity contracts	(96)	Cost of products sold	(121)	—
Ineffective Portion:				
Foreign exchange forward contracts	—	Other expense (income), net	—	(160)
Commodity contracts	—	Interest expense	—	(4)
Total in cash flow hedging	$(2,362)		$5,825	$(164)

June 30, 2014

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
Effective Portion:				
Interest rate swaps	$(149)	Interest expense	$(929)	$—
Foreign exchange forward contracts	(4,636)	Cost of products sold	(1,651)	—
Foreign exchange forward contracts	45	SG&A expenses	(58)	—
Commodity contracts	101	Cost of products sold	(158)	—
Ineffective Portion:				
Foreign exchange forward contracts	—	Other expense (income), net	—	(151)
Commodity contracts	—	Interest expense	—	(11)
Total for cash flow hedging	$(4,639)		$(2,796)	$(162)

The following tables summarize the amount of gains (losses) recorded in AOCI in the Consolidated Balance Sheets and income (expense) in the Company's Consolidated Statements of Operations related to all cash flow hedges for the six months ended June 30, 2015 and 2014:

June 30, 2015

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
Effective Portion:				
Interest rate swaps	$(1,239)	Interest expense	$(2,040)	$—
Foreign exchange forward contracts	22,018	Cost of products sold	10,726	—
Foreign exchange forward contracts	324	SG&A expenses	344	—
Commodity contracts	(96)	Cost of products sold	(250)	—
Ineffective Portion:				
Foreign exchange forward contracts	—	Other expense (income), net	—	167
Commodity contracts	—	Interest expense	—	(8)
Total in cash flow hedging	$21,007		$8,780	$159

June 30, 2014

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
Effective Portion:				
Interest rate swaps	$(537)	Interest expense	$(1,856)	$—
Foreign exchange forward contracts	(3,569)	Cost of products sold	(3,296)	—
Foreign exchange forward contracts	35	SG&A expenses	(157)	—
Commodity contracts	203	Cost of products sold	(403)	—
Ineffective Portion:				
Foreign exchange forward contracts	—	Other expense (income), net	—	(45)
Commodity contracts	—	Interest expense	—	(24)
Total for cash flow hedging	$(3,868)		$(5,712)	$(69)

Overall, the derivatives designated as cash flow hedges are considered to be highly effective. At June 30, 2015, the Company expects to reclassify $9.6 million of deferred net gains on cash flow hedges recorded in AOCI to the Consolidated Statements of Operations during the next 12 months. This reclassification is primarily due to the sale of inventory that includes hedged purchases and recognized interest expense on interest rate swaps. The 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 typically 18 months.

For the rollforward of derivative instruments designated as cash flow hedges in AOCI see Note 3, Comprehensive Income.

Hedges of Net Investments in Foreign Operations

The Company has significant investments in foreign subsidiaries the most significant of which are denominated in euros, Swiss francs, Japanese yen and Swedish kronor. The net assets of these subsidiaries are exposed to volatility in currency exchange rates. The Company employs both derivative and non-derivative financial instruments to hedge a portion of this exposure . The derivative instruments consist of foreign exchange forward contracts and cross currency basis swaps. The non-derivative instruments consist of foreign currency denominated debt held at the parent company level. Translation gains and losses related to the net assets of the foreign subsidiaries are offset by gains and losses in derivative and non-derivative financial instruments designated as hedges of net investments, which are included in AOCI. Any cash flows associated with these instruments are included in investing activities on the Consolidated Statements of Cash Flows except for derivative instruments that include an other-than-insignificant financing element, in which case all cash flows will be classified as financing activities on the Consolidated Statements of Cash Flows.

The following table summarizes the notional amounts of hedges of net investments by derivative instrument type at June 30, 2015 and the notional amounts expected to mature during the next 12 months:

(in thousands)	Aggregate Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Foreign exchange forward contracts	$420,892	$236,079

The fair value of the cross currency basis swaps and foreign exchange forward contracts is the estimated amount the Company would receive or pay at the reporting date, taking into account the effective interest rates, cross currency swap basis rates and foreign exchange rates. The effective portion of the change in the value of these derivatives is recorded in AOCI, net of tax effects.

The following tables summarize the amount of gains (losses) recorded in AOCI on the Consolidated Balance Sheets and other income (expense) on the Company’s Consolidated Statements of Operations related to the hedges of net investments for the three months ended June 30, 2015 and 2014:

June 30, 2015

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
Effective Portion:			
Foreign exchange forward contracts	$(15,819)	Other expense (income), net	$1,191
Total for net investment hedging	$(15,819)		$1,191

June 30, 2014

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
Effective Portion:			
Cross currency basis swaps	$1,572	Interest income	$674

		Interest expense	(384)
Foreign exchange forward contracts	1,272	Other expense (income), net	(73)
Total for net investment hedging	$2,844		$217

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The following table summarizes the amount of gains (losses) recorded in AOCI on the Consolidated Balance Sheets and other income (expense) on the Company's Consolidated Statement of Operations related to the hedges of net investments for the six months ended June 30, 2015 and 2014:

June 30, 2015

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
Effective Portion:			
Foreign exchange forward contracts	$(3,320)	Other expense (income), net	$855
Total for net investment hedging	$(3,320)		$855

June 30, 2014

(in thousands)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
Effective Portion:			
Cross currency basis swaps	$(3,087)	Interest income	$1,351
		Interest expense	157
Foreign exchange forward contracts	4,341	Other expense (income), net	175
Total for net investment hedging	$1,254		$1,683

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 U.S. dollar denominated interest rate swaps with an initial total notional value of $150.0 million to effectively convert the underlying fixed interest rate of 4.1% on the Company's $250.0 million Private Placement Notes ("PPN") to variable rate for an initial 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 on the Consolidated Statements of Operations. Any cash flows associated with these instruments are included in operating activities on the Consolidated Statements of Cash Flows.

The following table summarizes the notional amounts of fair value hedges by derivative instrument type at June 30, 2015 and the notional amounts expected to mature during the next 12 months:

(in thousands)	Aggregate Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Interest rate swaps	$45,000	$45,000

The following tables summarize the amount of income (expense) recorded on the Company's Consolidated Statements of Operations related to the hedges of fair value for the three and six months ended June 30, 2015 and 2014:

	Consolidated Statements of	Three Months Ended June 30,	Six Months Ended June 30,

(in thousands)	Operations Location	2015	2014	2015	2014
Interest rate swaps	Interest expense	$41	$133	$158	$220

Derivative Instruments Not Designated as Hedges

The Company enters into derivative instruments with the intent to partially mitigate 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 foreign exchange forward contracts and cross currency basis swaps to hedge these risks. Any cash flows associated with the foreign exchange forward contracts and interest rate swaps not designated as hedges are included in cash from operating activities on the Consolidated Statements of Cash Flows. Any cash flows associated with the cross currency basis swaps not designated as hedges are included in investing activities on the Consolidated Statements of Cash Flows except for derivative instruments that include an other-than-insignificant financing element, in which case the cash flows will be classified as financing activities on the Consolidated Statements of Cash Flows.

The following tables summarize the aggregate notional amounts of the Company’s economic hedges not designated as hedges by derivative instrument types at June 30, 2015 and the notional amounts expected to mature during the next 12 months:

(in thousands)	Aggregate Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Foreign exchange forward contracts	$478,338	$478,338
Interest rate swaps	2,213	805
Total for instruments not designated as hedges	$480,551	$479,143

The Company had a Swiss franc denominated cross currency basis swaps to offset an intercompany Swiss franc note receivable at a U.S. dollar functional entity. The hedge matured during the second quarter of 2015 to coincide with the repayment of the note.

The following table summarizes the amounts of gains (losses) recorded on the Company’s Consolidated Statements of Operations related to the economic hedges not designated as hedging for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Consolidated Statements of Operations Location	Gain (Loss) Recognized Three Months Ended June 30, 2015	2014
Foreign exchange forward contracts (a)	Other expense (income), net	$(766)	$(716)
DIO equity option contracts	Other expense (income), net	102	90
Interest rate swaps	Interest expense	1	(16)
Cross currency basis swaps (a)	Other expense (income), net	(603)	(4,005)
Total for instruments not designated as hedges		$(1,266)	$(4,647)

(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.

(in thousands)	Consolidated Statements of Operations Location	Gain (Loss) Recognized Six Months Ended June 30, 2015	2014

Foreign exchange forward contracts (a)	Other expense (income), net	$7,789	$(5,157)
DIO equity option contracts	Other expense (income), net	107	(138)
Interest rate swaps	Interest expense	(2)	(27)
Cross currency basis swaps (a)	Other expense (income), net	(1,825)	(3,180)
Total for instruments not designated as hedges		$6,069	$(8,502)

(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.

Consolidated Balance Sheets Location of Derivative Fair Values

The following tables summarize the fair value and consolidated balance sheet location of the Company's derivatives at June 30, 2015 and December 31, 2014:

(in thousands)	June 30, 2015			
Designated as Hedges	Prepaid Expenses and Other Current Assets, Net	Other Noncurrent Assets, Net	Accrued Liabilities	Other Noncurrent Liabilities
Foreign exchange forward contracts	$32,398	$1,833	$1,490	$2,675
Commodity contracts	—	—	152	—
Interest rate swaps	324	282	1,164	742
Total	$32,722	$2,115	$2,806	$3,417
Not Designated as Hedges				
Foreign exchange forward contracts	$7,273	$—	$3,	