DENTSPLY INTERNATIONAL INC /DE/
Form 10-K
February 20, 2009
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

Commission File Number 0-16211

DENTSPLY International Inc.

(Exact name of registrant as specified in its charter)

Delaware	39-1434669
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
221 West Philadelphia Street, York, PA	17405-0872
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
None	Not applicable

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

Common Stock, par value $.01 per share (Title of class)

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

Yes No X

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 Smaller reporting company

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

Yes No X

The aggregate market value of the voting common stock held by non-affiliates of the registrant computed by reference to the closing price as of the last business day of the registrants most recently completed second quarter June 30, 2008, was $5,741,814,318.

The number of shares of the registrant's Common Stock outstanding as of the close of business on February 19, 2009 was 148,601,036.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement of DENTSPLY International Inc. to be used in connection with the 2009 Annual Meeting of Stockholders (the “Proxy Statement”) are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent provided herein. Except as specifically incorporated by reference herein the Proxy Statement is not deemed to be filed as part of this Annual Report on Form 10-K.

PART I

Item 1. Business

The nature and geographic scope of the Company's business subjects it to changing economic, competitive, regulatory and technological risks and uncertainties. In accordance with the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors, which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. All forward-looking statements made by the Company are subject to risks and uncertainties and are not guarantees of future performance. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance and achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements are identified by the use of such terms as "may," "could," "expect," "intend," "believe," "plan," "estimate," "forecast," "project," "anticipate" or similar import.

Investors are cautioned that forward-looking statements involve risks and uncertainties which may materially affect the Company's business and prospects, and should be read in conjunction with the risk factors and uncertainties discussed within Item 1A, Part I of this Annual Report on Form 10-K as filed on February 20, 2009. Investors are further cautioned that the risk factors in Item 1A, Part I of this Annual Report on Form 10-K may not be exhaustive and that many of these factors are beyond the Company's ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty and has no obligation to update forward-looking statements.

History and Overview

DENTSPLY International Inc. ("DENTSPLY" or the "Company"), a Delaware corporation, was created in 1899 as a manufacturer and distributor of artificial teeth, dental equipment and dental consumable products. Today, the Company continues to primarily focus on dental consumable products, dental laboratory products and dental specialty products.

DENTSPLY believes it is the world's largest designer, developer, manufacturer and marketer of a broad range of products for the dental market. The Company's worldwide headquarters and executive offices are located in York, Pennsylvania.

Sales of the Company's dental products accounted for approximately 97% of DENTSPLY's consolidated net sales, excluding precious metal content, for the year ended December 31, 2008. The remaining 3% of consolidated net sales are related to materials sold to the investment casting industry and various medical products. The presentation of net sales, excluding precious metal content, is considered a measure not calculated in accordance with generally accepted accounting principles ("GAAP"), and is therefore considered a non-GAAP measure. This non-GAAP measure is discussed further in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and a reconciliation of net sales to net sales, excluding precious metal content, is provided.

Through the year ended December 31, 2008, the Company conducted its business through four operating segments, all of which were primarily engaged in the design, manufacture and distribution of dental products in three principal categories: 1) dental consumable products, 2) dental laboratory products and 3) dental specialty products.

In addition to the United States ("U.S."), the Company conducts its business in over 120 foreign countries, principally through its foreign subsidiaries. DENTSPLY has a long-established presence in Canada and in the European market, particularly in Germany, Switzerland, France,

Italy and the United Kingdom. The Company also has a significant market presence in Central and South America, South Africa and the Pacific Rim. DENTSPLY has also established marketing activities in Moscow, Russia to serve the countries of the former Soviet Union.

For 2008, 2007 and 2006, the Company's net sales, excluding precious metal content, to customers outside the U.S., including export sales, accounted for approximately 62%, 59% and 58%, respectively. Reference is made to the information about the Company's U.S. and foreign sales by shipment origin set forth in Note 4, Segment and Geographic Information, to the consolidated financial statements in this Annual Report on Form 10-K.

Principal Products

The worldwide professional dental industry encompasses the diagnosis, treatment and prevention of disease and ailments of the teeth, gums and supporting bone. DENTSPLY's principal dental product categories are dental consumable products, dental laboratory products and dental specialty products. These products are produced by the Company in the U.S. and internationally and are distributed throughout the world under some of the most well-established brand names and trademarks in the industry, including ANKYLOS®, AQUASIL(TM), AQUASIL ULTRA(TM), BIOPURE®, CAULK®, CAVITRON®, CERAMCO®, CERCON®, CITANEST®, DELTON®, DENTSPLY®, DETREY®, ELEPHANT®, ESTHET.X®, FRIADENT®, FRIALIT®, GENIE®, GOLDEN GATE®, IN-OVATION®, INTERACTIVE MYSTIQUE®, MAILLEFER®, MIDWEST®, NUPRO®, ORAQIX®, PEPGEN P-15®, POLOCAINE®, PRIME & BOND®, PROFILE®, PROTAPER®, RINN®, R&R®, SANI-TIP®, SEAL&PROTECT(TM), SHADEPILOT(TM), SULTAN®, THERMAFIL®, TRUBYTE®, XENO®, XIVE®, XYLOCAINE®, and ZHERMACK®.

Dental Consumable Products

Dental consumable products consist of dental sundries and small equipment used in dental offices in the treatment of patients. Sales of dental consumable products, excluding precious metal content, accounted for approximately 34%, 35% and 40% of the Company’s consolidated sales for the years ended December 31, 2008, 2007 and 2006, respectively.

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

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

Dental Laboratory Products

Dental laboratory products are used in the preparation of dental appliances by dental laboratories. Sales of dental laboratory products, excluding precious metal content, accounted for approximately 18%, 19% and 19% of the Company’s consolidated sales for each of the years ended December 31, 2008, 2007 and 2006, respectively.

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

Dental Specialty Products

Dental specialty products are specialized treatment products used within the dental office and laboratory settings. Sales of dental specialty products, excluding precious metal content, accounted for approximately 45%, 43% and 38% of the Company's consolidated sales for the years ended December 31, 2008, 2007 and 2006, respectively. DENTSPLY's products in this category include endodontic (root canal) instruments and materials, implants and related products, bone grafting materials, 3D digital implantology and orthodontic appliances and accessories.

Markets, Sales and Distribution

DENTSPLY distributes approximately 56% of its dental products through domestic and foreign distributors, dealers and importers. However, certain highly technical products such as precious metal dental alloys, dental ceramics, crown and bridge porcelain products, endodontic instruments and materials, orthodontic appliances, implants, and bone substitute and grafting materials are sold directly to the dental laboratory or dental professional in some markets. During 2008, 2007 and 2006, one customer, Henry Schein Incorporated, a dental distributor, accounted for 11%, 12% and 11%, respectively, of DENTSPLY's consolidated net sales. No other single customer represented ten percent or more of DENTSPLY's consolidated net sales during 2008, 2007 or 2006.

Reference is made to the information about the Company's foreign and domestic operations and export sales set forth in Note 4, Segment and Geographic Information, to the consolidated financial statements in this Annual Report on Form 10-K.

Although many of its sales are made to distributors, dealers and importers, DENTSPLY focuses its marketing efforts on the dentists, dental hygienists, dental assistants, dental laboratories and dental schools who are the end users of its products.

As part of this end-user “pull through” marketing approach, DENTSPLY employs approximately 2,700 highly trained, product-specific sales and technical staff to provide comprehensive marketing and service tailored to the particular sales and technical support requirements of the dealers and the end users. The Company conducts extensive distributor and end-user marketing programs and trains laboratory technicians and dentists in the proper use of its products, introducing them to the latest technological developments at its educational centers located throughout the world. The Company also maintains ongoing relationships with various dental associations and recognized worldwide opinion leaders in the dental field, although there is no assurance that these influential dental professionals will continue to support the Company’s products.

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

The U.S., Canada, Western Europe, Japan, Australia, and certain other countries are highly developed markets that demand the most advanced dental procedures and products and have the highest level of expenditures on dental care. In these markets, the focus of dental care is increasingly upon preventive care and specialized dentistry. In addition to basic procedures such as the excavation and filling of cavities and tooth extraction and denture replacement, dental professionals perform an increasing volume of preventive and cosmetic procedures. These markets require varied and complex dental products, utilize sophisticated diagnostic and imaging equipment, and demand high levels of attention to protect against infection and patient cross-contamination.

In certain countries in Central America, South America, Eastern Europe, Pacific Rim, Middle East, and Africa, most dental care is often limited to the excavation and filling of cavities and other restorative techniques, reflecting more modest per capita expenditures for dental care. These markets demand diverse products such as high and low speed handpieces, restorative compounds, finishing devices, custom restorative devices, basic surgical instruments, bridgework and artificial teeth for dentures.

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

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

- Increasing worldwide population.

- Growth of the population 65 or older – The percentage of the U.S., European, Japanese and other regions population over age 65 is expected to nearly double by the year 2030. In addition to having significant needs for dental care, the elderly are well positioned to pay for the required procedures since they control sizable amounts of discretionary income.

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

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

- Per capita and discretionary incomes are increasing in emerging nations – As personal incomes continue to rise in the emerging nations of the Pacific Rim, Commonwealth of Independent States ("CIS") and Latin America, healthcare, including dental services, are a growing priority.

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

Product Development

Technological innovation and successful product development are critical to strengthening the Company's prominent position in worldwide dental markets, maintaining its leadership positions in product categories where it has a high market share and increasing market share in product categories where gains are possible. While many of DENTSPLY's existing products undergo evolutionary improvements, the Company also continues to successfully launch innovative products that represent fundamental change.

New advances in technology are also anticipated to have a significant influence on future products in dentistry. As a result, the Company pursues research and development initiatives to support this technological development, including partnerships and collaborations with various research institutions and dental schools. Through its own internal research centers as well as through its collaborations and partnerships with external research institutions and dental schools, the Company directly invested approximately $52.3 million, $46.8 million and $44.4 million for 2008, 2007 and 2006, respectively, in connection with the development of new products, improvement of existing products and advances in technology. The continued development of these areas is a critical step in meeting the Company's strategic goal as a leader in defining the future of dentistry.

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

Acquisition Activities

DENTSPLY believes that the dental products industry continues to experience consolidation with respect to both product manufacturing and distribution, although it continues to be fragmented creating a number of acquisition opportunities. As a result, the Company has made several acquisitions in 2008, including a 60% ownership in Zhermack S.p.A., a dental consumable products manufacturer and distributor; E.S. Holding N.V., a manufacturer and sales and marketing organization of dental laboratory products; Dental Depot Lomberg B.V., a sales and marketing organization of orthodontic products; and Apollonia & Fama Impant S.r.l., a sales and marketing organization of dental implant products. The Company also purchased an additional interest in Materialise Dental in 2008. In 2007, the Company acquired one manufacturer of dental consumable products, one manufacturer of endodontic materials, two sales and marketing organizations for dental implant products, and one manufacturer of small dental diagnostic equipment.

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

Operating and Technical Expertise

DENTSPLY believes that its manufacturing capabilities are important to its success. The manufacture of the Company's products requires substantial and varied technical expertise. Complex materials technology and processes are necessary to manufacture the Company's products. The Company continues to automate its global manufacturing operations in order to remain a low cost producer.

Financing

DENTSPLY's total debt at December 31, 2008 and 2007 was $427.7 million and $482.3 million, respectively, and the ratios of long-term debt to total capitalization were 21.2% and 24.1%. DENTSPLY defines total capitalization as the sum of total long-term debt, including the current portion, plus total stockholders' equity. DENTSPLY may incur additional debt in the future, including, but not limited to, the funding of additional acquisitions and capital expenditures.

The Company's cash, cash equivalents and short-term investments decreased by $112.1 million during the year ended December 31, 2008 to $204.2 million. In 2008, the Company's net borrowings decreased by $54.6 million. This change included a net reduction in borrowings of $86.3 million during the year ended 2008, plus an increase of $31.7 million due to exchange rate fluctuations on debt denominated in foreign currencies. The Company also repurchased $112.6 million in treasury stock in 2008.

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

Competition

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

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

Regulation

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

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

All dental amalgam filling materials, including those manufactured and sold by DENTSPLY, contain mercury. Various groups have alleged that dental amalgam containing mercury is harmful to human health and have actively lobbied state and federal lawmakers and regulators to pass laws or adopt regulatory changes restricting the use, or requiring a warning against alleged potential risks, of dental amalgams. The FDA's Dental Devices Classification Panel, the National Institutes of Health and the U.S. Public Health Service have each indicated that no direct hazard to humans from exposure to dental amalgams has been demonstrated. In response to concerns raised by certain consumer groups regarding dental amalgam, in 2006 the FDA formed an advisory committee to review peer-reviewed scientific literature on the safety of dental amalgam. In Europe, particularly in Scandinavia and Germany, the contents of mercury in amalgam filling materials have been the subject of public discussion. As a consequence, in 1994 the German health authorities required suppliers of dental amalgam to amend the instructions for use for amalgam filling materials to include a precaution against the use of amalgam for children less than eighteen years of age and to women of childbearing age. Additionally, some groups have asserted that the use of dental amalgam should be prohibited because of concerns about environmental impact from the disposition of mercury within dental amalgam, which has resulted in the sale of mercury containing products being banned in Sweden and severely curtailed in Norway. DENTSPLY also manufactures and sells non-amalgam dental filling materials that do not contain mercury.

Sources and Supply of Raw Materials and Finished Goods

The Company manufactures the majority of the products sold by the Company. All of the raw materials used by the Company in the manufacture of its products are purchased from various suppliers and are typically available from numerous sources. No single supplier accounts for a significant percentage of DENTSPLY's raw material requirements. In addition to those products both manufactured and sold by the Company, some finished goods products sold by the Company are purchased from third party suppliers. Of these finished goods products purchased from third party suppliers, a significant portion of the Company’s injectable anesthetic products, orthodontic products and cutting instruments are purchased from a limited number of suppliers.

Intellectual Property

Products manufactured by DENTSPLY are sold primarily under its own trademarks and trade names. DENTSPLY also owns and maintains more than 2,000 patents throughout the world and is licensed under a small number of patents owned by others.

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

Employees

As of December 31, 2008, the Company and its subsidiaries employed approximately 9,400 employees. A small percentage of the Company's employees are represented by labor unions. Hourly workers at the Company's Ransom & Randolph facility in Maumee, Ohio are represented by Local No. 12 of the International Union, United Automobile, Aerospace and Agriculture Implement Workers of America under a collective bargaining agreement that expires on January 31, 2012. Hourly workers at the Company's Midwest Dental Products facility in Des Plaines, Illinois are represented by International Association of Machinists and Aerospace Workers, AFL-CIO in Chicago under a collective bargaining agreement that expires on May 31, 2009. In Germany, approximately 45% of DeguDent employees, approximately 30% of Friadent employees, approximately 23% of VDW employees and approximately 30% of DeTrey employees are represented by labor unions. The Company provides pension and postretirement benefits to many of its employees (See Note 13, Benefits Plans, to the consolidated financial statements). The Company believes that its relationship with its employees is good.

Environmental Matters

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

Other Factors Affecting the Business

The Company’s business is subject to quarterly fluctuations with net sales and operating profits historically being higher in the second and fourth quarters. The Company typically implements most of its price changes early in the fourth quarter or beginning of the year. These price changes, other marketing and promotional programs, the management of inventory levels by distributors and the implementation of strategic initiatives, may impact sales levels in a given period. Sales for the industry and the Company are generally strongest in the second and fourth calendar quarters and weaker in the first and third calendar quarters, due to the effects of the items noted above and due to the impact of summer holidays and vacations, particularly throughout Europe.

Securities and Exchange Act Reports

DENTSPLY makes available free of charge through its website at www.DENTSPLY.com its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are filed with or furnished to, the Securities and Exchange Commission (“SEC”).

The public may read and copy any materials the Company files with the SEC at its Public Reference Room at the following address:

100 F Street, NE

Washington, D.C. 20549

The public may obtain information on the operation of this Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, since the Company is an electronic filer, the public may access reports, the proxy and information statements and other information filed or furnished by the Company at the Internet site maintained by the SEC (http://www.sec.gov).

Item 1A. Risk Factors

Following are the significant risk factors that could materially impact DENTSPLY's business. The order in which these factors appear should not be construed to indicate its relative importance or priority.

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

The success of the Company is largely dependent upon the continued strength of dental markets and is also somewhat dependent upon the general economic environments of the regions in which it operates. Negative changes to these markets and economies could materially impact the Company's results of operations and financial condition. In addition, many of the Company's markets are affected by government reimbursement and regulatory programs. In certain markets, government and regulatory programs have a more significant impact than other markets. Changes to these programs could have a positive or negative impact on the Company's results.

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

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

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

DENTSPLY, with its significant international operations, is subject to fluctuations in exchange rates of various foreign currencies and other risks associated with foreign trade and the impact of currency fluctuations in any given period can be favorable or unfavorable. The Company's balance sheet includes debt and net investment hedges that are sensitive to movements in interest and foreign exchange rates. Changes in interest rates and foreign exchange rates may have an adverse effect on the Company's statement of income.

Volatility in the capital markets or investment vehicles could limit our ability to access capital.

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

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

The market price for the Company's common stock may be volatile.

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

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

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

The dental supplies market is highly competitive, and there is no guarantee that the Company can compete successfully.

The worldwide market for dental supplies is highly competitive. There can be no assurance that the Company will successfully identify new product opportunities and develop and market new products successfully, or that new products and technologies introduced by competitors will not render the Company's products obsolete or noncompetitive. Additionally, the size and number of the Company's competitors vary by product line and from region to region. There are many companies that produce some, but not all, of the same types of products as those produced by the Company. Certain of DENTSPLY's competitors may have greater resources than does the Company.

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

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

The Company may fail to comply with regulations issued by the FDA and similar foreign regulatory agencies.

DENTSPLY's business is subject to periodic review and inspection by the FDA and similar foreign authorities to monitor DENTSPLY's compliance with the regulations administered by such authorities. There can be no assurance that these authorities will not raise compliance concerns. Failure to satisfy any such requirements can result in governmental enforcement actions, including possible product seizure, injunction and/or criminal or civil proceedings.

All dental amalgam filling materials, including those manufactured and sold by DENTSPLY, contain mercury. The FDA's Dental Devices Classification Panel, the National Institutes of Health and the U.S. Public Health Service have each indicated that no direct hazard to humans from exposure to dental amalgams has been demonstrated. If the FDA were to reclassify dental mercury and amalgam filling materials as classes of products requiring FDA pre-market approval, there can be no assurance that the required approval would be obtained or that the FDA would permit the continued sale of amalgam filling materials pending its determination.

Also, some groups have asserted that disposal of mercury containing products may be harmful to the environment. If governmental authorities elect to place restrictions or significant regulations on the disposal of dental amalgam, that could have an adverse impact on the Company's sales of dental amalgam.

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

A significant portion of the Company's injectible anesthetic products, orthodontic products and cutting instruments are purchased from a limited number of suppliers. As there are a limited number of suppliers for these products, there can be no assurance that the Company will be able to obtain an adequate supply of these products in the future.

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

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

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

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the U.S. ("GAAP"). These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on the Company's reported results and may even retroactively affect previously reported activity.

The Company's accounting principles have recently been changed by changes in the accounting principles for accounting for business combinations and related goodwill. In December 2007, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 141 (revised 2007), ("SFAS 141(R)"), "Business Combinations," which changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition related restructuring liabilities, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 141(R) will change the Company's accounting treatment for business combinations on a prospective basis beginning in the first quarter of 2009.

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

Under U.S. GAAP, the Company reviews its goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of the Company's goodwill or amortizable intangible assets may not be recoverable include a decline in market capitalization or future cash flows, and slower growth rates in the dental industry. The Company may be required to record a significant charge to earnings in the Company's financial statements during the period in which any impairment of the Company's goodwill or amortizable intangible assets is determined, resulting in an impact on the Company's results of operations.

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

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

The Company faces the inherent risk of litigation.

The Company’s business involves a risk of product liability and other claims, and from time to time the Company is named as a defendant in these cases. The primary risks to which the Company is exposed are related to those products manufactured by the Company. The Company has insurance policies, including product liability insurance, covering these risks in amounts that are considered adequate; however, the Company cannot provide assurance that the maintained coverage is sufficient to cover future claims or that the coverage will be available in adequate amounts or at a reasonable cost. A successful claim brought against the Company in excess of available insurance, or any claim that results in significant adverse publicity against the Company, could harm its business and overall cash flows of the Company. Various parties, including the Company, own and maintain patents and other intellectual property rights applicable to the dental field. Although the Company believes it operates in a manner that does not infringe upon any third party intellectual property rights, it is possible that a party could assert that one or more of the Company’s products infringe upon such party’s intellectual property and force the Company to discontinue the sale of certain products.

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

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

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

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

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

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

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

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

Certain provisions in the Company’s governing documents may discourage third party offers to acquire DENTSPLY that might otherwise result in the Company’s stockholders receiving a premium over the market price of their shares.

Certain provisions of DENTSPLY's Certificate of Incorporation and By-laws and of Delaware law could have the effect of making it difficult for a third party to acquire control of DENTSPLY. Such provisions include the division of the Board of Directors of DENTSPLY into three classes, with the three-year term of a class expiring each year, a provision allowing the Board of Directors to issue preferred stock having rights senior to those of the common stock and certain procedural requirements which make it difficult for stockholders to amend DENTSPLY's By-laws and call special meetings of stockholders. In addition, members of DENTSPLY's management and participants in its Employee Stock Ownership Plan (“ESOP”) collectively own approximately 5% of the outstanding common stock of DENTSPLY.

ITEM 1B. Unresolved Staff Comments

None

Item 2. Properties

The following is a listing of DENTSPLY's principal manufacturing and distribution locations as of December 31, 2008:

Location	Function	Leased or Owned
United States:		
Milford, Delaware (1)	Manufacture of dental consumable products	Owned
Bradenton, Florida (3)	Manufacture of orthodontic accessory products	Leased
Baldwin, Georgia (3)	Manufacture of orthodontic accessory products	Leased
Des Plaines, Illinois (1)	Manufacture and assembly of dental handpieces	Leased
Elgin, Illinois (1)	Manufacture of dental x-ray film holders, film mounts and accessories	Owned/Leased
Englewood, New Jersey (1)	Distribution of dental consumable products	Leased
Hackensack, New Jersey (1)	Distribution of dental consumable products	Leased
Bohemia, New York (3)	Manufacture and distribution of orthodontic products and materials	Leased
Maumee, Ohio (4)	Manufacture and distribution of investment casting products	Owned
Middletown, Pennsylvania (1)	Distribution of dental products	Leased
York, Pennsylvania (4)	Manufacture and distribution of artificial teeth and other dental laboratory products	Owned
York, Pennsylvania (1)	Manufacture of small dental equipment, bone grafting products, and preventive dental products	Owned
Johnson City, Tennessee (3)	Manufacture and distribution of endodontic instruments and materials	Leased
Foreign:		
Beringen, Belgium (4)	Manufacture and distribution of dental products	Owned/Leased
Leuven, Belgium (4)	Manufacture and distribution of 3D digital implantology	Leased
Catanduva, Brazil (3)	Manufacture and distribution of dental anesthetic products	Owned
Petropolis, Brazil (3)	Manufacture and distribution of artificial teeth and dental consumable products	Owned

Shanghai, China (4)	Manufacture and distribution of dental products	Leased
Tianjin, China (2)	Manufacture and distribution of dental products	Leased

Ivry Sur-Seine, France (4)	Manufacture and distribution of investment casting products	Leased
Bohmte, Germany (4)	Manufacture and distribution of dental laboratory products	Owned
Hanau, Germany (4)	Manufacture and distribution of precious metal dental alloys, dental ceramics and dental implant products	Owned
Konstanz, Germany (1)	Manufacture and distribution of dental consumable products	Owned
Mannheim, Germany (4)	Manufacture and distribution of dental implant products	Owned/Leased
Munich, Germany (3)	Manufacture and distribution of endodontic instruments and materials	Owned
Radolfzell, Germany (5)	Distribution of dental products	Leased
Rosbach, Germany (4)	Manufacture and distribution of dental ceramics	Owned
Badia Polesine, Italy (1)	Manufacture and distribution of dental consumable products	Owned/Leased
Nasu, Japan (2)	Manufacture and distribution of precious metal dental alloys, dental consumable products and orthodontic products	Owned
Hoorn, Netherlands (4)	Manufacture and distribution of precious metal dental alloys and dental ceramics	Owned
HA Soest, Netherlands (3)	Distribution of orthodontic products	Leased
Warsaw, Poland (1)	Manufacture and distribution of dental consumable products	Owned
Las Piedras, Puerto Rico (4)	Manufacture of crown and bridge materials	Owned
Ballaigues, Switzerland (3)	Manufacture and distribution of endodontic instruments, plastic components and packaging material	Owned
Le Creux, Switzerland (3)	Manufacture and distribution of endodontic instruments	Owned

(1) These properties are included in the United States, Germany, and Certain Other European Regions Consumable Businesses segment.
(2) These properties are included in the France, United Kingdom, Italy, CIS, Middle East, Africa, Pacific Rim Businesses segment.
(3) These properties are included in the Canada/Latin America/Endodontics/Orthodontics segment.

(4) These properties are included in the Global Dental Laboratory Business/Implants/Non-Dental segment.
(5) This property is a distribution warehouse not managed by named segments.

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

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

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

Item 3. Legal Proceedings

On January 5, 1999, the Department of Justice filed a Complaint against the Company in the U.S. District Court in Wilmington, Delaware alleging that the Company's tooth distribution practices violated the antitrust laws and seeking an order for the Company to discontinue its practices. This case has been concluded and the District Court, upon the direction of the Court of Appeals, issued an injunction preventing DENTSPLY from taking action to restrict its tooth dealers in the U.S. from adding new competitive teeth lines.

Subsequent to the filing of the Department of Justice Complaint in 1999, a private party putative class action was filed based on allegations similar to those in the Department of Justice case, on behalf of dental laboratories who purchased Trubyte teeth or products containing Trubyte teeth. The District Court granted the Company's Motion on the lack of standing of the laboratory class action to pursue damage claims. The Plaintiffs appealed this decision to the Third Circuit and the Court largely upheld the decision of the District Court in dismissing the Plaintiffs' damages claims against DENTSPLY, with the exception of allowing the Plaintiffs to pursue a damage claim based on a theory of resale price maintenance between the Company and its tooth dealers. The Plaintiffs then filed an amended complaint in the District Court asserting that DENTSPLY and its tooth dealers, and the dealers among themselves, engaged in a conspiracy to violate the antitrust laws. The District Court has granted the Motions filed by DENTSPLY and the dealers, to dismiss Plaintiffs' claims, except for the resale price maintenance claims. The Plaintiffs have appealed the dismissal of these claims to the Third Circuit. Also pending is a case filed by a manufacturer of a competitive tooth line seeking unspecified damages alleged to have been incurred as a result of the Company's tooth distribution practice found to be a violation of the antitrust law.

On June 18, 2004, Marvin Weinstat, DDS and Richard Nathan, DDS filed a class action suit in San Francisco County, California alleging that the Company misrepresented that its Cavitron® ultrasonic scalers are suitable for use in oral surgical procedures. The Complaint seeks a recall of the product and refund of its purchase price to dentists who have purchased it for use in oral surgery. The Court certified the case as a class action in June 2006 with respect to the breach of warranty and unfair business practices claims. The class is defined as California dental professionals who purchased and used one or more Cavitron® ultrasonic scalers for the performance of oral surgical procedures. The Company filed a motion for decertification of the class and this motion was granted. Plaintiffs have appealed the decertification of the class to the California Court of Appeals.

On December 12, 2006, a Complaint was filed by Carole Hildebrand, DDS and Robert Jaffin, DDS in the Eastern District of PA. The case was filed by the same law firm that filed the Weinstat case in California. The Complaint asserts putative class action claims on behalf of dentists located in New Jersey and Pennsylvania. The Complaint seeks damages and asserts that the Company's Cavitron® ultrasonic scaler was negligently designed and sold in breach of contract and warranty arising from misrepresentations about the potential uses of the product because it cannot assure the delivery of potable or sterile water. Plaintiffs have filed their Motion for class certification to which the Company has filed its response.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Executive Officers of the Registrant

The following table sets forth certain information regarding the executive officers of the Company as of February 20, 2009.

Name	Age	Position
Bret W. Wise	48	Chairman of the Board and Chief Executive Officer
Christopher T. Clark	47	President and Chief Operating Officer
William R. Jellison	51	Senior Vice President and Chief Financial Officer
James G. Mosch	51	Executive Vice President
Robert J. Size	50	Senior Vice President
Albert Sterkenburg	45	Senior Vice President
Brian M. Addison	54	Vice President, Secretary and General Counsel

Bret W. Wise was named Chairman of the Board and Chief Executive Officer of the Company effective January 1, 2009. In January 2007, Mr. Wise was named Chairman of the Board, Chief Executive Officer and President of the Company. Prior to that time, Mr. Wise was President and Chief Operating Officer since January 2006 and Executive Vice President since January 2005. During his tenure as Executive Vice President, Mr. Wise oversaw two of DENTSPLY's operating groups including all business unit products that are sold through distributors in the U.S., Europe and Canada, and the laboratory business units in Europe. In addition he had direct responsibility for corporate research and business development activities. Prior to that time, he was Senior Vice President and Chief Financial Officer of the Company since November 2002. Prior to that time, Mr. Wise was Senior Vice President and Chief Financial Officer with Ferro Corporation of Cleveland, OH. Prior to joining Ferro Corporation in 1999, Mr. Wise held the position of Vice President and Chief Financial Officer at WCI Steel, Inc., of Warren, OH, from 1994 to 1999. Prior to joining WCI Steel, Inc., Mr. Wise was a partner with KPMG LLP. Mr. Wise is a Certified Public Accountant.

Christopher T. Clark was named President and Chief Operating Officer of the Company effective January 1, 2009. In January 2007, Mr. Clark was named Executive Vice President and Chief Operating Officer of the Company. Prior to that time, Mr. Clark was Senior Vice President since January 2003, with operating responsibilities over both manufacturing operations and selling organizations located in the U.S., Europe and Japan. Prior to that appointment, Mr. Clark served as Vice President and General Manager of DENTSPLY's global imaging business since June 1999, with operations in the U.S., Germany and Italy, serving markets worldwide. Prior to that time, he served as Vice President and General Manager of the Prosthetics Division since July of 1996. Prior to that, Mr. Clark was Director of Marketing of the Prosthetics Division since September 1992 when he started with the Company.

William R. Jellison was named Senior Vice President and Chief Financial Officer of the Company effective January 2005. In this position, he is responsible for Accounting, Treasury, Tax and Internal Audit. Prior to that time he was Senior Vice President since November 2002, with operating responsibilities over both manufacturing operations and selling organizations located in the U.S., Europe and Asia. From the period April 1998 to November 2002, Mr. Jellison served as Senior Vice President and Chief Financial Officer of the Company. Prior to that time, Mr. Jellison held various financial management positions including Vice President of Finance, Treasurer and Corporate Controller for Donnelly Corporation of Holland, Michigan since 1980. Mr. Jellison is a Certified Management Accountant. James G. Mosch was named Executive Vice

President effective January 2009, and continues his operating responsibilities over both manufacturing operations and selling organizations located in the U.S., Europe, Australia, Brazil, Latin America and Mexico. In January 2007, he assumed responsibility for business development. Through December 2004, he was also responsible for the Company's selling location in Canada. Prior to this appointment, Mr. Mosch served as Vice President and General Manager of the DENTSPLY Professional operating unit since July 1994 when he started with the Company.

Robert J. Size was named Senior Vice President effective January 1, 2007, with operating responsibilities over both manufacturing operations and selling organizations located in the U.S. and Europe, as well as the DENTSPLY North America (DNA) sales organization and centralized distribution. Prior to this appointment, Mr. Size served as Vice President and General Manager of the Caulk division since June 2003 and was named Vice President in January 2006, with responsibility for the Caulk, DeTrey and Rinn operating units. Prior to that time, he was the CEO and President of Superior MicroPowders and held various cross-functional and international leadership positions with The Cookson Group.

Albert Sterkenburg was named Senior Vice President effective January 1, 2009, which adds the implant franchise to his current responsibilities. He continues his operating responsibilities over both manufacturing operations and selling organizations located in the U.S., Europe and Asia. Prior to this appointment, Dr. Sterkenburg served as the Vice President and General Manger of the VDW division since 2000, Vice President and General Manger of Degudent division since 2003, and was named Franchise Vice President of the Global Prosthetics group in 2006. Prior to that time, he had served in marketing and general management roles at Johnson & Johnson.

Brian M. Addison has been Vice President, Secretary and General Counsel of the Company since January 1, 1998. Prior to that, he was Assistant Secretary and Corporate Counsel since December 1994. Prior to that he was a Partner at the Harrisburg, Pennsylvania law firm of McNees, Wallace & Nurick, and prior to that he was Senior Counsel at Hershey Foods Corporation.

PART II

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

The information set forth under the caption "Supplemental Stock Information" is filed as part of this Annual Report on Form 10-K.

The Board of Directors has authorized the Company to repurchase shares under its stock repurchase program in an amount up to 17,000,000 shares of treasury stock. The table below contains certain information with respect to the repurchase of shares of the Company's common stock during the quarter ended December 31, 2008.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Cost of Shares Purchased	Number of Shares That May Be Purchased Under The Share Repurchase Program
	(in thousands, except per share amounts)			
October 1-31, 2008	-	$ -	$ -	3,190.1
November 1-30, 2008	450.0	28.58	12,863.2	2,751.6
December 1-31, 2008	-	-	-	2,751.6
	450.0	$ 28.58	$ 12,863.2	

Performance Graph

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

	12/03	12/04	12/05	12/06	12/07	12/08
DENTSPLY International Inc	100	124.96	119.93	134.01	202.97	128.00
NASDAQ Composite	100	110.08	112.88	126.51	138.13	80.47
S&P 500	100	110.88	116.33	134.70	142.10	89.53
S&P Health Care	100	101.68	108.24	116.40	124.72	96.27

Item 6. Selected Financial Data

The information set forth under the caption “Selected Financial Data” is filed as part of this Annual Report on Form 10-K.

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

The information set forth under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” is filed as part of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

The information set forth under the caption “Quantitative and Qualitative Disclosure about Market Risk” is filed as part of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

The information set forth under the captions “Management’s Report on Internal Control Over Financial Reporting,” “Report of Independent Registered Public Accounting Firm,” “Consolidated Statements of Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Stockholders' Equity,” “Consolidated Statements of Cash Flows,” and “Notes to Consolidated Financial Statements” is filed as part of this Annual Report on Form 10-K.

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

Not applicable.

Item 9A. Controls and Procedures

(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report were effective.

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

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

(c) Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2008 that have materially affected, or are likely to materially affect, its internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information (i) set forth under the caption “Executive Officers of the Registrant” in Part I of this Annual Report on Form 10-K and (ii) set forth under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2009 Proxy Statement is incorporated herein by reference.

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to the Chief Executive Officer and the Chief Financial Officer and substantially all of the Company's management level employees. This Code of Business Conduct and Ethics is provided as Exhibit 14 of the Company’s Annual Report on Form 10-K as filed on February 20, 2009.

Item 11. Executive Compensation

The information set forth under the caption “Executive Compensation” in the 2009 Proxy Statement is incorporated herein by reference.

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

The information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans” in the 2009 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required under this item number is presented in the 2009 Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information set forth under the caption “Relationship with Independent Registered Public Accounting Firm” in the 2009 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedule

(a) Documents filed as part of this Report

1 Financial Statements

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

Management’s Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Income - Years ended December 31, 2008, 2007 and 2006

Consolidated Balance Sheets - December 31, 2008 and 2007

Consolidated Statements of Stockholders' Equity and Comprehensive Income - Years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows - Years ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

2 Financial Statement Schedule

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

Schedule II -- Valuation and Qualifying Accounts.

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

3 Exhibits

The Exhibits listed below are filed or incorporated by reference as part of the Company’s Annual Report on Form 10-K as filed on February 20, 2009.

Exhibit Number		Description
3.1		Restated Certificate of Incorporation (1)
3.2		By-Laws, as amended
4.1	(a)	U.S. Commercial Paper Issuing and paying Agency Agreement dated as of August 12, 1999 between the Company and the Chase Manhattan Bank (2)
	(b)	U.S. Commercial Paper Dealer Agreement dated as of March 28, 2002 between the Company and Salomon Smith Barney Inc. (3)
	(c)	Japanese Yen Term Loan Agreement, due March 28, 2012 dated as of July 31, 2008
4.2	(a)	Floating Rate Senior Notes Agreement, due March 13, 2010 dated as of March 13, 2007 (4)
4.3	(a)	5-Year Competitive Advance, Revolving Credit and Guaranty Agreements dated as of May 9, 2005 among the Company, the Initial Lenders named therein, the banks named therein, Citibank N.A. as Administrative Agent, JPMorgan Chase Bank, N.A. as Syndication Agent, Harris Trust and Savings Bank, Manufacturers and Traders Trust Company, and Wachovia Bank, N.A. as Co-Documentation Agents, and Citigroup Global Markets, Inc. and J.P. Morgan Securities Inc. as Joint Lead Arrangers and Joint Bookrunners. (5)
10.1		1998 Stock Option Plan (6)*
10.2		2002 Amended and Restated Equity Incentive Plan (4)*
10.3		Restricted Stock Unit Deferral Plan (8)*
10.4	(a)	Trust Agreement for the Company's Employee Stock Ownership Plan between the Company and T. Rowe Price Trust Company dated as of November 1, 2000 (7)*
	(b)	Plan Recordkeeping Agreement for the Company's Employee Stock Ownership Plan between the Company and T. Rowe Price Trust Company dated as of November 1, 2000 (7)*

10.5		DENTSPLY Supplemental Saving Plan Agreement dated as of December 10, 2007 (4)*
10.6		Amended and Restated Employment Agreement entered February 19, 2008 between the Company and Bret W. Wise (4)*
10.7		Amended and Restated Employment Agreement entered February 19, 2008 between the Company and Christopher T. Clark (4)*
10.8		Amended and Restated Employment Agreement entered February 19, 2008 between the Company and William R. Jellison (4)*
10.9		Amended and Restated Employment Agreement entered February 19, 2008 between the Company and Brian M. Addison (4)*
10.10		Amended and Restated Employment Agreement entered February 19, 2008 between the Company and James G. Mosch (4)*
10.11		Amended and Restated Employment Agreement entered February 19, 2008 between the Company and Robert J. Size (4)*
10.12		Amended and Restated Employment Agreement entered January 1, 2009 between the Company's subsidiary, DeguDent GMBH and Albert Sterkenburg*
10.13		DENTSPLY International Inc. Directors' Deferred Compensation Plan effective January 1, 2009, as amended*
10.14		Board Compensation Arrangement (4)*
10.15		Supplemental Executive Retirement Plan effective January 1, 2009, as amended*
10.16		Written Description of the Amended and Restated Incentive Compensation Plan*
10.17		AZ Trade Marks License Agreement, dated January 18, 2001 between AstraZeneca AB and Maillefer Instruments Holdings, S.A. (7)
10.18	(a)	Precious metal inventory Purchase and Sale Agreement dated November 30, 2001, as amended October 10, 2006 between Bank of Nova Scotia and the Company (8)
	(b)	Precious metal inventory Purchase and Sale Agreement dated December 20, 2001 between JPMorgan Chase Bank and the Company (9)
	(c)	Precious metal inventory Purchase and Sale Agreement dated December 20, 2001 between Mitsui & Co., Precious Metals Inc. and the Company (9)
	(d)	Precious metal inventory Purchase and Sale Agreement dated December 15, 2005 between ABN AMRO NV, Australian Branch and the Company (8)
	(e)	Precious metal inventory Purchase and Sale Agreement dated January 30, 2002 between Dresdner Bank AG, Frankfurt, and the Company (4)
14		DENTSPLY International Inc. Code of Business Conduct and Ethics
21.1		Subsidiaries of the Company
23.1		Consent of Independent Registered Public Accounting Firm - PricewaterhouseCoopers LLP
31		Section 302 Certification Statements
32		Section 906 Certification Statement

* Management contract or compensatory plan.

(1) Incorporated by reference to exhibit included in the Company's Registration Statement on Form S-8 (No. 333-101548).
(2) Incorporated by reference to exhibit included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, File No. 0-16211.
(3) Incorporated by reference to exhibit included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, File No. 0-16211.
(4) Incorporated by reference to exhibit included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, File No. 0-16211.
(5) Incorporated by reference to exhibit included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, File No. 0-16211.
(6) Incorporated by reference to exhibit included in the Company's Registration Statement on Form S-8 (No. 333-56093).
(7) Incorporated by reference to exhibit included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, File No. 0-16211.
(8) Incorporated by reference to exhibit included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 0-16211.
(9) Incorporated by reference to exhibit included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, File No. 0-16211.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED DECEMBER 31, 2008

Description	Balance at Beginning of Period (in thousands)	Additions Charged (Credited) To Costs And Expenses	Charged to Other Accounts	Write-offs Net of Recoveries		Translation Adjustment	Balance at End of Period
Allowance for doubtful accounts:							
For Year Ended December 31,							
2006	$ 14,791	$ 2,148	$ (416)	$ (1,516)		$ 1,176	$ 16,183
2007	16,183	2,854	(182)	(1,927)		1,650	18,578
2008	18,578	3,674	(348)	(1,705)		(1,350)	18,849
Inventory valuation reserves:							
For Year Ended December 31,							
2006	$ 25,107	$ 2,211	$ (341)	$ (2,180)		$ 1,508	$ 26,305
2007	26,305	3,134	(449)	(4,525)		1,725	26,190
2008	26,190	3,261	1,938	(1,981)		(1,019)	28,389
Deferred tax asset valuation allowance:							
For Year Ended December 31,							
2006	$ 35,984	$ 12,006	$ -	$ (813)		$ 2,202	$ 49,379
2007	49,379	7,076	-	(11,124)	(a)	4,919	50,250
2008	50,250	603	-	(13,203)	(b)	(909)	36,741

(a) The significant increase for write-offs during 2007 is the result of a restructuring project, where-in net operating losses subject to a full valuation allowance are not available for future use.
(b) The write-offs during 2008 are the result of a restructuring project, tax audit closures and expired tax losses.

DENTSPLY INTERNATIONAL INC AND SUBSIDIARIES

SELECTED FINANCIAL DATA

	Year ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands, except per share amounts)				
Statement of Income Data:					
Net sales	$ 2,193,723	$ 2,009,833	$1,810,496	$ 1,715,135	$ 1,694,232
Net sales, excluding precious metal content	1,993,800	1,819,899	1,623,074	1,542,711	1,481,083
Gross profit	1,151,944	1,040,783	929,011	869,018	846,518
Restructuring, impairment and other costs (income)	32,355	10,527	7,807	232,755 (a)	7,124
Operating income	380,421	354,891	314,794	7 2,922	295,130
Income before income taxes	355,472	358,135	314,837	71,038	274,155
Net income from continuing operations	$ 283,869	$ 259,654	$ 223,718	$ 45,413	$ 210,286
Net income from discontinued operations (b)	-	-	-	-	42,879
Total net income	$ 283,869	$ 259,654	$ 223,718	$ 45,413	$ 253,165
Earnings per common share:					
Basic	$ 1.90	$ 1.71	$ 1.44	$ 0.29	$ 1.31
Discontinued operations	-	-	-	-	0.27
Total earnings per common share - basic	$ 1.90	$ 1.71	$ 1.44	$ 0.29	$ 1.58
Earnings per common share - diluted:					
Diluted	$ 1.87	$ 1.68	$ 1.41	$ 0.28	$ 1.28
Discontinued operations	-	-	-	-	0.26
Total earnings per common share - diluted	$ 1.87	$ 1.68	$ 1.41	$ 0.28	$ 1.54
Cash dividends declared per common share	$ 0.18500	$ 0.16500	$ 0.14500	$ 0.12500	$ 0.10875
Weighted Average Common Shares Outstanding:					
Basic	149,069	151,707	155,229	159,191	160,775
Diluted	151,679	154,721	158,271	162,017	164,028
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 204,249	$ 316,323	$ 65,143	$ 434,525	$ 506,369
Property, plant and equipment, net	432,276	371,409	329,616	316,218	399,880
Goodwill and other intangibles, net	1,380,744	1,203,587	1,063,030	1,001,827	1,261,993
Total assets	2,830,400	2,675,569	2,181,350	2,410,373	2,798,145
Total debt and notes payable	449,474	483,307	370,156	682,316	852,819
Stockholders' equity	1,587,722	1,516,106	1,273,835	1,246,596	1,443,973
Return on average stockholders' equity	18.3%	18.6%	17.8%	3.4%	19.7%
Long-term debt to total capitalization	21.2%	24.1%	22.4%	35.3%	37.1%
Other Data:					
Depreciation and amortization	$ 56,929	$ 50,289	$ 47,434	$ 50,560	$ 49,296
Cash flows from operating activities	335,981	387,697	271,855	232,769	306,259
Capital expenditures	76,440	64,163	50,616	45,293	52,036
Interest expense (income), net	15,438	(2,645)	(1,683)	8,768	19,629
Inventory days	100	95	96	90	92
Receivable days	54	51	57	53	47
Operational tax rate (c)	25.9%	30.4%	30.6%	29.4%	30.0%

(a) The Company recorded $230.8 million of impairment and restructuring charges related to the closing of the pharmaceutical manufacturing facility outside of Chicago.

(b) The Company sold the assets and related liabilities of the Gendex business in 2004.

(c) Operational tax rate is considered a non-GAAP measure, refer to reconciliation in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Form 10-K.

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

The nature and geographic scope of the Company's business subjects it to changing economic, competitive, regulatory and technological risks and uncertainties. In accordance with the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors, which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. All forward-looking statements made by the Company are subject to risks and uncertainties and are not guarantees of future performance. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance and achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements are identified by the use of such terms as "may," "could," "expect," "intend," "believe," "plan," "estimate," "forecast," "project," "anticipate" or similar import.

Investors are cautioned that forward-looking statements involve risks and uncertainties which may materially affect the Company's business and prospects, and should be read in conjunction with the risk factors and uncertainties discussed within Item 1A, Part I of this Annual Report on Form 10-K as filed on February 20, 2009. Investors are further cautioned that the risk factors in Item 1A, Part I of this Annual Report on Form 10-K may not be exhaustive and that many of these factors are beyond the Company's ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty and has no obligation to update forward-looking statements.

OVERVIEW

DENTSPLY International Inc. believes it is the world's largest designer, developer, manufacturer and marketer of professional dental products. The Company is headquartered in the United States ("U.S.") and operates in more than 120 other countries, principally through its foreign subsidiaries. The Company also has strategically located distribution centers to enable it to better serve its customers and increase its operating efficiency. While the U.S. and Europe are the Company's largest markets, the Company serves all of the major professional dental markets worldwide.

The principal benchmarks used by the Company in evaluating its business are: (1) internal growth in the U.S., Europe and all other regions; (2) operating margins of each reportable segment; (3) the development, introduction and contribution of innovative new products; (4) growth through acquisition; and (5) continued focus on controlling costs and enhancing efficiency. The Company defines "internal growth" as the increase or decrease in net sales from period to period, excluding (1) precious metal content; (2) the impact of changes in currency exchange rates; and (3) the net sales, for a period of twelve months following the transaction date, of businesses that have been acquired or divested.

Management believes that an average overall internal growth rate of 4-6% is a long-term sustainable rate for the Company. The internal growth rate may vary outside of this range based on weaker or stronger economic conditions. Management expects the Company to operate below this range in the near future due to the current adverse economic conditions; however, history shows that growth in the dental industry typically performs better than the overall economy. Management expects this trend to continue in light of the current economic environment, although to a lesser degree. The Company typically implements most of its price changes in the beginning of the fourth quarter or beginning of the year. These price changes, other marketing and promotional programs offered to customers from time to time, the management of inventory levels by distributors and the implementation of strategic initiatives, may impact sales levels in a given period.

During 2008, the Company's overall internal growth was approximately 3.8% compared to 6.4% in 2007. The decrease in internal growth rate in the U.S. (37.8% of sales) was (0.9%) in 2008 compared to 4.2% in 2007. The internal growth rate in Europe (41.2% of sales) was 7.0% in 2008 compared to 7.3% in 2007. The internal growth rate in all other regions (21.0% of sales) was 7.0% in 2008 compared to 9.4% in 2007. There can be no assurance that the Company's assumptions concerning the growth rates in its markets or the dental market generally will continue in the future. If such rates are less than expected, the Company's projected growth rates and results of operations may be adversely affected.

Due to the international nature of DENTSPLY's business, movements in global foreign exchange rates may impact the statement of income. With over 60% of the Company's sales located in regions outside the U.S., the Company's sales are significantly impacted by the strengthening or weakening of the U.S. dollar.

Product innovation is a key component of the Company's overall growth strategy. New advances in technology are anticipated to have a significant influence on future products in dentistry. As a result, the Company continues to pursue several research and development initiatives to support this technological development, including partnerships and collaborations with various research institutions and dental schools. In addition, the Company licenses and purchases technologies developed by third parties. Although the Company believes these activities will lead

to new innovative dental products, they involve new technologies and there can be no assurance that commercialized products will be developed.

Although the professional dental market in which the Company operates has experienced consolidation, it is still a fragmented industry. The Company continues to focus on opportunities to expand the Company's product offerings through acquisition. Management believes that there will continue to be adequate opportunities to participate as a consolidator in the industry for the foreseeable future (See also Acquisition Activity in Part I, Item 1 of this Annual Report on Form 10-K). As further discussed in Note 3, Business Acquisitions, to the consolidated financial statements, during 2008, the Company purchased several businesses.

The Company has always maintained its focus on minimizing costs and achieving operational efficiencies. In response to the recent credit crisis and the recessionary economic conditions, management is concentrating on cost containment that focuses the business on creating and maintaining operational and financial flexibility through control of both fixed and variable costs. Management expects to continue to consolidate operations or functions and reduce the cost of those operations and functions while improving service levels. In addition, the Company remains focused on enhancing efficiency through expanded use of technology and process improvement initiatives. The Company believes that the benefits from these opportunities will improve the cost structure and offset areas of rising costs such as energy, employee benefits, and regulatory oversight and compliance.

FACTORS IMPACTING COMPARABILITY BETWEEN YEARS

Adoption of SFAS 157, Fair Value Measurement

In 2008, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157, ("SFAS 157") Fair Value Measurement, which requires the Company to define fair value, establish a framework for measuring fair value in accordance with U.S. generally accepted accounting principles ("GAAP"), and expand disclosures about fair value measurements. As part of the provisions, the Company is required to determine the impact of credit risk on its financial instruments recorded at fair value. As a result, the Company recognized pretax income of $1.8 million during 2008.

Revisions in Classification

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

RESULTS OF CONTINUING OPERATIONS, 2008 COMPARED TO 2007

Net Sales

The discussion below summarizes the Company's total sales growth, excluding precious metal content, into the following components: (1) internal growth; (2) net acquisition growth; and (3) the impact of foreign currency translation. These disclosures of net sales growth provide the reader with sales results on a comparable basis between periods.

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

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

	Year Ended December 31,			
	2008	2007	$ Change	% Change
	(in millions)			
Net Sales	$ 2,193.7	$ 2,009.8	$ 183.9	9.2%
Less: precious metal content of net sales	199.9	189.9	10.0	5.3%
Net sales, excluding precious metal content	$ 1,993.8	$ 1,819.9	$ 173.9	9.6%

The net sales growth, excluding precious metal content, of 9.6% was comprised of 3.8% of internal growth, 3.7% of foreign currency translation and 2.1% related to acquisitions. The 3.8% internal growth was comprised of (0.9%) in the U.S., 7.0% in Europe and 7.0% for all other regions combined.

Internal Sales Growth

United States

The decrease in internal sales growth of (0.9%), excluding precious metal content, in the U.S. was negatively impacted by the supply issues with injectible anesthetics and softness in dental consumables businesses and in the dental specialty businesses in the fourth quarter, as the economy in the U.S. contracted.

Europe

In Europe, the internal sales growth of 7.0%, excluding precious metal content, was driven by strong performance in the dental specialty businesses and growth in the dental consumables businesses partially offset by softness in the dental laboratory businesses due to lower equipment and alloy product sales.

All Other Regions

During 2008, the internal growth of 7.0%, excluding precious metal content, was largely the result of strong growth in the dental specialty category. Asia, Australia, the Middle East and Latin America experienced strong growth.

Gross Profit

	Year Ended December 31,			
	2008	2007	$ Change	% Change
	(in millions)			
Gross profit	$ 1,151.9	$ 1,040.8	$ 111.1	10.7%
Gross profit as a percentage of net sales, including precious metal content	52.5%	51.8%		
Gross profit as a percentage of net sales, excluding precious metal content	57.8%	57.2%		

The 2008 gross profit as a percentage of net sales, excluding precious metal content, was favorably impacted by product pricing, product mix and operational improvements.

Expenses

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

	Year Ended December 31,			
	2008	2007	$ Change	% Change
	(in millions)			
SG&A expenses	$ 739.2	$ 675.4	$ 63.8	9.4%
SG&A expenses as a percentage of net sales, including precious metal content	33.7%	33.6%		
SG&A expenses as a percentage of net sales, excluding precious metal content	37.1%	37.1%		

The 9.4% increase in SG&A expenses reflects additional SG&A expenses of $15.7 million from acquired companies and increases from currency translation of approximately $24.6 million. The remaining increase in SG&A expenses is primarily a result of increased expenditures to support growth in the dental specialty businesses and higher growth regions as well as continued investment in research and development.

Restructuring, Impairment and Other Costs

	Year Ended December 31,			
	2008	2007	$ Change	% Change
	(in millions)			
Restructuring, impairment and other costs	$ 32.4	$ 10.5	$ 21.9	NM

During 2008, the Company recorded net restructuring, impairment and other costs of $32.4 million. The Company recorded costs of $24.2 million related to legal settlements and impairments of long-lived assets. Additionally, the Company initiated several restructuring plans primarily related to the closure and consolidation of certain production and selling facilities in the U.S., Europe and Asia in order to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. These restructuring plans included charges of $5.9 million. Additionally, the Company expensed $2.3 million for the fair value of in-process research and development associated with acquired businesses (See Note 14, Restructuring, Impairment and Other Costs, to the consolidated financial statements).

During 2007, the Company recorded net restructuring, impairment and other costs of $10.5 million. Several restructuring plans were initiated during 2007, primarily related to the closure and consolidation of certain production and selling facilities in the U.S., Europe, Asia and South America in order to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. These restructuring plans included charges of $5.4 million. Additionally, the Company also recorded a total of $5.0 million in expenses related to several legal claims and $0.1 million of impairments of long-lived assets.

Other Expense and Income, Net

	Year Ended December 31,		
	2008	2007	$ Change
	(in millions)		
Net interest expense (income)	$ 15.4	$ (2.6)	$ 18.0
Other expense (income), net	9.5	(0.6)	10.1
Net interest and other expense (income)	$ 24.9	$ (3.2)	$ 28.1

Net Interest Expense (Income)

The change from net interest income in 2007 to net interest expense in 2008 was mainly the result of the sharp divergence of lower U.S. dollar interest rates versus increased Euro and Swiss franc interest rates, combined with weaker U.S. dollar average exchange rates against both currencies. This resulted in net interest expense in 2008 versus net interest income in 2007 on the Euro and Swiss franc net investment hedges executed in the form of cross currency swaps. The impact of the Company's net investment hedges typically move in the opposite direction of currency movements, reducing some of the volatility caused by movement in exchange rates on the Company's income and equity. Partially offsetting the net investment hedge impact was higher average investment balances in Euros and lower average interest rates on U.S. dollar debt.

Other Expense (Income), Net

Other Expense (Income), net, in the 2008 period included $8.9 million of currency transaction losses and $0.6 million of other non-operating losses. The 2007 period included $0.5 million of currency transaction gains and $0.1 million of other non-operating gains. Currency exchange rate volatility was extremely high, especially during the fourth quarter of 2008, and global currencies weakened versus the U.S. dollar. The Company incurred transaction losses, mostly in the fourth quarter of 2008, on settlement of intercompany and third party transactions.

Income Taxes and Net Income

	Year Ended December 31,		
	2008	2007	$ Change
	(dollars in millions, except per share data)		
Income tax rates	20.1%	27.5%	
Net income	$ 283.9	$ 259.7	$ 24.2
Fully diluted earnings per common share	$ 1.87	$ 1.68	

Income Taxes

Management believes that the presentation of an operational tax rate, excluding certain one-time charges, provides useful information to investors to allow a better comparison between reporting periods. The presentation of an operational tax rate is considered a measure not calculated in accordance with GAAP, and is therefore considered a non-GAAP measure. The Company provides the following reconciliation of its effective tax rate, a GAAP measure, to the Company's operational tax rate, a non-GAAP measure. The Company's definitions and calculations of its operating tax rate may not necessarily be the same as those used by other companies.

Twelve Months Ended December 31, 2008	Pre-tax Income	Income Taxes	Percentage of Pre-tax Income
	(in thousands)		
As reported – GAAP operating results	$ 355,472	$ (71,603)	20.1%
Provisions of SFAS157, net of tax	(1,839)	710	
Restructuring and other costs	30,069	(11,294)	
In-process research & development	1,623	(629)	
Income tax related adjustments		(17,055)	
As adjusted – non-GAAP operating results	$ 385,325	$ (99,871)	25.9%

Twelve Months Ended December 31, 2007	Pre-tax Income	Income Taxes	Percentage of Pre-tax Income
	(in thousands)		
As reported – GAAP operating results	$ 358,135	$ (98,481)	27.5%
Restructuring and other costs	10,527	(3,852)	
Income tax related adjustments		(9,893)	
As adjusted – non-GAAP operating results	$ 368,662	$ (112,226)	30.4%

The Company's effective tax rates for 2008 and 2007 were 20.1% and 27.5%, respectively. The Company's operating tax rates for 2008 and 2007 were 25.9% and 30.4%, respectively. The Company benefited from various tax adjustments of $17.1 million and $9.9 million in 2008 and 2007, respectively. The 2008 and 2007 tax related adjustments primarily resulted from payments and settlements and expiration of statutes.

Net Income

Fully diluted earnings per share from continuing operations during 2008 were $1.87 compared to $1.68 during the same period in 2007. Net income in 2008 includes an after tax impact from restructuring costs and charges related to in-process research and development of $19.8 million, or $0.13 per diluted share, a net tax benefit of $17.1 million, or $0.11 per diluted share due to tax related adjustments, and an after tax impact from provisions of a SFAS 157 adjustment of $1.1 million, or $0.01 per diluted share. Net income for 2007 includes an after tax impact from restructuring costs of $6.7 million, or $0.04 per diluted share and a net tax benefit of $9.9 million, or $0.06 per diluted share due to tax

related adjustments.

Operating Segment Results

In January 2007, the Company reorganized its operating group structure expanding into four operating groups from the three groups under the prior management structure. These operating groups are considered the Company's reportable segments under SFAS131 as the Company's chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company's operations. Each of these operating groups covers a wide range of product categories and geographic regions.

The product categories and geographic regions often overlap across the groups. Further information regarding the details of each group is presented in Note 4, Segment and Geographic Information, to the consolidated financial statements. The management of each group is evaluated for performance and incentive compensation purposes on net third party sales, excluding precious metal content, and segment operating income.

Net Sales, excluding precious metal content

	Year Ended December 31,			
	2008	2007	$ Change	% Change
	(in millions)			
United States, Germany, and Certain Other European Regions Consumable Businesses	$ 466.4	$ 433.9	$ 32.5	7.5%
France, United Kingdom, Italy, CIS, Middle East, Africa, Pacific Rim Businesses	$ 403.6	$ 352.0	$ 51.6	14.7%
Canada/Latin America/Endodontics/ Orthodontics	$ 628.9	$ 583.9	$ 45.0	7.7%
Global Dental Laboratory Business/ Implants/Non-Dental	$ 498.1	$ 453.7	$ 44.4	9.8%

Segment Operating Income

	Year Ended December 31,			
	2008	2007	$ Change	% Change
	(in millions)			
United States, Germany, and Certain Other European Regions Consumable Businesses	$ 162.9	$ 138.9	$ 24.0	17.3%
France, United Kingdom, Italy, CIS, Middle East, Africa, Pacific Rim Businesses	$ 9.3	$ 7.2	$ 2.1	29.2%
Canada/Latin America/Endodontics/ Orthodontics	$ 200.1	$ 180.9	$ 19.2	10.6%
Global Dental Laboratory Business/ Implants/Non-Dental	$ 128.4	$ 115.3	$ 13.1	11.4%

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

Net sales, excluding precious metal content, increased 7.5% during the year ended December 31, 2008 compared to 2007. This increase was driven by acquisition related growth and positive currency translation. Supply issues with injectible anesthetics as well as softness in the U.S. dental consumables businesses in the fourth quarter due to a weakening economy hindered the growth within the segment.

Operating income increased $24.0 million during the year ended December 31, 2008 compared to 2007. The increase was due to improved margins due to favorable product mix across most of the segment and acquisitions.

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

Net sales, excluding precious metal content, increased 14.7%, including the favorable impact of currency translation, during the year ended December 31, 2008 compared to 2007. Strong growth occurred across many regions within the segment.

Operating income increased $2.1 million during the year ended December 31, 2008 compared to 2007. The increase in income was related to sales growth and leveraging of expenses.

Canada/Latin America/Endodontics/Orthodontics

Net sales, excluding precious metal content, increased 7.7%, including acquisition growth and favorable currency translation, during the year ended December 31, 2008 compared to 2007. Strong growth occurred in the Orthodontic, Endodontic and Latin American businesses.

Operating income increased $19.2 million during the year ended December 31, 2008 compared to 2007. The increase in operating income was driven primarily by sales growth and leveraging of expenses.

Global Dental Laboratory Business/Implants/Non-Dental

Net sales, excluding precious metal content, increased 9.8%, including favorable impact of currency translation, during the year ended December 31, 2008 compared to 2007. Strong growth occurred in the Implants business and from acquisition related activity.

Operating income increased $13.1 million during the year ended December 31, 2008 compared to 2007. The increase in operating income was driven primarily by sales growth in the Implants business and leveraging of expenses in the global dental laboratory businesses.

RESULTS OF CONTINUING OPERATIONS, 2007 COMPARED TO 2006

Net Sales

The discussion below summarizes the Company's sales growth, excluding precious metal content, from internal growth and net acquisition growth and highlights the impact of foreign currency translation. These disclosures of net sales growth provide the reader with sales results on a comparable basis between periods.

	Year Ended December 31,			
	2007	2006	$ Change	% Change
	(in millions)			
Net sales	$ 2,009.8	$ 1,810.5	$ 199.3	11.0%
Less: precious metal content of net sales	189.9	187.4	2.5	1.3%
Net sales, excluding precious metal content	$ 1,819.9	$ 1,623.1	$ 196.8	12.1%

The net sales growth, excluding precious metal content, of 12.1% was comprised of 6.4% of internal growth, 4.1% of foreign currency translation and 1.6% related to acquisitions. The 6.4% internal growth was comprised of 4.2% in the U.S., 7.3% in Europe and 9.4% for all other regions combined.

Internal Sales Growth

United States

The internal sales growth of 4.2%, excluding precious metal content, in the U.S. was a result of continued growth in the dental specialty category, and improved growth in the dental laboratory and dental consumable product categories.

Europe

In Europe, the internal sales growth of 7.3%, excluding precious metal content, was driven by the continued strong sales growth in the dental specialty category and partially offset by lower internal growth in the dental consumables and dental laboratory categories. Additionally, the Company believes that a significant contraction in the alloy products market occurred, in part, due to the dramatic increase in the price of alloy metals and to the shift toward all ceramic products in the past few years.

All Other Regions

The internal growth of 9.4% in all other regions was largely the result of strong growth in the dental specialty category. In addition, during 2007, the Pacific Rim, Canada, Middle East and Australia regions experienced strong internal growth.

Gross Profit

	Year Ended December 31,			
	2007	2006	$ Change	% Change
	(in millions)			
Gross profit	$ 1,040.8	$ 929.0	$ 111.8	12.0%
Gross profit as a percentage of net sales, including precious metal content	51.8%	51.3%		
Gross profit as a percentage of net sales, excluding precious metal content	57.2%	57.2%		

The 2007 gross profit as a percentage of net sales, excluding precious metal content, was unfavorably impacted by recent business acquisitions and unfavorable purchase price variances related to the weakening U.S. dollar, offset by cost improvements through the Company's lean manufacturing initiatives.

Expenses

Selling, General and Administrative Expenses

	Year Ended December 31,			
	2007	2006	$ Change	% Change
	(in millions)			
SG&A expenses	$ 675.4	$ 606.4	$ 69.0	11.4%
SG&A expenses as a percentage of net sales, including precious metal content	33.6%	33.5%		
SG&A expenses as a percentage of net sales, excluding precious metal content	37.1%	37.4%		

The 11.4% increase in SG&A expenses reflects additional SG&A expenses of $9.4 million from acquired companies and increases from unfavorable currency translation impacts of approximately $25.7 million. The remaining increase in SG&A expenses is primarily a result of increased sales and marketing expenditures to support growth in the dental specialty businesses and higher growth regions, partially offset by lower stock compensation expense as a result of accelerated vesting in 2006. SG&A expenses as a percentage of net sales, excluding precious metal content, decreased from 37.4% in 2006 to 37.1% in 2007. The 2007 expense ratio was favorably impacted by lower stock based compensation and improved leverage on the investments in strategic initiatives.

Restructuring, Impairment and Other Costs

	Year Ended December 31,			
	2007	2006	$ Change	% Change

	(in millions)			
Restructuring, impairment and other costs	$ 10.5	$ 7.8	$ 2.7	34.6%

During 2007, the Company recorded net restructuring, impairment and other costs of $10.5 million. The Company initiated several restructuring plans primarily related to the closure and consolidation of certain production and selling facilities in the U.S., Europe, Asia and South America in order to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. These restructuring plans included charges of $5.4 million. Additionally, the Company also recorded a total of $5.0 million in expenses related to several legal claims and $0.1 million of impairments of long-lived assets. (See also Note 14, Restructuring, Impairment and Other Costs, to the consolidated financial statements).

During 2006, the Company recorded net restructuring, impairment and other costs of $7.8 million. The net costs of $7.8 million were primarily for additional restructuring costs incurred related to the decision to shut down the pharmaceutical manufacturing facility in Chicago, Illinois and costs related to the consolidation of certain U.S. and European selling and production facilities. These restructuring costs were partially offset by the gain of $2.9 million on the sale of the assets previously associated with the pharmaceutical manufacturing facility, which the Company had announced in early 2006 that it would be closing. Additionally, these costs were further offset by the gain of $1.0 million on the sale of assets associated with a German manufacturing facility, which was closed down in 1998 as part of a restructuring plan.

Other Expense and Income, Net

	Year Ended December 31,		
	2007	2006	$ Change
	(in millions)		
Net interest (income) expense	$ (2.6)	$ (1.6)	$ (1.0)
Other expense (income), net	(0.6)	1.6	(2.2)
Net interest & other (income) expense	$ (3.2)	$ -	$ (3.2)

Net Interest (Income) Expense

The change in net interest income in 2007 compared to 2006 was mainly the result of lower average debt and investment levels following the Euro 350.0 million Eurobond maturity in December, 2006, offset somewhat by higher average interest rates. In addition, higher average interest rates on Euro and Swiss franc basis swaps combined with weaker U.S. dollar average exchange rates against both currencies resulted in lower net interest received on the Company's net investment hedges (See also Note 5, Other (Expense) Income, to the consolidated financial statements).

Other Expense and Income, Net

Other (Income) Expense in the 2007 period included $0.5 million of currency transaction gains and $0.1 million of other non-operating gains. The 2006 period included $0.1 million of currency transaction losses and $1.5 million of other non-operating losses.

Income Taxes and Net Income

	Year Ended December 31,		
	2007	2006	$ Change
	(in millions, except per share data)		
Income tax rates	27.5%	28.9%	
Net income	$ 259.7	$ 223.7	$ 36.0
Fully diluted earnings per common share	$ 1.68	$ 1.41	

Income Taxes

The Company provides the following reconciliation of its effective tax rate, a GAAP measure, to the Company's operational tax rate, a non-GAAP measure.

Twelve Months Ended December 31, 2007	Pre-tax Income	Income Taxes	Percentage of Pre-tax Income
	(in thousands)		
As reported – GAAP operating results	$ 358,135	$ (98,481)	27.5%
Restructuring and other costs	10,527	(3,852)	
Income tax related adjustments		(9,893)	
As adjusted – non-GAAP operating results	$ 368,662	$ (112,226)	30.4%

Twelve Months Ended December 31, 2006	Pre-tax Income	Income Taxes	Percentage of Pre-tax Income
	(in thousands)		
As reported – GAAP operating results	$ 314,835	$ (91,119)	28.9%
Restructuring and other costs	7,807	(2,790)	
Income tax related adjustments		(4,765)	
As adjusted – non-GAAP operating results	$ 322,642	$ (98,674)	30.6%

The Company's effective tax rates for 2007 and 2006 were 27.5% and 28.9%, respectively. The Company's operating tax rates for 2007 and 2006 were 30.4% and 30.6%, respectively. The Company benefited from various tax adjustments of $9.9 million and $4.8 million in 2007 and 2006, respectively (see also Note 12, Income Taxes, to the consolidated financial statements).

Net Income

Fully diluted earnings per share from continuing operations during 2007 were $1.68 compared to $1.41 during the same period in 2006. Net income for the 2007 period included the after tax impact from restructuring costs of $6.7 million, or $0.04 per diluted share and a net tax benefit of $9.9 million, or $0.06 per diluted share due to tax related adjustments. The net income for the 2006 period included the after tax impact from restructuring costs of $5.0 million, or $0.03 per diluted share and a net tax benefit of $4.8 million, or $0.03 per diluted share due to tax related adjustments.

Operating Segment Results

In January 2007, the Company reorganized its operating group structure into four operating groups from the three groups under the prior management structure. 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. Each of these operating groups covers a wide range of product categories and geographic regions. The product categories and geographic regions often overlap across the groups. Further information regarding the details of each group is presented in Note 4, Segment and Geographic Information, to the consolidated financial statements. The management of each group is evaluated for performance and incentive compensation purposes on net third party sales, excluding precious metal content, and segment operating income.

Net Sales, excluding precious metal content

	Year Ended December 31,			
	2007	2006	$ Change	% Change
	(in millions)			
United States, Germany, and Certain Other European Regions Consumable Businesses	$ 433.9	$ 395.0	$ 38.9	9.8%
France, United Kingdom, Italy, CIS, Middle East, Africa, Pacific Rim Businesses	$ 352.0	$ 308.4	$ 43.6	14.1%
Canada/Latin America/Endodontics/ Orthodontics	$ 583.9	$ 520.9	$ 63.0	12.1%
Global Dental Laboratory Business/ Implants/Non-Dental	$ 453.7	$ 402.7	$ 51.0	12.7%

Segment Operating Income

	Year Ended December 31,			
	2007	2006	$ Change	% Change
	(in millions)			
United States, Germany, and Certain Other European Regions Consumable Businesses	$ 138.9	$ 143.5	$ (4.6)	-3.2%
France, United Kingdom, Italy, CIS, Middle East, Africa, Pacific Rim Businesses	$ 7.2	$ 3.0	$ 4.2	NM

Canada/Latin America/Endodontics/ Orthodontics	$ 180.9	$ 171.5	$ 9.4	5.5%
Global Dental Laboratory Business/ Implants/Non-Dental	$ 115.3	$ 97.5	$ 17.8	18.3%

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

Net sales, excluding precious metal content, increased 9.8% during the year ended December 31, 2007 compared to 2006. This increase was driven by positive growth, acquisition related activity and positive currency translation. The implementation of the U.S Strategic Partnership Program hindered this segment in both 2007 and 2006.

Operating income decreased $4.6 million during the year ended December 31, 2007 compared to 2006. The decrease was due to higher expense allocation from Corporate headquarters of sales and marketing expenses to better reflect activity within the segment. This decrease was partially offset by the favorable impact from acquisition activity and currency translation.

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

Net sales, excluding precious metal content, increased 14.1%, including the favorable impact of currency translation, during the year ended December 31, 2007 compared to 2006. Strong growth occurred in CIS, Middle East, United Kingdom and Pacific Rim businesses.

Operating income increased $4.2 million during the year ended December 31, 2007 compared to 2006. The increase was primarily related to sales growth and currency translation.

Canada/Latin America/Endodontics/Orthodontics

Net sales, excluding precious metal content, increased 12.1%, including the favorable impact of currency translation, during the year ended December 31, 2007 compared to 2006. Strong growth occurred in the Orthodontic, Endodontic and Canadian businesses.

Operating income increased $9.4 million during the year ended December 31, 2007 compared to 2006. The increase in operating profits was driven primarily by sales growth across the segment, partially offset by the additional operational investment into the combined Endodontic/Implant businesses in the U.S. The increase was also related to positive currency translation.

Global Dental Laboratory Business/Implants/Non-Dental

Net sales, excluding precious metal content, increased 12.7%, including favorable impact of currency translation, during the year ended December 31, 2007 compared to 2006. Strong growth occurred in the Implants business, and the U.S. dental laboratory business also grew at a faster rate in 2007. Additionally, the Company believes that a significant contraction in the alloy products market occurred, in part, due to the dramatic increase in the price of precious metals and the move to all ceramic products, such as the Company's Cercon® product, in the past few years.

Operating income increased $17.8 million during the year ended December 31, 2007 compared to 2006. The increase in operating profits was driven primarily by the sales growth in the Implants business. In addition, operating profit was positively impacted from currency translation.

FOREIGN CURRENCY

Since approximately 62% of the Company's 2008 net sales, excluding precious metal content, were generated in currencies other than the U.S. dollar, the value of the U.S. dollar in relation to those currencies affects the results of operations of the Company. The impact of currency fluctuations in any given period can be favorable or unfavorable. The impact of foreign currency fluctuations of European currencies on operating income is partially offset by sales in the U.S. of products sourced from plants and third party suppliers located overseas, principally in Germany and Switzerland.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The Company has identified below the accounting estimates believed to be critical to its business and results of operations. These critical estimates represent those accounting policies that involve the most complex or subjective decisions or assessments.

Accounts Receivable

The Company sells dental products both through a worldwide network of distributors and directly to end users. For customers on credit terms, the Company performs ongoing credit evaluation of those customers' financial condition and generally does not require collateral from them. The Company establishes allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company’s customers were to deteriorate, their ability to make required payments may become impaired, and increases in these allowances may be required. In addition, a negative impact on sales to those customers may occur.

Inventories

Inventories are stated at the lower of cost or market. The cost of inventories is determined primarily by the first-in, first-out ("FIFO") or average cost methods, with a small portion being determined by the last in, first-out ("LIFO") method. The Company establishes reserves for inventory estimated to be obsolete or unmarketable equal to the difference between the cost of inventory and estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those anticipated, additional inventory reserves may be required.

Goodwill and Other Long-Lived Assets

The Company follows Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which requires that at least an annual impairment test be applied to goodwill and indefinite-lived intangible assets. The Company performs impairment tests on at least an annual basis using a fair value approach. If impairment related to goodwill is identified under SFAS 142, the resulting charge is determined by recalculating goodwill through a hypothetical purchase price allocation of the fair value and reducing the current carrying value to the extent it exceeds the recalculated goodwill. If impairment is identified on indefinite-lived intangibles, the resulting charge reflects the excess of the asset's carrying cost over its fair value.

Other long-lived assets, such as definite intangible assets and fixed assets, are amortized or depreciated over their estimated useful lives. In accordance with Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," these assets are reviewed for impairment whenever events or circumstances provide evidence that suggest that the carrying amount of the asset may not be recoverable with impairment being based upon an evaluation of the identifiable undiscounted cash flows. If impaired, the resulting charge reflects the excess of the asset's carrying cost over its fair value.

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

Derivative Financial Instruments

The Company adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. This standard, as amended by Statement of Financial Accounting Standards No. 138 ("SFAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities," Statement of Financial Accounting Standards No. 149 ("SFAS 149"), "Amendment

of Statement 133 on Derivative Instruments and Hedging Activities", and Statement of Financial Accounting Standards No. 155 ("SFAS 155"), "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140," requires that all derivative instruments be recorded on the balance sheet at fair value and that changes in fair value be recorded each period in current earnings or accumulated other comprehensive income.

Pension and Other Postretirement Benefits

Substantially all of the employees of the Company and its subsidiaries are covered by government or Company-sponsored defined benefit or defined contribution plans. Additionally, certain union and salaried employee groups in the U.S. are covered by postretirement healthcare plans. Costs for Company-sponsored plans are based on expected return on plan assets, discount rates, employee compensation increase rates and health care cost trends. Expected return on plan assets, discount rates and health care cost trend assumptions are particularly important when determining the Company's benefit obligations and net periodic benefit costs associated with postretirement benefits. Changes in these assumptions can impact the Company's pretax earnings. In determining the cost of postretirement benefits, certain assumptions are established annually to reflect market conditions and plan experience to

appropriately reflect the expected costs as actuarially determined. These assumptions include medical inflation trend rates, discount rates, employee turnover and mortality rates. In establishing its discount rates, the Company predominantly uses observed indices of high-grade corporate bond yields with durations that are equivalent to the expected duration of the underlying liability. The discount rate for each plan is based on observed corporate bond yield indices in the respective economic region covered by the plan. The expected return on plan assets is the weighted average long-term expected return based upon asset allocations and historic average returns for the markets where the assets are invested, principally in foreign locations. Additional information related to the impact of changes in these assumptions is provided in Note 13, Benefit Plans, to the consolidated financial statements.

Litigation

The Company and its subsidiaries are from time to time parties to lawsuits arising out of their respective operations. The Company records liabilities when a loss is probable and can be reasonably estimated. These estimates made by management are based on an analysis made by internal and external legal counsel who considers information known at the time. The Company believes it has estimated liabilities for probable losses well in the past; however, the unpredictability of litigation and court decisions could cause a liability to be incurred in excess of estimates. Legal costs related to these lawsuits are expensed as incurred.

Accruals for Product Returns, Customer Rebates and Product Warranties

The Company makes provisions for customer returns, customer rebates and for product warranties at the time of sale. These accruals are based on past history, projections of customer purchases and sales and expected product performance in the future. Because the actual results for product returns, rebates and warranties are dependent in part on future events, these matters require the use of estimates. The Company has a long history of product performance in the dental industry and thus has an extensive knowledge base from which to draw in measuring these estimates.

Income Taxes

Income taxes are determined using the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standard No. 109 (“SFAS 109”), “Accounting for Income Taxes.” Under SFAS 109, tax expense includes the U.S. and international income taxes plus the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be permanently invested.

Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. Deferred tax assets are recognized if it is more likely than not that the assets will be realized in future years. The Company establishes a valuation allowance for deferred tax assets for which realization is not likely. As of December 31, 2008, the Company recorded a valuation allowance of $36.7 million against the benefit of certain net operating loss carryforwards of foreign and domestic subsidiaries.

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

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.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities during the year ended December 31, 2008 were $336.0 million compared to $387.7 million during the year ended December 31, 2007. The decrease of $51.7 million was primarily the result of higher earnings in the 2008 period being offset by higher tax payments and unfavorable working capital changes versus the prior year. While net income from continuing operations increased by $24.2 million to $283.9 million, the Company had higher tax payments in 2008. The increase in tax payments versus the prior year is a result of higher earnings in the current year and utilization in 2007 of a net operating loss. Increased days in inventory and days outstanding in accounts receivable resulted in a $44.8 million use of cash flow. For the year ended December 31, 2008, the number of days for sales outstanding in accounts receivable and days in inventory were 54 days and 100 days, respectively, compared to the previous year of 51 days and 95 days, respectively.

Investing activities during 2008 include capital expenditures of $76.4 million. Activity related to the acquisition of businesses, for the year ended December 31, 2008, was $117.3 million, which was primarily due to the acquisition of Zhermack S.p.A., several small companies in 2008 and final payments on three acquisitions from previous years. (See Note 3, Business Acquisitions, to the consolidated financial statements).

At December 31, 2008, the Company had authorization to maintain up to 17.0 million shares of treasury stock under its stock repurchase program as approved by the Board of Directors. Under this program, the Company purchased approximately 3.0 million shares during 2008 at an average price of $37.91. As of December 31, 2008 and 2007, the Company held 14.2 million and 12.0 million shares of treasury stock, respectively. The Company also received proceeds of $12.7 million primarily as a result of 0.7 million stock option exercises during the year ended December 31, 2008.

DENTSPLY's total debt at December 31, 2008 and 2007 was $427.7 million and $482.3 million, respectively. The Company’s long-term borrowings decreased by a net of $54.6 million during the year ended December 31, 2008. This change included a net reduction in borrowings of $86.3 million during the year ended 2008, plus an increase of $31.7 million due to exchange rate fluctuations on debt denominated in foreign currencies. During the year ended December 31, 2008, the Company’s ratio of long-term debt to total capitalization decreased to 21.2% compared to 24.1% at December 31, 2007.

Under its multi-currency revolving credit agreement, the Company is able to borrow up to $500.0 million through May 2010. This facility is unsecured and contains certain affirmative and negative covenants relating to its operations and financial condition. The most restrictive of these covenants pertain to asset dispositions and prescribed ratios of indebtedness to total capital and operating income, excluding depreciation and amortization, to interest expense. At December 31, 2008, the Company was in compliance with these covenants. The Company also has available an aggregate $250.0 million under its U.S. commercial paper facility. The multi-currency revolving credit facility serves as a back-up to the commercial paper facility. The total available credit under the commercial paper facility and the multi-currency facility in the aggregate is $500.0 million with $114.3 million outstanding under the multi-currency facility and none outstanding under the commercial paper facility at December 31, 2008.

The Company also has access to $65.2 million in uncommitted short-term financing under lines of credit from various financial institutions. The lines of credit have no major restrictions and are provided under demand notes between the Company and the lending institutions. At December 31, 2008, $21.8 million is outstanding under these short-term lines of credit. At December 31, 2008, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of $426.1 million. At December 31, 2008, the Company held $78.1 million of precious metals on consignment from several financial institutions. These consignment agreements allow the Company to acquire the precious metal at market rates at a point in time, which is approximately the same time, and for the same price as alloys are sold to the Company’s customers. In the event that the financial institutions would discontinue offering these consignment arrangements, and if the Company could not obtain other comparable arrangements, the Company may be required to obtain third party financing to fund an ownership position in the required precious metal inventory levels. The Company's cash, cash equivalents and short-term investments decreased $112.1 million during the year ended December 31, 2008 to $204.2 million. In 2008, the Company had net purchases of $112.6 million in treasury stock. The net reduction in borrowings was primarily due to the repatriation of $144.0 million and short-term intercompany loans of $160.0 million from foreign subsidiaries used to repay U.S. commercial paper of $159.3 million.

On July 25, 2008, the Company entered into a Term Loan Agreement with a group of lenders providing financing in the amount of 12.6 billion Japanese Yen at a floating rate of three month Yen Libor plus 72.5 basis points through March 28, 2012. The net proceeds after deducting fees and expenses of the loan are 12.5 billion Japanese Yen or approximately $117.9 million. The proceeds were used to refinance debt borrowed under the revolving credit facility. The obligations of the Company and the lenders are subject to the terms and conditions of the Term Loan Agreement.

On March 13, 2007, the Company entered into a Note Purchase Agreement with a group of initial purchasers, providing for the issuance of $150.0 million aggregate principal amount of floating rate senior notes due in 2010 through a private placement. The net proceeds from the offering after deducting placement fees and expenses of the offering was $149.5 million. The obligations of DENTSPLY and the initial purchasers are subject to the terms and conditions of the Note Purchase Agreement.

The following table presents the Company's scheduled contractual cash obligations at December 31, 2008:

Contractual Obligations	Less Than 1 Year	1-3 Years	3-5 Years	Greater Than 5 Years	Total
	(in thousands)				
Long-term borrowings	$ 3,980	$ 283,195	$ 140,075	$ 409	$427,659
Operating leases	24,730	30,458	13,760	11,819	80,767
Interest on long-term borrowings, net of interest rate swap agreements	23,230	23,252	1,837	611	48,930
Postretirement obligations	8,195	19,387	20,443	59,667	107,692
Cross currency swaps	-	142,372	6,563	-	148,935
Commodity hedges	1,911	20	-	-	1,931
Precious metal consignment agreements	78,101	-	-	-	78,101
	$140,147	$ 498,684	$182,678	$ 72,506	$894,015

Due to the uncertainty with respect to the timing of future cash flows associated with the Company’s unrecognized tax benefits at December 31, 2008, the Company is unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority; and therefore, $23.3 million of the unrecognized tax benefit has been excluded from the contractual obligations table above (See Note 12, Income Taxes, to the consolidated financial statements).

The Company expects on an ongoing basis to be able to finance cash requirements, including capital expenditures, stock repurchases, debt service, operating leases and potential future acquisitions, from the current cash, cash equivalents and short-term investment balances, funds generated from operations and amounts available under its existing credit facilities, which is further discussed in Note 10, Financing Arrangements. The Company continues to generate strong cash flows from operations, which is used to finance the Company’s activities.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R) (“SFAS 141(R)”), “Business Combinations.” It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (“SFAS 160”), “Noncontrolling Interests in Consolidated Financial Statements.” This Statement amends Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company will adopt SFAS 160 in the first quarter of fiscal year 2009. The adoption will reclassify the minority interests currently reported in the liabilities section of the balance sheet to the equity section of the balance sheet.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (“SFAS 161”), ”Disclosures about Derivative Instruments and Hedging Activities.” SFAS 161 is effective for fiscal years beginning after December 15, 2008. This statement amends and expands the disclosure requirements of SFAS 133, “Accounting for Derivative Instruments and Hedging.” The Company will adopt SFAS 161 in the first quarter of fiscal year 2009 and the adoption will further expand the Company’s footnotes for derivatives.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 ("SFAS 162"), "The Hierarchy of Generally Accepted Accounting Principles." This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. This standard will have no impact on the Company's financial statements.

In December 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 132(R)-1, "Employer's Disclosure about Postretirement Benefit Plan Assets." The FSP provides guidance on an employer's disclosure about plan assets of a defined benefit pension or other postretirement plan. The FSP is effective for fiscal years ending after December 15, 2009 with early application permitted. Upon initial application, the provisions of this staff position are not required for earlier periods that are presented for comparative periods. The Company is in the process of evaluating the impact of adopting this staff position on its disclosures.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Financial Instruments

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Company believes the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable (net of allowance for doubtful accounts), prepaid expenses and other current assets, accounts payable, accrued liabilities, income taxes payable and notes payable approximate fair value due to the short-term nature of these instruments. The Company estimates the fair value and carrying value of its total debt was $427.7 million as of December 31, 2008. The fair value of the Company’s long-term debt equaled its carrying value as the Company’s debt is variable rate and reflects current market rates. The interest rates on private placement notes, revolving debt and commercial paper are variable and therefore the fair value of these instruments approximates carrying values.

Derivative Financial Instruments

The Company employs derivative financial instruments to hedge certain anticipated transactions, firm commitments, and assets and liabilities denominated in foreign currencies. Additionally, the Company utilizes interest rate swaps to convert floating rate debt to fixed rate, cross currency basis swaps to convert debt denominated in one currency to another currency and commodity swaps to fix its variable raw materials.

Foreign Exchange Risk Management The Company enters into forward foreign exchange contracts to selectively hedge assets and liabilities denominated in foreign currencies. Market value gains and losses are recognized in income currently and the resulting gains or losses offset foreign exchange gains or losses recognized on the foreign currency assets and liabilities hedged.

The Company selectively enters into forward foreign exchange contracts to hedge anticipated purchases of product to effectively fix certain variable costs. These forwards are used to stabilize the cost of certain of the Company's products. The Company generally accounts for the forward foreign exchange contracts as cash flow hedges under SFAS 133. As a result, the Company records the fair value of the contract primarily through other comprehensive income based on the tested effectiveness of the forward foreign exchange contracts. Realized gains or losses in other comprehensive income are released and recorded to costs of products sold as the products associated with the forward foreign exchange contracts are sold. 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, any time value component of the hedge fair value is deemed ineffective and will be

reported currently as interest expense in the period which it is applicable. The spot to spot change in the derivative fair value will be deferred in other comprehensive income and released and recorded to costs of products sold as the products associated with the forward foreign exchange contracts are sold. Any cash flows associated with these instruments are included in cash from operations in accordance with the Company's policy of classifying the cash flows from these instruments in the same category as the cash flows from the items being hedged.

Determination of hedge activity is based upon market conditions, the magnitude of the foreign currency assets and liabilities, and perceived risks. The Company's significant contracts outstanding as of December 31, 2008 are summarized in the table that follows. These foreign exchange contracts generally have maturities of less than twelve months and the counterparties to the transactions are typically large international financial institutions.

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

In the first quarter of 2005, the Company entered into cross currency interest rate swaps with a notional principal value of Swiss francs 457.5 million paying three month Swiss franc Libor and receiving three month U.S. dollar Libor on $384.4 million. In the first quarter of 2006, the Company entered into additional cross currency interest rate swaps with a notional principal value of Swiss francs 55.5 million paying three month Swiss franc Libor and receiving three month U.S. dollar Libor on $42.0 million. In the fourth quarter of 2006, the Company entered into additional cross currency interest rate swaps with a notional principal value of Swiss francs 80.4 million paying three month Swiss franc Libor and receiving three month U.S. dollar Libor on $64.4 million. In the first quarter of 2007, the Company entered into additional cross currency interest rate swaps with a notional principal value of Swiss francs 56.6 million paying three month Swiss franc Libor and receiving three month U.S. dollar Libor on $46.3 million. Additionally, in the fourth quarter of 2005, the Company entered into cross currency interest rate swaps with a notional principal value of Euro 358.0 million paying three month Euro Libor and receiving three month U.S. dollar Libor on $419.7 million. The Swiss franc and Euro cross currency interest rate swaps are designated as net investment hedges of the Swiss and Euro denominated net assets. The interest rate differential is recognized in the earnings as interest income or interest expense as it is accrued. The foreign currency revaluation is recorded in accumulated other comprehensive income, net of tax effects.

At December 31, 2008 and 2007, the Company had Euro-denominated, Swiss franc-denominated, and Japanese yen-denominated debt and cross currency interest rate swaps (at the parent company level) to hedge the currency exposure related to a designated portion of the net assets of its European, Swiss and Japanese subsidiaries. The fair value of the cross currency interest rate swap agreements is the estimated amount the Company would (pay) receive at the reporting date, taking into account the effective interest rates and foreign exchange rates. As of December 31, 2008 and December 31, 2007, the estimated net fair values of the cross currency interest rate swap agreements were negative $148.9 million and negative $138.1 million, respectively, which are recorded in accumulated other comprehensive income, net of tax effects. At December 31, 2008 and 2007, the accumulated translation gains on investments in foreign subsidiaries, primarily denominated in Euros, Swiss francs and Japanese Yen, net of these net investment hedges, were $77.5 million and $156.8 million, respectively, which were included in accumulated other comprehensive income, net of tax effects. The Company’s outstanding debt denominated in foreign currencies and the outstanding cross currency interest rate swaps as of December 31, 2008 are summarized in the table that follows.

Interest Rate Risk Management The Company uses interest rate swaps to convert a portion of its variable rate debt to fixed rate debt. As of December 31, 2008, the Company has three groups of significant variable rate to fixed rate interest rate swaps. One of the groups of swaps has notional amounts totaling 12.6 billion Japanese Yen, and effectively converts the underlying variable interest rates to an average fixed rate of 1.6% for a term of ten years, ending in March 2012. Another swap has a notional amount of 65.0 million Swiss francs, and effectively converts the underlying variable interest rates to a fixed rate of 4.2% for a term of seven years, ending in March 2012. A third group of swaps has a notional amount of $150.0 million, and effectively converts the underlying variable interest rates to a fixed rate of 3.9% for a term of two years, ending March 2010.

Commodity Risk Management The Company selectively enters into commodity swaps to effectively fix certain variable raw material costs. These swaps are used purely to stabilize the cost of components used in the production of certain of the Company's products. The Company generally accounts for the commodity swaps as cash flow hedges under SFAS 133. As a result, the Company records the fair value of the swap primarily through other comprehensive income based on the tested effectiveness of the commodity swap. Realized gains or losses in other comprehensive income are released and recorded to costs of products sold as the products associated with the commodity swaps are sold. 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, any time value component of the hedge fair value is deemed ineffective and will be reported currently as interest expense in the period which it is applicable. The spot to spot change in the derivative fair value will be deferred in other comprehensive income and released and recorded to costs of products sold as the products associated with the forward foreign exchange contracts are sold. Any cash flows associated with these instruments are included in cash from operations in accordance with the Company’s policy of classifying the cash flows from these instruments in the same category as the cash flows from the items being hedged. The Company’s significant contracts outstanding as of December 31, 2008 are summarized in the table that follows.

Off Balance Sheet Arrangements

Consignment Arrangements

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

As precious metal prices fluctuate, the Company evaluates the impact of the precious metal price fluctuation on its target gross margins for precious metal dental alloy products and revises the prices customers are charged for precious metal dental alloy products

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

At December 31, 2008, the Company had 113,263 troy ounces of precious metal, primarily gold, platinum and palladium, on consignment for periods of less than one year with a market value of $78.1 million. Under the terms of the consignment agreements, the Company also makes compensatory payments to the consignor banks based on a percentage of the value of the consigned precious metals inventory. At December 31, 2008, the average annual rate charged by the consignor banks was 1.91% These compensatory payments are considered to be a cost of the metals purchased and are recorded as part of the cost of products sold.

	EXPECTED MATURITY DATES (represents notional amounts for derivative financial instruments)						December 31, 2008	
Financial Instruments	2009	2010	2011	2012	2013	2014 and beyond	Carrying Value	Fair Value
	(dollars in thousands)							
Notes Payable:								
U.S. dollar denominated	$ 70	$ -	$ -	$ -	$ -	$ -	$ 70	$ 70
Average interest rate	0.00%						0.00%	
Taiwan dollar denominated	163	-	-	-	-	-	163	163
Average interest rate	0.00%						0.00%	
Polish zloty denominated	66	-	-	-	-	-	66	66
Average interest rate	8.69%						8.69%	
Euro denominated	20,178	-	-	-	-	-	20,178	20,178
Average interest rate	4.34%						4.34%	
Brazil Reais denominated	1,338	-	-	-	-	-	1,338	1,338
Average interest rate	19.87%						19.87%	
Total Notes Payable	$ 21,815	$ -	$ -	$ -	$ -	$ -	$ 21,815	$ 21,815
	5.26%						5.26%	
Current Portion of Long-Term Debt:								
U.S. dollar denominated	$ 4	$ -	$ -	$ -	$ -	$ -	$ 4	$ 4
Average interest rate	10.13%						10.13%	
Euro denominated	3,976	-	-	-	-	-	3,976	3,976
Average interest rate	4.28%						4.28%	
Total Current Portion of Long-Term Debt	$ 3,980	$ -	$ -	$ -	$ -	$ -	$ 3,980	$ 3,980
	4.28%						4.28%	
Long Term Debt:								
U.S. dollar denominated	$ -	$ 152,978	$ -	$ -	$ -	$ -	$ 152,978	$ 152,978
Average interest rate								

Current Liabilities:		
Accounts payable	$ 781	$ 1,028
Accrued liabilities:		
Compensation	2,772	2,061
Accrued other	1,099	881
Deferred revenue	48	52
Current liabilities of discontinued operations	—	45
Total Current Liabilities	4,700	4,067
Deferred revenue, less current portion	217	226
Other long-term liabilities	1,920	1,845
Total Liabilities	6,837	6,138
Commitments and Contingencies (Note 12)		
Stockholders' Equity:		
Series A preferred stock — $.05 par value, 450,000	—	—

shares authorized; no shares issued and outstanding				
Common stock — $.05 par value, 45,000,000 shares authorized; 12,945,157 and 13,606,545 shares issued and outstanding, respectively		647		680
Additional paid-in capital		3,060		2,662
Accumulated other comprehensive income		5		1,528
Retained earnings		88,161		93,881
Total Stockholders' Equity		91,873		98,751
Total Liabilities and Stockholders' Equity	$	98,710	$	104,889

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

SurModics, Inc. and Subsidiaries

Consolidated Statements of Income

For the Years Ended September 30

	2015	2014	2013
	(In thousands, except per share data)		
Revenue:			
Royalties and license fees	$31,763	$30,277	$29,774
Product sales	24,925	22,798	22,506
Research and development	5,210	4,364	3,852
Total revenue	61,898	57,439	56,132
Operating costs and expenses:			
Product costs	8,619	8,016	7,898
Research and development	16,165	15,550	15,079
Selling, general and administrative	15,525	15,297	13,859
Restructuring charges	—	—	476
Claim settlement	2,500	—	—
Total operating costs and expenses	42,809	38,863	37,312
Operating income from continuing operations	19,089	18,576	18,820
Other income (loss):			
Investment income, net	156	238	268
Impairment losses on strategic investments	(1,500)	(1,184)	(158)
Gains on sale of strategic investments	—	709	1,293
Other income, net	496	133	137
Other (loss) income	(848)	(104)	1,540
Income from continuing operations before income taxes	18,241	18,472	20,360
Income tax provision	(6,294)	(6,265)	(5,781)
Income from continuing operations	11,947	12,207	14,579
Discontinued operations:			
(Loss) income from discontinued operations, net of income taxes	—	(176)	588
Loss on sale of discontinued operations, net of income taxes	—	—	—
(Loss) Income from discontinued operations	—	(176)	588
Net income	$11,947	$12,031	$15,167
Basic income (loss) per share:			
Continuing operations	$0.92	$0.90	$1.01
Discontinued operations	(0.00)	(0.01)	0.04
Net income	$0.92	$0.88	$1.05
Diluted income (loss) per share:			
Continuing operations	$0.90	$0.88	$0.99
Discontinued operations	(0.00)	(0.01)	0.04
Net income	$0.90	$0.87	$1.03
Weighted average number of shares outstanding:			
Basic	13,029	13,632	14,464

Diluted	13,289	13,876	14,731

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

SurModics, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the Years Ended September 30

	2015	2014	2013
	(In thousands)		
Net income	$11,947	$12,031	$15,167
Other comprehensive (loss) income, net of tax:			
Unrealized holding (losses) gains on available-for-sale securities arising during the period	(1,208)	1,559	235
Reclassification adjustment for realized gains included in net income	(315)	(89)	(217)
Other comprehensive (loss) income	(1,523)	1,470	18
Comprehensive income	$10,424	$13,501	$15,185

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

SurModics, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

For the Years Ended September 30

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	(In thousands)					
Balance at September 30, 2012	14,657	$ 733	$ 18,346	$ 40	$ 75,869	$ 94,988
Net income	—	—	—	—	15,167	15,167
Other comprehensive income, net of tax	—	—	—	18	—	18
Issuance of common stock	20	1	274	—	—	275
Common stock repurchased	(796)	(40)	(18,769)	—	—	(18,809)
Common stock options exercised, net	10	1	143	—	—	144
Purchase of common stock to pay employee taxes	—	—	(41)	—	—	(41)
Reduction of excess tax benefit from stock-based compensation plans	—	—	(477)	—	—	(477)
Stock-based compensation	—	—	2,552	—	—	2,552
Balance at September 30, 2013	13,891	695	2,028	58	91,036	93,817
Net income	—	—	—	—	12,031	12,031
Other comprehensive income, net of tax	—	—	—	1,470	—	1,470
Issuance of common stock	163	8	261	—	—	269
Common stock repurchased	(485)	(25)	(2,330)	—	(9,186)	(11,541)
Common stock options exercised, net	38	2	241	—	—	243
Purchase of common stock to pay employee taxes	—	—	(1,111)	—	—	(1,111)
Excess tax benefit from stock-based compensation plans	—	—	236	—	—	236
Stock-based compensation	—	—	3,337	—	—	3,337
Balance at September 30, 2014	13,607	680	2,662	1,528	93,881	98,751
Net income	—	—	—	—	11,947	11,947
Other comprehensive loss, net of tax	—	—	—	(1,523)	—	(1,523)
Issuance of common stock	139	7	272	—	—	279
Common stock repurchased	(848)	(42)	(2,485)	—	(17,473)	(20,000)
Common stock options exercised, net	47	2	429	—	—	431

Purchase of common stock to pay employee taxes	—	—	(631)	—	(194)	(825)
Excess tax benefit from stock-based compensation plans	—	—	432	—	—	432
Stock-based compensation	—	—	2,381	—	—	2,381
Balance at September 30, 2015	12,945	$ 647	$ 3,060	$ 5	$ 88,161	$ 91,873

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

SurModics, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended September 30

	2015	2014	2013
	(In thousands)		
Operating Activities:			
Net income	$11,947	$12,031	$15,167
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:			
Loss (income) from discontinued operations	—	176	(588)
Depreciation and amortization	2,805	2,715	2,886
Gains on sales of available-for-sale securities, net and strategic investments	(492)	(842)	(1,430)
Impairment losses on strategic investments	1,500	1,184	158
Stock-based compensation	2,381	3,337	2,552
Deferred taxes	93	(352)	(492)
Excess tax (benefit) deficiency from stock-based compensation plans	(432)	(236)	477
(Gain) loss on disposals of property and equipment	(39)	2	(62)
Change in operating assets and liabilities, excluding the impact of discontinued operations:			
Accounts receivable	(2,727)	581	(263)
Inventories	(162)	511	196
Prepaids and other	141	(23)	(40)
Accounts payable and accrued liabilities	373	(738)	238
Income taxes	(309)	116	(989)
Deferred revenue	(13)	75	(29)
Net cash provided by operating activities from continuing operations	15,066	18,537	17,781
Investing Activities:			
Purchases of property and equipment	(1,877)	(2,278)	(1,919)
Cash proceeds from sale of property and equipment	42	—	77
Purchases of available-for-sale securities	(3,376)	(138,363)	(45,053)
Sales and maturities of available-for-sale securities	22,199	162,673	44,853
Business combination	(270)	—	—
Cash received from sale of strategic investments	21	709	2,236
Cash transferred to discontinued operations	(45)	(354)	(116)
Net cash provided by investing activities from continuing operations	16,694	22,387	78
Financing Activities:			
Excess tax benefit (deficiency) from stock-based compensation plans	432	236	(477)
Issuance of common stock	710	512	419
Repurchase of common stock	(20,000)	(12,545)	(17,805)
Purchases of common stock to pay employee taxes	(825)	(1,111)	(41)
Net cash used in financing activities from continuing operations	(19,683)	(12,908)	(17,904)
Net cash provided by (used in) continuing operations	12,077	28,016	(45)
Discontinued Operations:			

Net cash used in operating activities	(45)	(354)	(116)
Net cash provided by investing activities	—	—	—
Net cash provided by financing activities	45	354	116
Net cash provided by discontinued operations	—	—	—
Net change in cash and cash equivalents	12,077	28,016	(45)
Cash and Cash Equivalents:			
Beginning of year	43,511	15,495	15,540
End of year	$55,588	$43,511	$15,495
Supplemental Information:			
Cash paid for income taxes	$6,510	$6,295	$7,115
Noncash financing and investing activities:			
Acquisition of property and equipment on account	$22	$11	$26
Share repurchase accrual	$—	$—	$1,004
Issuance of performance shares, restricted and deferred stock units	$2,250	$3,007	$—
Accrual of business combination contingent consideration	$305	$—	$—

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

SurModics, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Description

SurModics, Inc. and subsidiaries ("SurModics" or "the Company") is a leading provider of medical device and in vitro diagnostic technologies to the healthcare industry. The Company derives its revenue from three primary sources: (1) royalties and license fees from licensing its proprietary drug delivery and surface modification technologies and in vitro diagnostic formats to customers; (2) the sale of reagent chemicals to licensees and the sale of stabilization products, antigens, substrates and surface coatings to the diagnostic and biomedical research markets; and (3) research and development fees generated on customer projects.

Effective with the acquisition of Creagh Medical Ltd. ("Creagh") on November 20, 2015, and subsequent to the fiscal year end 2015, the Company will be engaged in contract research and development, as well as manufacturing of balloon catheters used in a variety of interventional cardiology applications.

Basis of Presentation

The consolidated financial statements include all accounts and wholly-owned subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S.") ("GAAP"). All inter-company transactions have been eliminated.

2. Summary of Significant Accounting Policies and Select Balance Sheet Information

Cash and Cash Equivalents

Cash and cash equivalents consist of financial instruments with original maturities of three months or less and are stated at cost which approximates fair value and may include money market instruments, certificates of deposit, repurchase agreements and commercial paper instruments.

Investments

Investments consist principally of U.S. government and government agency obligations, mortgage-backed securities and corporate and municipal debt securities and were classified as available-for-sale at September 30, 2014. Available-for-sale securities are reported at fair value with unrealized gains and losses, net of tax, excluded from the consolidated statements of income and reported in the consolidated statements of comprehensive income as well as a separate component of stockholders' equity in the consolidated balance sheets, except for other-than-temporary impairments, which are reported as a charge to current earnings. A loss would be recognized when there is an other-than-temporary impairment in the fair value of any individual security classified as available-for-sale, with the associated net unrealized loss reclassified out of accumulated other comprehensive income with a corresponding adjustment to other income (loss). This adjustment results in a new cost basis for the investment. Investments for which management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. When an other-than-temporary impairment in the fair value of any individual security classified as held-to-maturity occurs, the Company writes down the security to fair value with a corresponding adjustment to other

income (loss). Interest earned on debt securities, including amortization of premiums and accretion of discounts, is included in other income (loss). Realized gains and losses from the sales of debt securities, which are included in other income (loss), are determined using the specific identification method.

During the quarter ended June 30, 2015, the Company liquidated its investment portfolio to support corporate initiatives, as a result the ending balance of available-for-sale investments as of September 30, 2015 was zero. The amortized cost, unrealized holding gains and losses, and fair value of available-for-sale securities as of September 30, 2014 were as follows (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agency obligations	$ 7,397	$ 12	$ (15)	$7,394
Mortgage-backed securities	5,576	43	(74)	5,545
Municipal bonds	1,173	5	(3)	1,175
Asset-backed securities	2,370	3	(4)	2,369
Corporate bonds	1,829	6	(5)	1,830
Equity securities	2	1,548	—	1,550
Total	$ 18,347	$ 1,617	$ (101)	$19,863

As of September 30, 2014, the Company concluded that the unrealized losses related to the available-for-sale securities shown above were not other-than-temporary as the Company did not have the intent to sell, nor was is it more likely than not that the Company would be required to sell such securities, before recovery of their amortized cost.

The following table summarizes sales of available-for-sale securities for the years ended September 30, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Proceeds from sales	$22,199	$162,673	$44,853
Gross realized gains	$548	$134	$179
Gross realized losses	$(73)	$(1)	$(43)

There were no held-to-maturity debt securities at September 30, 2015 or 2014.

Inventories

Inventories are principally stated at the lower of cost or market using the specific identification method and include direct labor, materials and overhead. Inventories consisted of the following components as of September 30 (in thousands):

	2015	2014
Raw materials	$1,264	$1,056
Finished products	1,715	1,761
Total	$2,979	$2,817

Property and Equipment

Property and equipment are stated at cost, less any impairment, and are depreciated using the straight-line method over the estimated useful lives of the assets. The Company recorded depreciation expense of $2.0 million, $2.0 million and $2.1 million for the years ended September 30, 2015, 2014 and 2013, respectively.

The September 30, 2015 and 2014 balances in construction-in-progress include the cost of enhancing the capabilities of the Company’s Eden Prairie, Minnesota facility. As assets are placed in service, construction-in-progress is transferred to the specific property and equipment categories and depreciated over the estimated useful lives of the assets.

Property and equipment consisted of the following components as of September 30 (in thousands):

	Useful Life (In years)	2015	2014
Land	N/A	$4,359	$4,359
Laboratory fixtures and equipment	3 to 10	12,941	12,858
Buildings and improvements	3 to 20	16,444	16,114
Office furniture and equipment	3 to 10	3,473	3,060
Construction-in-progress		1,168	1,158
Less accumulated depreciation		(25,417)	(24,416)
Property and equipment, net		$12,968	$13,133

Other Assets

Other assets consisted principally of strategic investments as of September 30 as follows (in thousands):

	2015	2014
CeloNova BioSciences, Inc.	$—	$1,500
ViaCyte, Inc.	479	479
Other assets, net	$479	$1,979

In February 2011, the stent technology of Nexeon MedSystems, Inc. (“Nexeon”) was acquired by CeloNova BioSciences, Inc. (“CeloNova”). Prior to the acquisition by CeloNova, Nexeon created a wholly-owned subsidiary, Nexeon Stent, to hold the company’s stent-related assets. Nexeon distributed to its stockholders the Nexeon Stent stock which was exchanged for Series B-1 preferred shares of CeloNova. CeloNova is a privately-held Texas-based medical technology company that is marketing a variety of medical products. The Company’s investment in CeloNova, which is accounted for under the cost method, represents less than a 2% ownership interest. The Company does not exert significant influence over CeloNova’s operating or financial activities.

On November 10, 2015 Boston Scientific Corporation announced its intent to acquire CeloNova’s interventional radiology portfolio for $70 million plus potential milestone payments. This acquisition is expected to close by December 31, 2015. The Company recognized an other-than-temporary impairment loss of $1.5 million related to its investment in CeloNova in the fourth quarter fiscal 2015 based on the indicated value of this transaction.

The Company has invested a total of $1.2 million in ThermopeutiX, Inc. (“ThermopeutiX”), a California-based early stage company developing novel medical devices for the treatment of vascular and neurovascular diseases. In addition to the investment, SurModics has licensed its hydrophilic and hemocompatible coating technologies to ThermopeutiX for use with its devices. The Company’s investment in ThermopeutiX, which is accounted for under the cost method, represents an ownership interest of less than 20%. The Company does not exert significant influence over ThermopeutiX’s operating or financial activities. In the fourth quarter of fiscal 2014, the Company recognized an other-than-temporary impairment loss of $1.2 million based on capital funding initiatives and current operating conditions of ThermopeutiX.

The Company has invested a total of $5.3 million in ViaCyte, Inc. (“ViaCyte”), a privately-held California-based biotechnology firm that is developing a unique treatment for diabetes using coated islet cells, the cells that produce insulin in the human body. In fiscal 2006, the Company determined that its investment in ViaCyte was impaired and that the impairment was other-than-temporary. Accordingly, the Company recorded an impairment loss of $4.7 million. In the second quarter of fiscal 2013, the Company recorded an additional other-than-temporary impairment loss on this investment totaling $0.1 million based on a financing round and market valuations. The balance of the investment of $0.5 million, which is accounted for under the cost method, represents less than a 1% ownership interest. The Company does not exert significant influence over ViaCyte’s operating or financial activities.

The Company had invested a total of $2.5 million in Vessix Vascular, Inc. (“Vessix”) and recognized an other-than-temporary impairment loss on this investment totaling $2.4 million in fiscal 2010, based on market valuations and a pending financing round for Vessix. Vessix was purchased by Boston Scientific Corporation in November 2012. The Company recorded a gain of approximately $1.2 million in the consolidated statements of income gains on sale of strategic investments line, on the sale of this investment in the first quarter of fiscal 2013. In fiscal 2014, the Company recorded a $0.7 million gain upon achievement by Vessix of a clinical milestone and a sales milestone for calendar 2013. Total potential maximum additional proceeds of $3.3 million may be received in fiscal 2016 through fiscal 2017 depending on Vessix’s achievement of future sales milestones. No amounts have been recorded associated with these future milestones given the level of uncertainty that exists. Any potential additional income will be recognized once the milestones are achieved.

The Company transferred its original investment of $2,000 in Intersect ENT, Inc. (“Intersect ENT”) out of other assets to short-term available-for-sale investments upon completion of Intersect ENT’s initial public offering (“IPO”) in July 2014. The Company recognized a gain on this investment in other income of $0.5 million during the year ended

September 30, 2015 as the investment was sold.

The Company has invested a total of $6.5 million in Nexeon, a privately-held West Virginia-based medical technology company, commencing in July 2007 and has recognized losses under the equity method of accounting as well as other-than-temporary impairment losses of $4.1 million in fiscal 2010 and less than $0.1 million in fiscal 2013. In the fourth quarter of fiscal 2013, the Company recognized an other-than-temporary impairment loss based on Nexeon's capital funding initiatives of approximately $1.0 million. The carrying value of this investment was zero as of September 30, 2015 and 2014.

The total carrying value of cost method investments is reviewed quarterly for changes in circumstances or the occurrence of events that suggest the Company's investment may not be recoverable. The fair value of cost method investments is not adjusted if there are no identified events or changes in circumstances that may have a material adverse effect on the fair value of the investment.

In the fiscal years ended September 30, 2015 and 2014, the Company recognized revenue of less than $0.1 million in each period and in the fiscal year ended September 30, 2013 the Company recognized revenue of $0.1 million from activity with companies in which it had a strategic investment.

Intangible Assets

Intangible assets consist principally of acquired patents and technology, customer relationships, licenses and trademarks. The Company recorded amortization expense of $0.8 million, $0.7 million and $0.7 million for the years ended September 30, 2015, 2014 and 2013, respectively. During the year ended September 30, 2015, the Company acquired certain assets from ImmunO4, LLC resulting in an increase in customer lists, non-compete and other intangible assets of $0.3 million, $0.2 million and $0.1 million, respectively.

Intangible assets consisted of the following as of September 30 (in thousands):

2015	Weighted Average Original Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Definite-lived intangible assets:				
Customer lists	9.0	$ 5,132	$ (4,363)	$ 769
Core technology	8.0	530	(530)	0
Non-compete	5.0	230	(12)	218
Patents and other	16.8	2,321	(1,128)	1,193
Subtotal		8,213	(6,033)	2,180
Unamortized intangible assets:				
Trademarks		580	—	580
Total		$ 8,793	$ (6,033)	$ 2,760

2014	Weighted Average Original Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Definite-lived intangible assets:				
Customer lists	9.0	$ 4,857	$ (3,813)	$ 1,044
Core technology	8.0	530	(475)	55
Patents and other	16.8	2,256	(989)	1,267
Subtotal		7,643	(5,277)	2,366
Unamortized intangible assets:				
Trademarks		580	—	580
Total		$ 8,223	$ (5,277)	$ 2,946

Based on the intangible assets in service as of September 30, 2015, estimated amortization expense for each of the next five fiscal years is as follows (in thousands):

2016	$690
2017	279

2018	233
2019	233
2020	221

Future amortization amounts presented above are estimates. Actual future amortization expense may be different, as a result of future acquisitions, impairments, changes in amortization periods, or other factors.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the fair value assigned to the assets purchased and liabilities assumed in connection with a company's acquisition. Goodwill is not amortized but is subject, at a minimum, to annual tests for impairment in accordance with accounting guidance for goodwill. The carrying amount of goodwill is evaluated annually, and between annual evaluations if events occur or circumstances change indicating that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Goodwill is evaluated for impairment based on an assessment of qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying

amount (Step 0). If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test becomes unnecessary.

The two-step impairment test requires SurModics to compare the fair value of the reporting units to which goodwill was assigned to their respective carrying values (Step 1 of the impairment test). In calculating fair value, the Company would use the income approach as its primary indicator of fair value, with the market approach used as a test of reasonableness. The income approach is a valuation technique under which the Company estimates future cash flows using the reporting units' financial forecasts. Future estimated cash flows would be discounted to their present value to calculate fair value. The market approach establishes fair value by comparing SurModics to other publicly traded guideline companies or by analysis of actual transactions of similar businesses or assets sold. The income approach would be tailored to the circumstances of the Company's business, and the market approach would be completed as a secondary test to ensure that the results of the income approach are reasonable and in line with comparable companies in the industry. The summation of the Company's reporting units' fair values would be compared and reconciled to its market capitalization as of the date of its impairment test.

In the situation where a reporting unit's carrying amount exceeds its fair value, the amount of the impairment loss must be measured. The measurement of the impairment (Step 2 of the impairment test) is calculated by determining the implied fair value of a reporting unit's goodwill. In calculating the implied fair value of goodwill, the fair value of the reporting unit is allocated to all other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. The goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value.

The Company's reporting units are the In Vitro Diagnostics operations known as its In Vitro Diagnostics unit which contains its BioFX branded products and the SurModics device drug delivery and hydrophilic coatings operations known as the Medical Device unit. Inherent in the determination of fair value of the reporting units are certain estimates and judgments, including the interpretation of current economic indicators and market valuations as well as the Company's strategic plans with regard to its operations.

The $8.0 million of goodwill at September 30, 2015 and 2014 is related to the In Vitro Diagnostics reporting unit and represents the gross value from the acquisition of BioFX Laboratories, Inc. in 2007. The Company performed its annual impairment test of goodwill (Step 0) as of August 31, 2015, and did not record any goodwill impairment charges during fiscal 2015 as there were no indicators of impairment associated with the In Vitro Diagnostics reporting unit. The Company also did not record any goodwill impairment charges related to the In Vitro Diagnostics reporting unit during fiscal 2014 or 2013.

Valuation of Long-Lived Assets

Accounting guidance requires the Company to evaluate periodically whether events and circumstances have occurred that may affect the estimated useful life or the recoverability of the remaining balance of long-lived assets, such as property and equipment and intangibles with finite lives. If such events or circumstances were to indicate that the carrying amount of these assets may not be recoverable, the Company would estimate the future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) were less than the carrying amount of the assets, the Company would recognize an impairment charge to reduce such assets to their fair value.

Revenue Recognition

The Company recognizes revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) shipment has occurred or delivery has occurred if the terms specify destination; (3) the sales price is fixed or determinable; and (4) collectability is reasonably assured. When there are additional performance requirements, revenue is recognized when all such requirements have been satisfied. Under revenue arrangements with multiple deliverables, the Company recognizes each separable deliverable as it is earned.

The Company derives its revenue from three primary sources: (1) royalties and license fees from licensing its proprietary drug delivery and surface modification technologies and in vitro diagnostic formats to customers; (2) the sale of reagent chemicals to licensees and the sale of stabilization products, antigens, substrates and surface coatings to the diagnostic and biomedical research markets; and (3) research and commercial development fees generated on customer projects.

Taxes collected from customers and remitted to governmental authorities are excluded from revenue and amounted to $0.1 million for each of the years ended September 30, 2015, 2014 and 2013.

Royalties and license fees. The Company licenses technology to third parties and collects royalties. Royalty revenue is generated when a customer sells products incorporating the Company’s licensed technologies. Royalty revenue is recognized as licensees report

it to the Company, and payment is typically submitted concurrently with the report. For stand-alone license agreements, up-front license fees are recognized over the term of the related licensing agreement. Minimum royalty fees are recognized in the period earned.

Revenue related to a performance milestone is recognized upon the achievement of the milestone, as defined in the respective agreements and provided the following conditions have been met:

- The milestone payment is non-refundable;
- The milestone involved a significant degree of risk, and was not reasonably assured at the inception of the arrangement;
- Accomplishment of the milestone involved substantial effort;
- The amount of the milestone payment is commensurate with the related effort and risk; and
- A reasonable amount of time passed between the initial license payment and the first and subsequent milestone payments.

If these conditions have not been met, the milestone payment is deferred and recognized over the term of the agreement.

Product sales. Product sales to third parties consist of direct and distributor sales and are recognized at the time of shipment. The Company's sales terms provide no right of return outside of the standard warranty policy. Payment terms are generally set at 30-45 days.

Research and development. The Company performs third-party research and development activities, which are typically provided on a time and materials basis. Generally, revenue for research and development is recorded as performance progresses under the applicable contract.

Arrangements with multiple deliverables. Revenue arrangements with multiple deliverables requires the Company to:

(i) disclose whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

(ii) allocate revenue in an arrangement using estimated selling prices ("ESP") of deliverables if a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third-party evidence of selling price ("TPE"); and

(iii) allocate revenue using the relative selling price method.

The Company accounts for revenue using a multiple attribution model in which consideration allocated to research and development activities is recognized as performed, and milestone payments are recognized when the milestone events are achieved, when such activities and milestones are deemed substantive. Accordingly, in situations where a unit of accounting includes both a license and research and development activities, and when a license does not have stand-alone value, the Company applies a multiple attribution model in which consideration allocated to the license is recognized ratably, consideration allocated to research and development activities is recognized as performed and milestone payments are recognized when the milestone events are achieved, when such activities and milestones are deemed substantive.

The Company enters into license and development arrangements that may consist of multiple deliverables which could include a license(s) to SurModics' technology, research and development activities, manufacturing services, and product sales based on the needs of its customers. For example, a customer may enter into an arrangement to obtain a license to SurModics' intellectual property which may also include research and development activities, and supply of products manufactured by SurModics. For these services provided, SurModics could receive upfront license fees upon

signing of an agreement and granting the license, fees for research and development activities as such activities are performed, milestone payments contingent upon advancement of the product through development and clinical stages to successful commercialization, fees for manufacturing services and supply of product, and royalty payments based on customer sales of product incorporating SurModics' technology. The Company's license and development arrangements generally do not have refund provisions if the customer cancels or terminates the agreement. Typically all payments made are non-refundable.

The Company is required to evaluate each deliverable in a multiple element arrangement for separability. The Company is then required to allocate revenue to each separate deliverable using a hierarchy of VSOE, TPE, or ESP. In many instances, the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be a result of the Company infrequently selling each element separately or having a limited history with multiple element arrangements. When VSOE cannot be established, the Company attempts to establish a selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately.

When the Company is unable to establish a selling price using VSOE or TPE, the Company uses ESP in its allocation of arrangement consideration. The objective of ESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. ESP is generally used for highly customized offerings.

The Company determines ESP for undelivered elements by considering multiple factors including, but not limited to, market conditions, competitive landscape and past pricing arrangements with similar features. The determination of ESP is made through consultation with the Company's management, taking into consideration the marketing strategies for each business unit.

Deferred Revenue

Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying consolidated balance sheets, with deferred revenue to be recognized beyond one year being classified as non-current deferred revenue. The Company had deferred revenue of $0.3 million for September 30, 2015 and 2014.

Customer advances are accounted for as a liability until all criteria for revenue recognition have been met.

Customer Concentrations

The Company's licensed technologies provide royalty revenue, which represents the largest revenue stream to the Company. The Company has licenses with a diverse base of customers and certain customers have multiple products using the Company's technology. Medtronic plc ("Medtronic") is the Company's largest customer at 26% of total revenue for fiscal 2015. Medtronic has several separately licensed products that generate royalty revenue for SurModics, none of which represented more than 6% of SurModics' total revenue. No other individual customer using licensed technology constitutes more than 10% of the Company's total revenue.

The Company's licensing agreements with many of its customers, including most of its significant customers, cover many licensed products that each separately generates royalty revenue. This structure reduces the potential risk to the Company's operations that may result from reduced sales (or the termination of a license) of a single product for any specific customer.

Research and Development

Research and development costs are expensed as incurred. Some research and development costs are related to third-party contracts, and the related revenue is recognized as described in "Revenue Recognition" above. Costs associated with customer-related research and development include specific project direct labor costs and material expenses as well as an allocation of overhead costs based on direct labor dollars.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Ultimate results could differ from those estimates.

Income Per Share Data

Basic income per common share is calculated based on the weighted average number of common shares outstanding during the period. Diluted income per common share is computed by dividing income by the weighted average number of common and common equivalent shares outstanding during the period. The Company's only potentially dilutive common shares are those that result from dilutive common stock options and non-vested stock relating to restricted stock awards, restricted stock units and performance shares.

The following table sets forth the denominator for the computation of basic and diluted income per share (in thousands):

	2015	2014	2013
Net income from continuing operations available to common shareholders	$11,947	$12,207	$14,579
Basic weighted average shares outstanding	13,029	13,632	14,464
Dilutive effect of outstanding stock options, non-vested restricted stock, restricted stock units and performance shares	260	244	267
Diluted weighted average shares outstanding	13,289	13,876	14,731

The calculation of weighted average diluted shares outstanding excludes outstanding common stock options associated with the right to purchase 0.5 million, 0.5 million and 0.4 million shares for fiscal 2015, 2014 and 2013, respectively, as their inclusion would have had an antidilutive effect on diluted income per share.

New Accounting Pronouncements

Accounting Standards to be Adopted

In July 2013, the Financial Accounting Standards Board (“FASB”) issued amended guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward exists, similar to a tax loss, or tax credit carryforward. The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented as a reduction of a deferred tax asset when a net operating loss carryforward exists, or similar tax loss, or tax credit carryforward, with certain exceptions. This accounting guidance was adopted during the first quarter of fiscal 2015. The adoption did not have a material impact on the Company’s financial position, results of operation or cash flows.

In May 2014, the FASB issued new revenue recognition guidance for recognizing revenue from contracts with customers that provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance states that a Company should recognize revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard also requires quantitative and qualitative disclosures about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. Additionally, the FASB has provided guidance for transactions that were not previously addressed comprehensively, and improved guidance for multiple-element arrangements. The original pronouncement was effective for the Company beginning in fiscal 2018 (October 1, 2017), and early adoption was not permitted. On July 9, 2015 the FASB approved a one-year deferral of the effective date for the revenue recognition standard. As a result of the one-year deferral, the revenue recognition

standard is effective for the Company beginning in fiscal 2019 (October 1, 2018), however, the Company may adopt this guidance as of the original effective date. This guidance can be adopted by the Company either retrospectively (October 1, 2016) or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact that the adoption of this new accounting guidance will have on the Company's results of operations, cash flows and financial position.

No other new accounting pronouncement issued or effective has had, or is expected to have, a material impact on the Company's consolidated financial statements..

3. Discontinued Operations

On November 1, 2011, the Company entered into a definitive agreement (the "Purchase Agreement") to sell substantially all of the assets of its wholly-owned subsidiary, SurModics Pharmaceuticals, to Evonik Degussa Corporation ("Evonik"). Under the terms of the Purchase Agreement, the entire portfolio of products and services of SurModics Pharmaceuticals, including the Company's Current Good Manufacturing Practices ("cGMP") development and manufacturing facility located in Birmingham, Alabama, were sold. The Company retained all accounts receivable and the majority of liabilities associated with SurModics Pharmaceuticals incurred prior to closing. The sale (the "Pharma Sale") closed on November 17, 2011. The total consideration received from the Pharma Sale was $30.0 million in cash. As part of the Pharma Sale, SurModics agreed not to compete in the restricted business (as defined in the Purchase Agreement) for a period of five years and to indemnify Evonik against specified losses in connection with SurModics Pharmaceuticals, including certain contingent consideration obligations related to the acquisition by SurModics Pharmaceuticals of the

portfolio of intellectual property and drug delivery projects from PR Pharmaceuticals, Inc. ("PR Pharma") and other specified excluded liabilities, including the litigation matter with Southern Research Institute ("SRI") described below. SurModics retained responsibility for repayment obligations related to an agreement with various governmental authorities associated with creation of jobs in Alabama. These repayment obligations were settled or terminated in the second and third quarters of fiscal 2013 with payments totaling $325,000 repaid to the governmental authorities and a gain of $1.3 million recognized in the fiscal year ended September 30, 2013.

The following is a summary of the operating results of SurModics Pharmaceuticals discontinued operations for the years ended September 30 (in thousands):

	2014	2013
Total revenue	$—	$—
(Loss) income from discontinued operations	$(260)	$1,136
Income tax benefit (provision)	84	(548)
(Loss) income from discontinued operations, net of income taxes	$(176)	$588
Loss on sale of discontinued operations	$—	$—
Income tax benefit	—	—
Loss on sale of discontinued operations, net of income Taxes	$—	$—

The assets and liabilities of discontinued operations as of September 30 were immaterial to the consolidated financial statements.

In June 2014, the Company resolved the previously disclosed litigation involving SRI, two of SRI's former employees and SurModics Pharmaceuticals. Additionally, in September 2014, the Company reached a final settlement with a second inventor, one of SRI's former employees, of the technology subject to the SRI litigation matter. In connection with the resolution of the litigation, the Company recorded an additional expense, within discontinued operations, of $0.3 million during fiscal 2014. Additionally, in the fourth quarter of fiscal 2014, SurModics submitted a bid of less than $0.1 million related to our indemnification obligations to Evonik related to a contingent consideration matter associated with the PR Pharma intellectual property purchased by Evonik in the Pharma Sale. SurModics was notified in October 2014 that the bid was accepted and made a payment made at that time. The assets and liabilities of discontinued operations as of September 30, 2014 include the amount associated with the bid for the legal rights.

4. Fair Value Measurements

The accounting guidance on fair value measurements defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements. The guidance is applicable for all financial assets and financial liabilities and for all nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Fair value is defined as the exchange price that would be received from selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance.

Fair Value Hierarchy

Accounting guidance on fair value measurements requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 — Quoted (unadjusted) prices in active markets for identical assets or liabilities.

The Company’s Level 1 assets as of September 30, 2014 consisted of its investment in Intersect ENT and certain U.S. government and government agency obligations. The fair market value of the Intersect ENT investment was based on the quoted price of Intersect ENT shares as traded on the NASDAQ Global Market Stock Exchange. This investment was sold in the second quarter of

fiscal 2015 generating a realized gain of $0.5 million. The fair market value of certain U.S. government and government agency obligations were based on observable prices in highly active treasury and agency security markets for identical securities.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

The Company’s Level 2 assets as of September 30, 2015 consisted of money market funds and commercial paper instruments. For the year ended September 30, 2014 the Company’s Level 2 assets consisted of money market funds, commercial paper instruments, U.S. Treasury securities, corporate bonds, municipal bonds, U.S. government agency securities, government agency and municipal securities and certain asset-backed and mortgage-backed securities. Fair market values for these assets are based on quoted vendor prices and broker pricing where all significant inputs are observable. The Company performs limited tests of the quoted vendor prices based on available U.S. Treasury security pricing on government websites as a means of validating the third party pricing. To ensure the accuracy of quoted vendor prices and broker pricing, the Company performs regular reviews of investment returns to industry benchmarks and sample tests of individual securities to validate quoted vendor prices with other available market data.

Level 3 — Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

There were no Level 3 assets at September 30, 2015 or 2014 and there was no Level 3 activity during fiscal 2015.

In valuing assets and liabilities, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company did not significantly change its valuation techniques from prior periods.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. During the year ended September 30, 2015, the Company liquidated all of its available-for-sale debt and equity securities and is invested solely in cash equivalents as of September 30, 2015. The following table presents information about the Company’s assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 (in thousands):

	Quoted Prices in Active Markets for	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)	Total Fair Value as of September 30, 2015

	Identical Instruments (Level 1)	(Level 2)		
Assets:				
Cash equivalents	$ —	$ 53,591	$ —	$ 53,591
Total assets measured at fair value	$ —	$ 53,591	$ —	$ 53,591

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 (in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of September 30, 2014
Assets:				
Cash equivalents	$ —	$ 40,100	$ —	$ 40,100
Available-for-sale equity securities	1,550	—	—	1,550
Available-for-sale debt securities:				
U.S. government and government agency obligations	—	7,394	—	7,394
Mortgage-backed securities	—	5,545	—	5,545
Municipal bonds	—	1,175	—	1,175
Asset-backed securities	—	2,369	—	2,369
Corporate bonds	—	1,830	—	1,830
Total assets measured at fair value	$ 1,550	$ 58,413	$ —	$ 59,963

Valuation Techniques

The valuation techniques used to measure the fair value of assets are as follows:

Cash equivalents — These assets are classified as Level 2 and are carried at historical cost which is a reasonable estimate of fair value because of the relatively short time between origination of the instrument and its expected realization.

Available-for-sale equity securities – This asset is classified as Level 1 and represents the Company's investment in Intersect ENT. This investment was valued based on the quoted market price of Intersect ENT shares.

Available-for-sale debt securities — These securities are classified as Level 2 and include various types of debt securities. These securities are valued based on quoted vendor prices in active markets underlying the securities.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company's investments in non-marketable securities of private companies are accounted for using the cost method as the Company does not exert significant influence over the investees' operating or financial activities. These investments are measured at fair value on a non-recurring basis when they are deemed to be other-than-temporarily impaired. In determining whether a decline in value of non-marketable equity investments in private companies has occurred and is other-than-temporary, an assessment is made by considering available evidence, including the general

market conditions in the investee's industry, the investee's product development status and subsequent rounds of financing and the related valuation and/or the Company's participation in such financings. The Company also assesses the investee's ability to meet business milestones and the financial condition and near-term prospects of the individual investee, including the rate at which the investee is using its cash and the investee's need for possible additional funding at a potentially lower valuation. The valuation methodology for determining the decline in value of non-marketable equity securities is based on inputs that require management judgment and are Level 3 inputs.

In the fourth quarter of fiscal 2015, the Company recognized an other-than-temporary impairment loss of $1.5 million based on the indicated value of a third-party transaction expected to close by December 31, 2015. See Note 2 for further information.

In the fourth quarter of fiscal 2014, the Company recognized an other-than-temporary impairment loss of $1.2 million based on capital funding initiatives and current operating conditions of ThermopeutiX. See Note 2 for further information.

5. Stockholders' Equity

Repurchase of Common Stock

Shares are repurchased from time to time to support the Company's stock-based compensation programs and to return capital to stockholders. The Company accounts for repurchases of common stock using the par value method.

On January 28, 2013, the Company's Board of Directors authorized the repurchase of up to an additional $10.0 million of the Company's outstanding common stock. As of June 30, 2013, the Company had completed the January 2013 authorization as well as the remaining $0.3 million under a previous authorization as the Company repurchased a cumulative 405,290 shares at an average price of $25.47 per share.

On July 29, 2013, the Company's Board of Directors authorized the repurchase of up to an additional $20.0 million of the Company's outstanding common stock through open-market purchases, private transactions, block trades, accelerated share repurchase transactions, tender offers, or by any combination of such methods. Through September 30, 2013, the Company had repurchased 390,353 shares at an average price of $21.71 under the July 2013 authorization. The Company had $11.5 million available for future share repurchases as of September 30, 2013.

During fiscal 2014, the Company repurchased an aggregate of 485,777 shares of common stock for a total of $11.5 million under the July 2013 authorization at an average price of $23.77 per share. The July 2013 authorized amount was used as of September 30, 2014 with a small amount remaining. During fiscal 2013, the Company repurchased an aggregate of 795,643 shares of common stock for a total of $18.8 million under the May 2012, January 2013 and July 2013 authorizations, including $1.0 million associated with open market repurchases at September 30, 2013.

On November 5, 2014, the Company's Board of Directors authorized it to repurchase up to $30.0 million of the Company's outstanding common stock in open-market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, tender offers or by any combination of such methods. The authorization has no fixed expiration date. As part of the accelerated share repurchase ("ASR") program discussed below, the Company repurchased 758,143 shares of common stock on November 11, 2014 and 89,721 of common stock on July 8, 2015, the date that the ASR program was completed. As adjusted for the final ASR program settlement, $10.0 million remained available for future repurchases under the November 5, 2014 authorization.

On November 11, 2014, the Company entered into an accelerated share repurchase program with Wells Fargo Bank, National Association. In connection with this agreement, the Company made a $20.0 million payment to the bank and immediately received an initial delivery of 758,143 shares of its common stock with a fair value of $16.0 million as of the purchase date. Effective as of the date of the initial share purchase, the transaction was accounted for as a share retirement, resulting in a reduction of common stock of less than $0.1 million, additional paid-in capital of $2.5 million and retained earnings of $13.5 million. The remaining $4.0 million of the Company's payment was also reported as a reduction in retained earnings. The specific number of shares that the Company ultimately purchased under the ASR agreement was based on the volume weighted average price of the Company's common stock during the purchase period, less an agreed upon discount. In the aggregate the Company purchased 847,864 shares under the ASR program for an average price of $23.59 per share. Based on the facts associated with the agreement, the forward contract was indexed to the Company's common stock and met the U.S. GAAP requirements to be classified as permanent equity as of July 8, 2015.

On November 6, 2015, the Company's Board of Directors authorized the repurchase of up to $20.0 million of the Company's outstanding common stock in addition to the $10.0 million authorization which remains available from the November 5, 2014 authorization.

6. Stock-Based Compensation Plans

The Company has stock-based compensation plans under which it grants stock options, restricted stock awards, performance share awards, restricted stock units and deferred stock units. Accounting guidance requires all share-based payments to be recognized as an operating expense, based on their fair values, over the requisite service period. The Company's stock-based compensation expenses for the years ended September 30 were allocated to the following expense categories (in thousands):

	2015	2014	2013
Product costs	$24	$16	$22
Research and development	226	175	180
Selling, general and administrative	2,131	3,146	2,350
Total stock-based compensation expense	$2,381	$3,337	$2,552

As of September 30, 2015, approximately $1.9 million of total unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of approximately 2.1 years. Such costs include $0.2 million based on payout levels associated with performance share awards that are currently anticipated to be fully expensed because the performance conditions are expected to be met above the minimum levels for each award period.

Stock Option Awards

The Company uses the Black-Scholes option pricing model to determine the weighted average grant date fair value of stock options. Weighted average per share fair values of stock options granted during fiscal 2015, 2014 and 2013 were $7.26, $8.72 and $8.69, respectively. The assumptions used as inputs in the model for the years ended September 30 were as follows:

	2015	2014	2013
Risk-free interest rates	1.43 %	1.19 %	0.60 %
Expected life	4.5 years	4.6 years	4.8 years
Expected volatility	43 %	45 %	49 %
Dividend yield	0 %	0 %	0 %

The risk-free interest rate assumption was based on the U.S. Treasury's rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award. The expected life of options granted is determined based on the Company's experience. Expected volatility is based on the Company's stock price movement over a period approximating the expected term. Based on management's judgment, dividend rates are expected to be zero for the expected life of the options. The Company also estimates forfeitures of options granted, which are based on historical experience.

Non-qualified stock options are granted at fair market value on the grant date. Non-qualified stock options expire in seven to ten years or upon termination of employment or service as a Board member. With respect to members of our Board, non-qualified stock options generally become exercisable on a pro-rata basis over the one-year period following the date of grant. With respect to our employees, non-qualified stock options generally become exercisable with respect to 25% of the shares on each of the first four anniversaries following the grant date.

Non-qualified stock options granted prior to May 2008 generally become exercisable with respect to 20% of the shares on each of the first five anniversaries following the grant date, and non-qualified stock options granted to the Company's employees subsequent to April 2008 generally become exercisable with respect to 25% of the shares on each of the first four anniversaries following the grant date.

The Company modified non-qualified stock option awards granted to Board members in February 2014, which resulted in acceleration of the stock option vesting period. The modification changed the vesting period to a pro-rata basis over a one-year period from a four-year period and resulted in an increase to stock option expense of $0.5 million in fiscal 2014.

Shareholders approved the 2009 Equity Incentive Plan ("2009 Plan") at the February 8, 2010 Annual Meeting of Shareholders. The 2009 Plan has 1,500,000 shares authorized, plus the number of shares that have not yet been awarded under the 2003 Equity Incentive Plan, or were awarded and subsequently returned to the pool of available shares under the 2003 Equity Incentive Plan pursuant to its terms. At September 30, 2015, there were 938,391 shares available for future awards. As of September 30, 2015, the aggregate intrinsic value of the option shares outstanding and option shares exercisable was $4.5 million and $3.8 million, respectively. At September 30, 2015, the average remaining contractual life of options outstanding and options exercisable was 3.2 and 2.4 years, respectively. The total pre-tax intrinsic value of options exercised during fiscal 2015 and 2014 was $1.7 million and $1.4 million, respectively. The intrinsic value represents the difference between the exercise price and the fair market value of the

Company’s common stock on the last day of the respective fiscal period end.

The following table summarizes all stock options activity and stock options outstanding and exercisable under the stock option plans during fiscal 2015, 2014 and 2013:

	Number of Shares	Weighted Average Exercise Price
Outstanding at September 30, 2012	1,325,438	$ 21.25
Granted	178,924	20.85
Exercised	(10,273)	14.40
Forfeited	(125,105)	33.47
Outstanding at September 30, 2013	1,368,984	20.13
Granted	138,837	22.71
Exercised	(190,434)	14.42
Forfeited	(106,768)	31.26
Outstanding at September 30, 2014	1,210,619	20.35
Granted	164,401	21.24
Exercised	(166,422)	14.54
Forfeited	(90,590)	35.35
Outstanding at September 30, 2015	1,118,008	20.10
Exercisable at September 30, 2015	797,045	$ 20.04

The stock-based compensation table includes stock options activity related to discontinued operations, however, there were no stock options outstanding or exercisable related to discontinued operations as of September 30, 2015, 2014 or 2013.

Restricted Stock Awards

The Company has entered into restricted stock agreements with certain key employees, covering the issuance of common stock (“Restricted Stock”). Under accounting guidance, these shares are considered to be non-vested shares. The Restricted Stock is released to the key employees if they are employed by the Company at the end of the vesting period. Compensation has been recognized for the estimated fair value of the common shares and is being charged to income over the vesting term. The stock-based compensation table above includes Restricted Stock expenses recognized related to these awards, which totaled $0.3 million, $0.2 million and $0.1 million during fiscal 2015, 2014 and 2013, respectively.

The following table summarizes all restricted stock awards activity during fiscal 2015, 2014 and 2013:

	Number of Shares	Weighted Average

		Grant Price
Balance at September 30, 2012	4,000	$ 22.11
Vested	5,234	23.88
Forfeited	(4,000)	22.11
Balance at September 30, 2013	5,234	23.88
Granted	22,155	22.67
Vested	(7,991)	23.98
Forfeited	(774)	22.58
Balance at September 30, 2014	18,624	22.45
Granted	18,073	21.84
Vested	(7,606)	22.28
Forfeited	(1,316)	22.16
Balance at September 30, 2015	27,775	$ 22.12

The stock-based compensation table includes restricted stock awards activity related to discontinued operations, however, there were no restricted stock awards outstanding related to discontinued operations as of September 30, 2015, 2014 or 2013.

Performance Share Awards

The Company has entered into performance share agreements with certain key employees, covering the issuance of common stock ("Performance Shares"). The Performance Shares vest upon the achievement of all or a portion of certain performance objectives, which must be achieved during the performance period. The Performance Shares are not issued and outstanding until the performance objectives are met. Performance objectives selected by the Organization and Compensation Committee of the Board of Directors (the "Committee") were cumulative earnings per share and cumulative revenue for the three-year performance periods for fiscal 2012 (2012 – 2014), fiscal 2013 (2013 – 2015), fiscal 2014 (2014 – 2016) and fiscal 2015 (2015 – 2017). Assuming that the minimum performance level is attained, the number of shares that may actually vest will vary based on performance from 20% (minimum) to 200% (maximum). Shares will be issued to participants as soon as practicable following the end of the performance periods subject to Committee approval and verification of results. The compensation cost related to the number of shares to be granted under each performance period is fixed on the grant date, which is the date the performance period begins. Compensation expense is recognized in each period based on management's best estimate of the achievement level of the specified performance objectives for Performance Shares. In fiscal 2015, the Company recognized expense of $0.5 million related to probable achievement of performance objectives for three-year Performance Shares granted in fiscal 2015, 2014 and 2013. In fiscal 2014, the Company recognized expense of $0.6 million related to probable achievement of performance objectives for three-year Performance Shares granted in fiscal 2014, 2013 and 2012. In fiscal 2013, the Company recognized expense of $1.2 million related to probable achievement of performance objectives for three-year Performance Shares granted in fiscal 2012 and 2011. The stock-based compensation table above includes the Performance Shares expenses.

The fair values of the Performance Shares, at target, were $0.9 million, $0.9 million and $0.9 million for grants awarded in fiscal 2015, 2014 and 2013, respectively.

The aggregate number of shares that could be awarded to key employees if the minimum, target and maximum performance goals are met, based upon the fair value at the date of grant is as follows:

Performance Period	Minimum Shares	Target Shares	Maximum Shares
Fiscal 2013 – 2015	8,551	42,753	85,506
Fiscal 2014 - 2016	7,861	39,303	78,606
Fiscal 2015 – 2017	8,440	42,199	84,398

The Fiscal 2013 – 2015 awards are expected to be finalized in December 2015 at an estimated 41,727 shares based on performance objective results. Based on the Company's performance through September 30, 2015, it is estimated that approximately 3,930 shares may be earned for the Fiscal 2014 – 2016 performance period and that approximately 10,676 shares may be earned for the Fiscal 2015 – 2017 performance period.

1999 Employee Stock Purchase Plan

Under the 1999 Employee Stock Purchase Plan ("Stock Purchase Plan"), the Company is authorized to issue up to 400,000 shares of common stock. All full-time and part-time employees can choose to have up to 10% of their annual compensation withheld, with a limit of $25,000, to purchase the Company's common stock at purchase prices defined within the provisions of the Stock Purchase Plan. As of September 30, 2015 and 2014, there were less than $0.1 million of employee contributions in each period included in accrued liabilities in the consolidated balance sheets. Stock compensation expense recognized related to the Stock Purchase Plan totaled $0.1 million, $0.1 million and $0.1

million, during fiscal 2015, 2014 and 2013, respectively. The stock-based compensation table above includes the Stock Purchase Plan expenses.

Restricted Stock and Deferred Stock Units

The Company has awarded a total of 23,736 restricted stock units (“RSU”) in fiscal 2015 and 2014 under the 2009 Equity Incentive Plan to non-employee directors with forfeiture of 3,068 RSUs in fiscal 2015. The Company modified the RSU awards granted to Board members in February 2014, which resulted in acceleration of the RSU award vesting period. The modification changed the vesting period to a pro-rata basis over a one-year period from a three-year period and resulted in an increase to RSU award expense of $0.2 million in fiscal 2014. RSU awards are not considered issued or outstanding common stock of the Company until they vest. The estimated fair value of the RSU awards was calculated based on the closing market price of SurModics’ common stock on the date of grant. Compensation expense has been recognized for the estimated fair value of the common shares and is being charged to income over the vesting term. The stock-based compensation table above includes RSU expenses recognized related to these awards, which totaled $0.2 million, $0.4 million and $0.1 million for fiscal 2015, 2014 and 2013, respectively.

Directors can also elect to receive their annual fees for services to the Board in deferred stock units ("DSUs"). Certain directors elected this option beginning on January 1, 2013 which has resulted in 18,934 units issued with a total value of $0.4 million. These DSUs are fully vested. Stock-based compensation expense related to DSU awards, totaled $0.1 million in both fiscal 2015 and 2014.

7. Restructuring Charges

During the fiscal years ended September 30, 2015 and 2014, the Company did not incur any restructuring charges. The restructuring charge for fiscal 2013 described below has been presented separately as restructuring charges in the consolidated statements of income.

In September 2013 (fiscal 2013), the Company announced a realignment of its business to enhance focus on key growth initiatives. As a result of the organizational change, the Company eliminated approximately 6% of its workforce. These employee terminations occurred across various functions, and the reorganization plan was completed by the end of fiscal 2013. The Company recorded total pre-tax restructuring charges of $0.5 million in the fourth quarter of fiscal 2013, which consisted of severance pay and benefits expenses.

The following table summarizes the restructuring accrual activity (in thousands):

	Employee Severance and Benefits	Facility-Related Costs	Total
Balance at September 30, 2012	$ 10	$ 182	$192
Accrual/(reversal) during the year	534	(58)	476
Cash payments	(145)	(107)	(252)
Balance at September 30, 2013	$ 399	$ 17	$416
Accrual/(reversal) during the year	(20)	(2)	(22)
Cash payments	(379)	(15)	(394)
Balance at September 30, 2014	$ —	$ —	$—

8. Revolving Credit Facility

On November 4, 2013, the Company entered into a three-year $20.0 million secured revolving credit facility. The Company's obligations under the credit facility are secured by substantially all of its and its subsidiaries' assets, other than intellectual property and real estate. Borrowings under the credit facility, if any, will bear interest at a benchmark

rate plus a margin ranging from 1.375% to 2.00% based on the Company's leverage ratio. A facility fee is payable on unused commitments at a rate of 0.20% per annum.

On November 20, 2015, the credit facility was further amended and modified to increase the size of stock repurchases that may be effected by the Company to $30.0 million without the consent of the lender.

In connection with the credit facility, the Company is required to maintain certain financial covenants related to a maximum leverage ratio and a minimum earnings before income tax, depreciation and amortization ("EBITDA") amount and to comply with nonfinancial covenants. As of September 30, 2015, the Company has no debt outstanding and was in compliance with all financial.

9. Income Taxes

The Company accounts for income taxes under the asset and liability method prescribed in accounting guidance. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of such change.

Income taxes from continuing operations in the accompanying consolidated statements of income for the fiscal years ended September 30 are as follows (in thousands):

	2015	2014	2013
Current provision:			
Federal	$6,065	$6,470	$6,048
State and foreign	136	147	225
Total current provision	6,201	6,617	6,273
Deferred provision (benefit):			
Federal	58	(347)	(552)
State	35	(5)	60
Total deferred provision (benefit)	93	(352)	(492)
Total provision	$6,294	$6,265	$5,781

The reconciliation of the difference between amounts calculated at the statutory U.S. federal tax rate of 35% for the fiscal years ended September 30 and the Company's effective tax rate from continuing operations is as follows (in thousands):

	2015	2014	2013
Amount at statutory U.S. federal income tax rate	$6,385	$6,465	$7,126
Change because of the following items:			
State income taxes, net of federal benefit	67	118	278
Stock-based compensation	16	21	25
Valuation allowance change	348	120	(699)
Tax reserve change	34	(121)	(128)
Federal manufacturing deduction	(268)	(235)	(266)
Federal research and development credit	(74)	(67)	(324)
Other	(214)	(36)	(231)
Income tax provision	$6,294	$6,265	$5,781

The federal research and development tax credit for fiscal 2015 and 2014 includes the benefit generated for the period from October 1, 2014 to December 31, 2014 and October 1, 2013 to December 31, 2013, respectively, prior to the expiration of the benefit in each period. The federal research and development credit for fiscal 2013 above includes $0.2 million related to a retroactive 2012 U.S. research and development tax credit for the period from January 1, 2012 to December 31, 2012 which was recognized in fiscal 2013 as a discrete tax benefit resulting from the January 2013 signing of the American Taxpayer Relief Act of 2012.

The Company recorded an income tax benefit from discontinued operations of $0.1 million in fiscal 2014, an income tax expense of $0.5 million in fiscal 2013, an income tax expense of $1.1 million in fiscal 2012 and an income tax benefit of $0.6 million associated with the sale of discontinued operations assets in fiscal 2012.

The components of deferred income taxes consisted of the following as of September 30 and result from differences in the recognition of transactions for income tax and financial reporting purposes (in thousands):

	2015	2014
Depreciable assets	$1,618	$1,612
Deferred revenue	96	101
Accruals and reserves	145	324
Stock-based compensation	4,194	4,373
Impaired strategic investments	4,186	3,674
Unrealized gains on investments	—	(550)
Capital loss carryforward	1,456	1,650
Other	1,276	764
Valuation allowance	(5,721)	(4,836)
Total deferred tax assets	7,250	7,112
Less current deferred tax assets	(546)	(394)
Noncurrent deferred tax assets	$6,704	$6,718

As of September 30, 2015 and 2014, the Company recorded a deferred tax asset valuation allowance of $5.7 million and $4.8 million, respectively. The valuation allowances are primarily related to capital loss carryforwards created by impairment losses on strategic investments and state R&D credit carryforwards. The increase in fiscal 2015 primarily relates to creation of valuation allowances associated with a loss created by the impairment of certain of the Company's strategic investments and an increase in state research and development tax credit carry-forwards.

Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken in a tax return, and the benefit recognized for accounting purposes pursuant to accounting guidance. A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows (in thousands):

	2015	2014	2013
Beginning of fiscal year	$1,216	$1,300	$1,435
Increases in tax positions for prior years	50	43	27
Decreases in tax positions for prior years	(10)	(1)	(278)
Increases in tax positions for current year	146	149	122
Lapse of the statute of limitations	(154)	(275)	(6)
End of fiscal year	$1,248	$1,216	$1,300

The total amount of unrecognized tax benefits excluding interest and penalties that, if recognized, would affect the effective tax rate as of September 30, 2015, 2014 and 2013, respectively, are $0.9 million, $0.9 million and $1.0 million. Currently, the Company does not expect the liability for unrecognized tax benefits to change significantly in the next 12 months with the above balances classified on the consolidated balance sheets in other long-term liabilities. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. As of September 30, 2015, 2014 and 2013, a gross balance of $0.6 million, $0.6 million and $0.7 million, respectively, has been accrued related to the unrecognized tax benefits balance for interest and penalties.

The Company files income tax returns, including returns for its subsidiaries, in the U.S. federal jurisdiction and in various state jurisdictions. Uncertain tax positions are related to tax years that remain subject to examination. The Internal Revenue Service ("IRS") commenced an examination of the Company's U.S. income tax return for fiscal 2012 in the first quarter of fiscal 2014. The examination was completed in the fourth quarter of fiscal 2014 with a payment made associated with a timing adjustment. U.S. income tax returns for years prior to fiscal 2012 are no longer subject to examination by federal tax authorities. For tax returns for state and local jurisdictions, the Company is no longer subject to examination for tax years generally before fiscal 2005.

10. Defined Contribution Plan

The Company has a 401(k) retirement and savings plan for the benefit of qualifying employees. The Company matches 50% of employee contributions on the first 6% of eligible compensation. Company contributions totaling $0.3 million, $0.2 million and $0.2 million have been expensed in the years ended September 30, 2015, 2014 and 2013, respectively.

11. Amounts Reclassified Out of Accumulated Other Comprehensive Income

Amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") totaled $0.3 million and $0.1 million on a pre-tax basis for the fiscal years ended September 30, 2015 and 2014, respectively. The amounts reclassified out of AOCI are associated with unrealized gains on available-for-sale securities that were realized on the sale of the securities and are presented in other income, net in the consolidated statements of income.

12. Commitments and Contingencies

Litigation. From time to time, the Company has been, and may become, involved in various legal actions involving its operations, products and technologies, including intellectual property and employment disputes. The outcomes of these legal actions are not within the Company's complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions barring the sale of products that are the subject of the lawsuit, which, if granted, could require significant expenditures or result in lost revenue. The Company records a liability in the consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate, the minimum amount of the range is accrued. If a loss is possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded.

In the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, 2015, and June 30, 2015, it was disclosed a notice was received from a customer alleging an overpayment of approximately $5.7 million in royalties covering the period January 2009 through September 2014 (the "Claim"). On September 29, 2015, the Company entered into a settlement and release agreement resolving the Claim. Under the agreement, among other things, (a) the Company agreed to pay the customer $2.5 million to settle the Claim, (b) the customer agreed to pay the Company approximately $0.5 million for undisputed royalties that were unpaid and were not previously recognized, during fiscal 2015, and (c) the Company and the customer agreed to a mutual release relating to the Claim and certain other claims by the Company for royalties owed by the customer. In connection with the settlement, in the fourth quarter of fiscal 2015, the Company recognized revenue of approximately $0.5 million and recorded a charge of approximately $2.5 million.

InnoCore Technologies BV. In March 2006, the Company entered into a license agreement whereby SurModics obtained an exclusive license to a drug delivery coating for licensed products within the vascular field which included peripheral, coronary and neurovascular biodurable stent product. The license requires an annual minimum payment of 200,000 euros (equivalent to $223,000 using a euro to US $ exchange rate of 1.11707 as of September 30, 2015) until the last patent expires which is currently estimated to be September 2027. The total minimum future payments associated with this license are approximately $2.7 million. The license is currently utilized with one of SurModics' drug delivery customers.

PR Pharmaceuticals, Inc. In November 2008, SurModics Pharmaceuticals acquired certain contracts and assets of PR Pharma to enhance its portfolio of drug delivery technologies for the pharmaceutical and biotechnology industries. The Company agreed to indemnify Evonik, for a period of five years, for up to $2.5 million of contingent consideration obligations owed to the sellers of PR Pharma related to a future patent issuance milestone when it sold substantially all of the SurModics Pharmaceuticals assets to Evonik on November 17, 2011. In the fourth quarter of fiscal 2014, SurModics submitted a bid of less than $0.1 million related to our indemnification obligations to Evonik related to a contingent consideration matter associated with the PR Pharma intellectual property purchased by Evonik in the Pharma Sale. SurModics was notified in October 2014 that the bid was accepted with a payment made at that time.

Operating Leases. The Company leases certain facilities under noncancelable operating lease agreements. Rent expense for the years ended September 30, 2015, 2014 and 2013 was $0.1 million for each period. Annual commitments pursuant to operating lease agreements are as follows (in thousands):

Year Ended September 30,	
2016	$73
2017	68
2018	70
2019	72
2020	74
Thereafter	12
Total minimum lease payments	$369

13. Operating Segment Information

The accounting standards for reporting information about operating segments define operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, who is the Company's Chief Executive Officer, in deciding how to allocate resources and in assessing performance. For financial accounting and reporting purposes, the Company reports its results for the two reportable segments as follows: (1) the Medical Device unit, which is comprised of surface modification coating technologies to improve access, deliverability, and predictable deployment of medical devices, as well as drug delivery coating technologies to provide site-specific drug delivery from the surface of a medical device, with end markets that include coronary, peripheral, and neuro-vascular, and urology, among others, and (2) the In Vitro Diagnostics unit, which consists of component products and technologies for diagnostic test kits and biomedical research applications, with products that include protein stabilization reagents, substrates, antigens and surface coatings.

The tables below present segment revenue, operating income from continuing operations and depreciation and amortization, for the years ended September 30, as follows (in thousands):

	2015	2014	2013
Revenue:			
Medical Device	$45,944	$43,068	$41,153
In Vitro Diagnostics	15,954	14,371	14,979
Total revenue	$61,898	$57,439	$56,132
Operating income (loss):			
Medical Device	$21,192	$22,636	$21,164
In Vitro Diagnostics	4,484	3,459	4,222
Total segment operating income	25,676	26,095	25,386
Corporate	(6,587)	(7,519)	(6,566)
Total operating income from continuing operations	$19,089	$18,576	$18,820
Depreciation and amortization:			
Medical Device	$1,138	$1,136	$1,255
In Vitro Diagnostics	873	850	864
Corporate	794	729	767
Total depreciation and amortization	$2,805	$2,715	$2,886

The Corporate category includes expenses for administrative corporate functions, such as executive, corporate accounting, legal, human resources and Board of Directors related, that have not been fully allocated to the Medical Device and In Vitro Diagnostics segments. Corporate also includes expenses, such as litigation, which are not specific to a segment and thus not allocated to the operating segments.

Corporate segment results above for fiscal 2014 include increased stock option expense of $0.9 million related to a modification of equity awards granted to Board members.

Corporate segment results above for fiscal 2013 include restructuring charges of $0.5 million and recovery of legal fees associated with the SRI litigation of $1.0 million.

Asset information by segment is not presented because the Company does not provide its chief operating decision maker assets by segment, as the data is not readily available.

Major Customers

Revenue from customers that equaled or exceeded 10% of total revenue was as follows for the years ended September 30:

	2015	2014	2013
Medtronic	26 %	19 %	19 %

The revenue from the customer listed is derived from two primary sources: licensing and product sales. The percentage of revenue increased in fiscal 2015 as a result of Medtronic's merger with Covidien PLC on January 26, 2015.

Geographic Revenue

Geographic revenue was as follows for the years ended September 30:

	2015		2014		2013	
Domestic	77	%	78	%	79	%
Foreign	23	%	22	%	21	%

14. Subsequent Events

On November 6, 2015, the Company's Board of Director authorized it to repurchase up to an additional $20.0 million of the Company's outstanding stock in open-market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, tender offers or by any combination of such methods. With this authorization, the Company may currently repurchase up to $30.0 million of its outstanding stock. The authorization has no fixed expiration date.

On November 20, 2015, the Company acquired 100% of the outstanding common shares and voting shares of Creagh located in Ballinasloe, Ireland. The results of Creagh's operations will be included in the Company's consolidated financial statements as of the Creagh acquisition date. The acquisition was financed with cash on hand. The Company acquired Creagh for up to €30 million ($32.1 million), including an upfront payment of €18 million ($19.3 million), and up to €12 million ($12.8 million) based on achievement of revenue and value-creating operational milestones through September 30, 2018. The payment of the milestones will occur in the quarter ending December 31, 2018.

Creagh is a provider of innovative, efficient and cost-effective design and manufacture of high-quality PTA balloon catheters. Since 2006, Creagh has grown its technical and product capability with PTA products approved throughout the world, including Europe, the United States, and Japan. With these resources, the Company is uniquely positioned to offer a total solutions approach from product design and development, through in-house extrusion, balloon forming, top-assembly, packaging and regulatory capabilities to approved products for exclusive distribution. The acquisition is a major step forward in the Company's strategy to transform its Medical Device segment from being a provider of coatings technologies, to offering whole-product solutions to medical device customers in the large and growing global interventional vascular market.

The Company has excluded the purchase price allocations and pro forma disclosures for the Creagh acquisition as the initial accounting is currently incomplete. The Company is currently in the process of obtaining an initial valuation related to the acquired assets and liabilities.

On November 20, 2015, the Company's credit facility was amended and modified to increase the size of stock repurchases that can be effected by the Company by $20.0 million.

15. Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results for the years ended September 30, 2015 and 2014 (in thousands, except per share data).

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2015				
Total revenue	$14,205	$14,415	$15,914	$17,364
Operating income from continuing operations	5,034	3,932	5,857	4,266
Income from continuing operations	3,614	3,051	3,924	1,358
Loss from discontinued operations	—	—	—	—
Net income	3,614	3,051	3,924	1,358
Basic income (loss) per share(1):				
Continuing operations	0.27	0.24	0.30	0.10
Discontinued operations	0.00	0.00	(0.00)	(0.00)
Net income	0.27	0.24	0.30	0.10
Diluted income (loss) per share(1):				
Continuing operations	0.27	0.23	0.30	0.10
Discontinued operations	0.00	0.00	(0.00)	(0.00)
Net income	0.27	0.23	0.30	0.10
Fiscal 2014				
Total revenue	$13,883	$13,604	$14,616	$15,336
Operating income from continuing operations	4,329	3,480	5,333	5,434
Income from continuing operations	3,630	2,459	3,674	2,444
Loss from discontinued operations	—	—	(76)	(100)
Net income	3,630	2,459	3,598	2,344
Basic income (loss) per share(1):				
Continuing operations	0.26	0.18	0.27	0.18
Discontinued operations	0.00	0.00	(0.01)	(0.01)
Net income	0.26	0.18	0.26	0.17
Diluted income (loss) per share(1):				
Continuing operations	0.26	0.18	0.27	0.18
Discontinued operations	0.00	0.00	(0.01)	(0.01)
Net income	0.26	0.18	0.26	0.17

(1) The sum of the quarterly income (loss) per share amounts may not equal the annual income (loss) per share total because of changes in the weighted average number of shares outstanding that occurred during the year.

In the fourth quarter of fiscal 2015, the Company recorded expense related to the settlement of a claim of $2.5 million, a $1.5 million impairment loss on a strategic investment and recognized $0.8 million in previously contingent royalties.

In the third quarter of fiscal 2015, the Company recorded a $0.6 million one-time customer royalty payment related to periods prior to the third quarter fiscal 2015.

In the second quarter of fiscal 2015, the Company recorded a $0.5 million gain on a strategic investment in Intersect ENT shares.

In the fourth quarter of fiscal 2014, the Company recorded a $1.2 million impairment loss on strategic investments.

In the second quarter of fiscal 2014, the Company recorded a $0.9 million stock-based compensation expense related to modification of Board of Directors options and other equity awards vesting periods.

In the first quarter of fiscal 2014, the Company recorded a gain of $0.7 million associated with contingent consideration paid associated with the sale of a strategic investment.