

First Business Financial Services, Inc.
Form 10-Q
August 04, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

**Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended June 30, 2008**

OR

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission file number 000-51028
FIRST BUSINESS FINANCIAL SERVICES, INC.**

(Exact name of registrant as specified in its charter)

Wisconsin

39-1576570

(State or jurisdiction of incorporation or organization)

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

401 Charmany Drive Madison, WI

53719

(Address of Principal Executive Offices)

(Zip Code)

(608) 238-8008

Telephone number

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller reporting company)

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

Yes No

The number of shares outstanding of the registrant's sole class of common stock, par value \$0.01 per share, on July 28, 2008 was 2,547,514 shares.

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PART I. Financial Information**Item 1. Financial Statements****First Business Financial Services, Inc.****Consolidated Balance Sheets**

	(Unaudited)	
	June 30, 2008	December 31, 2007
	(In Thousands, Except Share Data)	
Assets		
Cash and due from banks	\$ 20,824	\$ 17,421
Short-term investments	18	203
Cash and cash equivalents	20,842	17,624
Securities available-for-sale, at fair value	104,076	97,378
Loans and leases receivable, net of allowance for loan and lease losses of \$10,723 and \$9,854, respectively	820,761	771,633
Leasehold improvements and equipment, net	1,506	1,546
Foreclosed properties	3,896	660
Cash surrender value of bank-owned life insurance	15,114	14,757
Investment in Federal Home Loan Bank stock, at cost	2,367	2,367
Goodwill and other intangibles	2,774	2,787
Accrued interest receivable and other assets	10,607	9,686
Total assets	\$ 981,943	\$ 918,438
Liabilities and Stockholders Equity		
Deposits	\$ 833,956	\$ 776,060
Federal Home Loan Bank and other borrowings	84,281	81,986
Accrued interest payable and other liabilities	12,976	11,840
Total liabilities	931,213	869,886
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$10 par value, 10,000 Series A shares and 10,000 Series B shares authorized, none issued or outstanding		
Common stock, \$0.01 par value, 8,000,000 shares authorized, 2,581,349 and 2,576,849 shares issued, 2,512,908 and 2,509,213 outstanding in 2008 and 2007, respectively	26	26
Additional paid-in capital	23,745	23,462
Retained earnings	28,321	26,836
Accumulated other comprehensive income (loss)	25	(399)
	(1,387)	(1,373)

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Treasury stock (68,441 and 67,636 shares in 2008 and 2007, respectively), at cost

Total stockholders' equity	50,730	48,552
Total liabilities and stockholders' equity	\$ 981,943	\$ 918,438

See accompanying Notes to Unaudited Consolidated Financial Statements.

First Business Financial Services, Inc.
Consolidated Statements of Income (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended, June 30,	
	2008	2007	2008	2007
	(In Thousands, Except Share Data)			
Interest income:				
Loans and leases	\$ 13,586	\$ 13,407	\$ 27,581	\$ 26,100
Securities income, taxable	1,123	1,044	2,239	2,130
Short-term investments	17	37	59	74
Total interest income	14,726	14,488	29,879	28,304
Interest expense:				
Deposits	7,203	7,914	15,229	15,498
Notes payable and other borrowings	871	936	1,936	1,787
Total interest expense	8,074	8,850	17,165	17,285
Net interest income	6,652	5,638	12,714	11,019
Provision for loan and lease losses	743	701	1,296	1,277
Net interest income after provision for loan and lease losses	5,909	4,937	11,418	9,742
Non-interest income:				
Trust and investment services income	539	500	1,021	891
Service charges on deposits	249	167	459	347
Increase in cash surrender value of bank-owned life insurance	180	177	357	340
Loan fees	159	195	294	338
Credit, merchant and debit card fees	64	52	109	103
Other	76	66	114	139
Total non-interest income	1,267	1,157	2,354	2,158
Non-interest expense:				
Compensation	3,225	3,055	6,584	5,965
Occupancy	319	259	649	521
Equipment	148	115	304	237
Data processing	256	252	530	496
Marketing	212	248	476	528
Professional fees	578	308	953	763

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Other	700	550	1,283	1,153
Total non-interest expense	5,438	4,787	10,779	9,663
Income before income tax expense	1,738	1,307	2,993	2,237
Income tax expense	670	448	1,156	780
Net income	\$ 1,068	\$ 859	\$ 1,837	\$ 1,457
Earnings per share:				
Basic	\$ 0.44	\$ 0.35	\$ 0.76	\$ 0.59
Diluted	0.44	0.35	0.76	0.59
Dividends declared per share	0.07	0.065	0.14	0.13

See accompanying Notes to Unaudited Consolidated Financial Statements.

First Business Financial Services, Inc.
Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income (Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total
	(In Thousands, Except Share Data)					
Balance at December 31, 2006	\$ 25	\$ 23,029	\$ 24,237	\$ (1,005)	\$ (530)	\$ 45,756
Comprehensive income:						
Net income			1,457			1,457
Unrealized securities losses arising during the period				(563)		(563)
Unrealized derivative gains arising during the period				2		2
Reclassification adjustment for realized losses on derivatives				1		1
Income tax effect				194		194
Comprehensive income						1,091
Share-based compensation restricted shares		143				143
Cash dividends (\$0.13 per share)			(325)			(325)
Treasury stock purchased (467 shares)					(10)	(10)
Balance at June 30, 2007	\$ 25	\$ 23,172	\$ 25,369	\$ (1,371)	\$ (540)	\$ 46,655

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income loss	Treasury stock	Total
	(In Thousands, Except Share Data)					
Balance at December 31, 2007	\$ 26	\$ 23,462	\$ 26,836	\$ (399)	\$ (1,373)	\$ 48,552
Comprehensive income:						
Net income			1,837			1,837
Unrealized securities gains arising during the period				642		642
Unrealized derivative losses arising during the period				(3)		(3)
Reclassification adjustment for realized losses on derivatives				6		6
Income tax effect				(221)		(221)

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Comprehensive income							2,261
Share-based compensation restricted shares		283					283
Cash dividends (\$0.14 per share)			(352)				(352)
Treasury stock purchased (805 shares)					(14)		(14)
Balance at June 30, 2008	\$ 26	\$ 23,745	\$ 28,321	\$ 25	\$ (1,387)		\$ 50,730

See accompanying Notes to Unaudited Consolidated Financial Statements

First Business Financial Services, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	For the Six Months Ended June 30,	
	2008	2007
	(In Thousands)	
Operating activities		
Net income	\$ 1,837	\$ 1,457
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes, net	(329)	(740)
Provision for loan and lease losses	1,296	1,277
Depreciation, amortization and accretion, net	260	239
Share-based compensation	283	143
Increase in cash surrender value of bank-owned life insurance	(357)	(340)
Origination of loans for sale	(586)	(1,340)
Sale of loans originated for sale	588	1,346
Gain on sale of loans originated for sale	(2)	(6)
Loss on sale of foreclosed property	5	
Increase in accrued interest receivable and other assets	(748)	(1,049)
Increase in accrued interest payable and other liabilities	1,126	1,088
Net cash provided by operating activities	3,373	2,075
Investing activities		
Proceeds from maturities of available-for-sale securities	15,075	10,244
Purchases of available-for-sale securities	(21,134)	(1,001)
Proceeds from sale of foreclosed property	655	
Purchases of FHLB stock		(289)
Net increase in loans and leases	(54,321)	(63,760)
Purchases of leasehold improvements and equipment, net	(268)	(256)
Purchase of bank-owned life insurance		(590)
Net cash used in investing activities	(59,993)	(55,652)
Financing activities		
Net increase in deposits	57,896	96,229
Net decrease in FHLB line of credit		(17,048)
Repayment of FHLB advances	(6,005)	(5)
Net increase (decrease) in short-term borrowed funds	300	(30,196)
Proceeds from other borrowings	8,000	
Cash dividends paid	(339)	(312)
Purchase of treasury stock	(14)	(10)
Net cash provided by financing activities	59,838	48,658
Net increase (decrease) in cash and cash equivalents	3,218	(4,919)
Cash and cash equivalents at the beginning of the period	17,624	19,461

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Cash and cash equivalents at the end of the period	\$ 20,842	\$ 14,542
Supplementary cash flow information		
Interest paid on deposits and borrowings	\$ 16,487	\$ 16,194
Income taxes paid	267	1,783
Transfer to foreclosed properties	3,896	660
See accompanying Notes to Unaudited Consolidated Financial Statements		

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Principles of Consolidation.

The unaudited consolidated financial statements include the accounts and results of First Business Financial Services, Inc. (FBFS or the Corporation), and its wholly-owned subsidiaries, First Business Bank, and First Business Bank Milwaukee. All significant intercompany balances and transactions have been eliminated in consolidation.

Note 2 Basis of Presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Corporation has not changed its significant accounting and reporting policies from those disclosed in the Corporation's Form 10-K for the year ended December 31, 2007 with the exception of the partial adoption of Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). Refer to **Note 3 - Recent Accounting Pronouncements** for the impact of the adoption of this standard. There have been no significant changes in the methods or assumptions used in accounting policies requiring material estimates and assumptions. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the unaudited consolidated financial statements have been included. The results of operations for the three and six month periods ended June 30, 2008 are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2008. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Note 3 Recent Accounting Pronouncements.

Fair Value Disclosures. Effective January 1, 2008, the Corporation partially adopted SFAS 157, which provides a framework for measuring fair value. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The partial adoption of this standard only resulted in additional disclosure requirements and had no financial statement impact. Delayed application of this statement is permitted for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Corporation has not applied the provisions of SFAS 157 for goodwill and long-lived assets measured for fair value for impairment assessment under Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, including foreclosed properties.

Refer to **Note 11 Fair Value Disclosure (SFAS 157 Disclosure)** of the unaudited consolidated financial statements for further information regarding the fair value of the Corporation's financial instruments.

Fair Value Option for Financial Assets and Financial Liabilities. Effective January 1, 2008, the Corporation adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities Including an Amendment of SFAS No. 115* (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities.

The fair value option established by SFAS 159 permits the Corporation to choose to measure eligible items at fair value at specified election dates. The Corporation will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments

otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. In connection with the adoption of this standard, the Corporation did not elect any additional financial instruments to be recorded at fair value.

Derivative Instruments and Hedging Activities. In March 2008, the Financial Accounting Standards Board issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment of Statement No. 133* (SFAS 161). SFAS 161 enhances disclosure requirements about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Corporation is currently evaluating the impact of adoption of SFAS 161.

Instruments Granted in Share-Based Payment Transactions as Participating Securities. In May 2008, the FASB issued Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. This staff position addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the allocation in computing earnings per share under the two-class method described in SFAS 128, *Earnings Per Share*. The FASB concluded that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. If awards are considered participating securities, the Corporation is required to apply the two-class method of computing basic and diluted earnings per share. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is prohibited. The Corporation is currently evaluating the impact of adoption of this guidance.

Note 4 Share-Based Compensation.

The Corporation adopted an equity incentive plan in 1993 as amended in 1995, an equity incentive plan in 2001 and the 2006 Equity Incentive Plan (the Plans). The Plans are administered by the Compensation Committee of the Board of Directors of FBFS and provide for the grant of equity ownership opportunities through incentive stock options, nonqualified stock options (stock options) and restricted stock (unvested shares). 149,975 shares are available for future grants under the Plans as of June 30, 2008. Shares covered by awards that expire, terminate or lapse will again be available for the grant of awards under the Plans. The Corporation may issue new shares and shares from treasury for shares delivered under the Plans.

Stock Options

The Corporation may grant stock options to senior executives and other employees under the Plans. Options generally have an exercise price that is equal to the fair value of the common shares on the date the option is granted. Options granted under the Plans are subject to graded vesting, generally ranging from four to eight years, and have a contractual term of 10 years. For any new awards issued, compensation expense is recognized over the requisite service period for the entire award on a straight-line basis. The Corporation has not granted any stock options since the Corporation met the definition of a public entity nor has it modified, repurchased or cancelled any stock options during that period. Therefore, no stock-based compensation was recognized in the consolidated statement of income for the three and six months ended June 30, 2008 and 2007, except with respect to restricted stock awards. The Corporation expects that a majority of the outstanding stock options will fully vest. Stock option activity for the six months ended June 30, 2008 was as follows:

	Options	Weighted Average Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2007	159,540	\$ 22.10	5.65
Granted			
Exercised			
Forfeited	(2,250)	24.55	
Outstanding at June 30, 2008	157,290	22.07	5.17
Options exercisable at June 30, 2008	142,012		

Restricted Shares

Under the 2001 and 2006 Equity Incentive Plans, the Corporation may grant restricted shares to plan participants, subject to forfeiture upon the occurrence of certain events until dates specified in the participant's award agreement. While the restricted shares are subject to forfeiture, the participant may exercise full voting rights and will receive all dividends and other distributions paid with respect to the restricted shares. The restricted shares granted under this plan are subject to graded vesting. Compensation expense is recognized over the requisite service period of four years for the entire award on a straight-line basis. Upon vesting of restricted stock awards, the benefits of tax deductions in excess of recognized compensation expense is recognized as a financing cash flow activity. For the six months ended June 30, 2008 and 2007, restricted share awards vested on a date at which the market price was lower than the market value on the date of grant; therefore, there is no excess tax benefit reflected in the consolidated statements of cash flows for the periods. Restricted share activity for the six months ended June 30, 2008 was as follows:

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Nonvested balance as of December 31, 2007	91,379	\$21.16
Granted	4,500	17.34
Vested	(9,466)	22.62
Forfeited		
Nonvested balance as of June 30, 2008	86,413	20.80

As of June 30, 2008, there was approximately \$1.4 million of deferred compensation expense included in additional paid-in capital in the consolidated balance sheet related to unvested shares which the Corporation expects to recognize over four years. As of June 30, 2008, there were no restricted shares vested and not delivered. For the six months ended June 30, 2008 and 2007, share-based compensation expense included in the consolidated statements of income totaled approximately \$283,000 and \$143,000, respectively.

Note 5 Earnings Per Share.

Basic earnings per share for the three and six months ended June 30, 2008 and 2007 were determined by dividing net income for the respective periods by the weighted average number of shares of common stock outstanding. Diluted earnings per share were determined by dividing net income by the weighted average number of common shares

outstanding plus the effect of dilutive securities. The effects of dilutive securities were determined using the treasury stock method. For the three and six month periods ended

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June 30, 2008 and 2007, average anti-dilutive employee stock options totaled 147,306 and 132,200, respectively.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Income available to common stockholders	\$ 1,067,792	\$ 858,532	\$ 1,837,419	\$ 1,457,164
Basic average shares	2,426,093	2,455,156	2,424,775	2,454,117
Dilutive effect of share-based awards	6,288	6,611	3,095	7,329
Dilutive average shares	2,432,381	2,461,767	2,427,870	2,461,446
Earnings per share:				
Basic	\$ 0.44	\$ 0.35	\$ 0.76	\$ 0.59
Diluted	\$ 0.44	\$ 0.35	\$ 0.76	\$ 0.59

Note 6 Shareholder Rights Plan.

On June 5, 2008, the Board of Directors declared a dividend of one common share purchase right for each outstanding share of common stock, \$0.01 par value per share (Common Shares) of the Company. The dividend was paid on July 15, 2008. Each right entitles the registered holder to purchase from the Company one-half of one common share, at a price of \$85.00 per full common share (equivalent to \$42.50 for each one-half of a Common share), subject to adjustment. The rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock, or announces a tender offer for such stock. Under conditions described in the Shareholder Rights Plan, holders of rights could acquire additional shares of the Company's common stock. The value of shares acquired under the plan would have a market value of two times the then current per share purchase price. The rights will expire on June 5, 2018.

Note 7 Securities.

The amortized cost and estimated fair values of securities available-for-sale were as follows:

	Amortized cost	As of June 30, 2008		Estimated fair value
		Gross unrealized holding gains	Gross unrealized holding losses	
Securities available-for-sale				
Collateralized mortgage obligations government agencies	\$ 70,017	\$ 585	\$ (361)	\$ 70,241
Collateralized mortgage obligations government-sponsored enterprises	34,010	41	(216)	33,835
	\$ 104,027	\$ 626	\$ (577)	\$ 104,076

Collateralized mortgage obligations government agencies represent securities issued by the Government National Mortgage Association. Collateralized mortgage obligations government-sponsored enterprises include securities issued by the Federal Home Loan Mortgage Corporation, Freddie Mac, and the Federal National Mortgage Association, or Fannie Mae.

	Amortized cost	As of December 31, 2007		Estimated fair value
		Gross unrealized holding gains	Gross unrealized holding losses	
		(In Thousands)		
U.S. Government corporations and agencies	\$ 1,500	\$	\$ (3)	\$ 1,497
Municipals	85			85
Collateralized mortgage obligations government agencies	52,755	282	(379)	52,658
Collateralized mortgage obligations government-sponsored enterprises	43,631	2	(495)	43,138
	\$ 97,971	\$ 284	\$ (877)	\$ 97,378

The table below shows the Corporation's gross unrealized losses and fair value of investments, aggregated by investment category and length of time that individual investments have been in a continuous unrealized loss position at June 30, 2008 and December 31, 2007. At June 30, 2008 and December 31, 2007, the Corporation had 67 and 87 securities that were in an unrealized loss position, respectively. Such securities have declined in value due to current interest rate environments and have not experienced credit rating downgrades and do not presently represent realized losses. The Corporation has the ability to keep and anticipates that these securities, which have been in a continuous loss position but are not other-than-temporarily impaired, will be kept in the portfolio until the unrealized loss is recovered. If held until maturity, it is anticipated that the investments will be realized with no loss. If the Corporation determines that any of the above securities are deemed other-than-temporarily impaired, the impairment loss will be recognized in the income statement.

A summary of unrealized loss information for available-for-sale securities, categorized by security type follows:

	Less than 12 months		As of June 30, 2008		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
			(In Thousands)			
Collateralized mortgage obligations government agencies	\$ 21,608	\$ 361	\$	\$	\$ 21,608	\$ 361
Collateralized mortgage obligations government-sponsored enterprises	23,926	210	249	6	24,175	216
	\$ 45,534	\$ 571	\$ 249	\$ 6	\$ 45,783	\$ 577

An analysis of the allowance for loan and lease losses is presented below:

	Six Months Ended June 30, 2008 (In Thousands)	Year Ended December 31, 2007
Allowance at beginning of period	\$ 9,854	\$ 8,296
Charge-offs:		
Commercial real estate and other mortgage	(407)	(571)
Commercial	(24)	(778)
Lease		(25)
Consumer		
Total charge-offs	(431)	(1,374)
Recoveries:		
Commercial real estate and other mortgage	3	5
Commercial	1	23
Lease		
Consumer		
Total recoveries	4	28
Net charge-offs	(427)	(1,346)
Provision for loan and lease losses	1,296	2,904
Allowance at end of period	\$ 10,723	\$ 9,854
Allowance to gross loans and leases	1.29%	1.26%

Note 9 Deposits.

Deposits consisted of the following:

	June 30, 2008		December 31, 2007	
	Balance	Weighted average rate	Balance	Weighted average rate
	(In Thousands)			
Transaction accounts:				
Demand deposits	\$ 42,865	0.00%	\$ 47,124	0.00%
Negotiable order of withdrawal (NOW) accounts	65,244	1.98	65,035	4.22
	108,109		112,159	
Money market accounts	134,967	2.13	162,585	4.49
Certificates of deposit	590,880	4.75	501,316	5.00

\$ 833,956

\$ 776,060

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Note 10 Borrowings.

Borrowings consisted of the following:

	June 30, 2008			December 31, 2007		
	Balance	Weighted average balance	Weighted average rate (In Thousands)	Balance	Weighted average balance	Weighted average rate
Fed funds purchased and securities sold under agreements to repurchase	\$ 16,750	\$ 12,610	2.97%	\$ 14,250	\$ 10,394	5.35%
FHLB advances	28,521	33,224	4.76	34,526	25,776	4.87
Line of credit	10	2,929	4.85	2,210	2,556	7.20
Subordinated notes payable	39,000	31,202	5.69	31,000	23,630	7.73
Other					25	7.00
	\$ 84,281	\$ 79,965	4.84	\$ 81,986	\$ 62,381	6.13
Short-term borrowings	\$ 26,770			\$ 32,470		
Long-term borrowings	57,511			49,516		
	\$ 84,281			\$ 81,986		

At June 30, 2008 and December 31, 2007, there were no securities sold under agreements to repurchase. During March 2008, the Corporation increased its line of credit to \$10.5 million. The line of credit carries an interest rate of LIBOR plus 1.70% on the first \$7.5 million and LIBOR plus 1.75% on the remaining \$3.0 million. During June 2008, the Corporation obtained an additional \$8.0 million of subordinated notes payable with a maturity of June 2015 which bears an interest rate of LIBOR plus 3.75%.

Note 11 Fair Value Disclosures (SFAS 157 Disclosure)

Effective January 1, 2008, the Corporation determines the fair market values of its financial instruments based on the fair value hierarchy established in SFAS 157, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. The Corporation carries its available-for-sale securities and its interest rate swap that is designated as a cash flow hedge at fair value.

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included with Level 1 that are observable for the asset or liability either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices 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 assets or liabilities. Level 3 inputs are inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2008 segregated by fair value hierarchy level are summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	Total
		(In Thousands)			
Assets:					
Securities available for sale	\$	\$ 104,076		\$	\$ 104,076
Liabilities:					
Interest rate swap	\$	\$ 7		\$	\$ 7

Assets and liabilities measured at fair value on a nonrecurring basis segregated by fair value hierarchy during the period ended June 30, 2008 are summarized below:

	Balance at June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
			(In Thousands)			
Impaired loans	\$ 3,400	\$	\$ 1,936		\$ 1,464	\$

Impaired loans that are collateral dependent are written down to their fair value, less costs to sell, of \$3.4 million through the establishment of specific reserves or by recording charge-offs when the carrying value exceeds the fair value. Valuation techniques consistent with the market approach, income approach, and/or cost approach were used to measure fair value and primarily included observable inputs for the individual impaired loans being evaluated such as recent sales of similar assets or observable market data for operational or carrying costs. In cases where such inputs were unobservable, the loan balance is reflected within the Level 3 hierarchy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

You should read the following discussion together with the Corporation's unaudited consolidated financial statements and related notes to unaudited consolidated financial statements, which are included elsewhere in this Report. The following discussion contains forward-looking statements that reflect plans, estimates and beliefs. When used in written documents or oral statements, the words anticipate, believe, estimate, expect, objective and similar expressions and verbs in the future tense are intended to identify forward-looking statements. The statements contained herein and such future statements involve or may involve certain assumptions, risks, and uncertainties, many of which are beyond the Corporation's control, which could cause actual results to differ materially from those discussed in the forward-looking statements. The forward-looking statements included in this Report are only made as of the date of its filing, and the Corporation undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Forward-looking statements may also be made by the Corporation from time to time in other reports and documents as well as oral presentations. In addition to the assumptions and other factors referenced specifically in connection with such statements, the following factors could impact the business and financial prospects of the Corporation: general economic conditions; legislative and regulatory initiatives; increased competition and other effects of deregulation and consolidation of the financial services industry; monetary and fiscal policies of the federal government; deposit flows; disintermediation; the cost and availability of funds; general market rates of interest; interest rates or investment returns on competing investments; demand for loan products; demand for financial services; changes in accounting policies or guidelines; general economic developments; acts of terrorism and developments in the war on terrorism; and changes in the quality or composition of loan and investment portfolios. See also **Item 1A. Risk Factors** in Part II of this Form 10-Q regarding future operations discussed below.

Unless otherwise indicated or unless the context requires otherwise, all references in this Report to First Business Financial Services, the Corporation, FBFS, we, us, our, or similar references mean First Business Financial Services, Inc. together with our subsidiaries. First Business Bank or First Business Bank Milwaukee or the Banks are used to refer to our subsidiaries, First Business Bank and First Business Bank Milwaukee, alone.

Overview

FBFS is a registered bank holding company incorporated under the laws of the State of Wisconsin and is engaged in the commercial banking business through its wholly-owned banking subsidiaries, First Business Bank and First Business Bank Milwaukee. All of the operations of FBFS are conducted through its Banks and certain subsidiaries of First Business Bank. The Corporation operates as a business bank focusing on delivering a full line of commercial banking products and services tailored to meet the specific needs of small and medium sized businesses, business owners, executives, professionals and high net worth individuals. The Corporation does not utilize its locations to attract retail customers.

Results of Operations

General. Net income for the three months ended June 30, 2008 was \$1.1 million up 24.3% from \$859,000 for the same time period in 2007. The principal factors contributing to this increase included an increase in net interest income of \$1.0 million primarily caused by volume increases associated with organic growth of our Banks through successful sales efforts of the expanded sales team and increased non-interest income of \$110,000 primarily due to increased trust and investment service fee income and service charges on deposits. Negative factors offsetting the increase in net income include an additional \$651,000 of non-interest expenses primarily due to increases in compensation expense, professional fees and other expenses including increased FDIC insurance expense. Both basic and diluted earnings per share for the three months ended June 30, 2008 increased to \$0.44 from \$0.35 for the same period in 2007. The increase

in basic and diluted earnings per share is mainly attributable to the increase in net income. The annualized returns on average assets and average equity were 0.44% and 8.31%, respectively, for the three month period ended June 30, 2008 compared to 0.42% and 7.31%, respectively, for the same time period of 2007.

Net income for the six months ended June 30, 2008 was \$1.8 million, up 26.1% from \$1.5 million for the same time period in 2007. The increase in net income for the six month period is a result of increased net interest income due to the organic growth of the organization along with our ability to effectively protect net interest margin during a volatile interest rate environment. Net interest income increased \$1.7 million. Negative factors offsetting the increase in net income include increased non-interest expense of \$1.1 million primarily due to increases in compensation expense of \$619,000, professional fees of \$190,000 and occupancy costs of \$128,000. Basic and diluted earnings per share increased to \$0.76 per share from \$0.59 per share for the same time period in 2007. The annualized returns on average assets and average equity were 0.39% and 7.27%, respectively, for the six month period ending June 30, 2008 compared to 0.36% and 6.25%, respectively for the same time period of 2007.

Top Line Revenue

Top line revenue is comprised of net interest income and non-interest income. This measurement is also commonly referred to as operating revenue. We use this measurement to monitor our revenue growth and as one third of the performance measurements used for our non-equity incentive plans. The growth in top line revenue of 14.4% for the six months ended June 30, 2008 exceeds our targeted growth of 10.0% over the prior year. The components of top line revenue were as follows:

	For the Three Months Ended			For the Six Months Ended		
	2008	June 30, 2007	Change	2008	June 30, 2007	Change
	(In Thousands)					
Net interest income	\$ 6,652	\$ 5,638	18.0%	\$ 12,714	\$ 11,019	15.4%
Non-interest income	1,267	1,157	9.5	2,354	2,158	9.1
Total top line revenue	\$ 7,919	\$ 6,795	16.5	\$ 15,068	\$ 13,177	14.4

Adjusted Net Income

Adjusted net income is comprised of our net income as presented under generally accepted accounting principles (GAAP) adjusted for the after tax effects of the provision for loan and lease losses and actual net charge-offs incurred during the year. We have experienced significant organic growth in our loan and lease portfolio. As a result of this organic growth and the need for additional provision for loan and leases required to support the increased inherent risk with a growing portfolio, we adjust our GAAP net income for the after tax effects of provision for loan and lease losses and related net charge-off activities to allow our management to better analyze the growth of our earnings including a comparison to our benchmark peers. Institutions with different loan and lease growth rates may not have comparable provisions for loan and lease loss amounts and net charge-off activity. We also use this measurement as one third of the performance measurements used for our non-equity incentive plan that covers substantially all our employees. Our targeted growth in adjusted net income is 10% over the prior year. Our growth in adjusted net income for the six months ended June 30, 2008 is 5.3%. In our judgment, presenting net income excluding the after tax effects of the provision for loan and lease losses and actual net charge-offs allows investors to trend, analyze and benchmark our results of operations in a more meaningful manner. Adjusted net income is a non-GAAP financial measure that does not represent and should not be considered as an alternative to net income derived in accordance with GAAP.

A reconciliation of net income to adjusted net income is as follows:

	For the Three Months Ended			For the Six Months Ended		
	2008	June 30, 2007	Change	2008	June 30, 2007	Change
	(In Thousands)					
Net income, presented under US GAAP	\$ 1,068	\$ 859	24.3%	\$ 1,837	\$ 1,457	26.1%
Add back:						
Provision for loan and lease losses, after tax	452	426	6.1	788	775	1.7
Less:						
Net charge-offs (recoveries), after tax	127		*	260	(15)	*
Adjusted net income	\$ 1,393	\$ 1,285	8.4	\$ 2,365	\$ 2,247	5.3

* Not meaningful

Return on Equity

We view return on equity to be an important measurement to monitor profitability and we are focused on improving our return on equity throughout 2008. To align our employees' focus on profitability with a meaningful measure used by our shareholders, beginning in 2008, return on equity is now one third of the performance measurements used for our non-equity incentive plan that covers substantially all our employees. Our target return on equity for the twelve months ending December 31, 2008 is 10.5%. Return on equity for the three months ended June 30, 2008 is 8.31% compared to 7.31% for the three months ended June 30, 2007. Return on equity for the six months ended June 30, 2008 is 7.27% compared to 6.25% for the six months ended June 30, 2007. The increase in return on equity from the comparable period of the prior year is attributable to the increase in net income.

Net Interest Income. Net interest income depends on the amounts of and yields on interest-earning assets as compared to the amounts of and rates on interest-bearing liabilities. Net interest income is sensitive to changes in market rates of interest and the asset/liability management procedures used by management in responding to such changes. The table below presents the change in net interest income resulting from change in the volume of interest-earning assets or interest-bearing liabilities and change in interest rates for the three and six months ended June 30, 2008 compared to the same periods of 2007.

	For the three months ended June 30, 2008				For the six months ended June 30, 2008			
	Rate	Volume	Rate/ Volume	Net	Rate	Volume	Rate/ Volume	Net
Interest-Earning Assets								
Commercial real estate and other mortgage loans	\$ (1,187)	\$ 1,451	\$ (202)	\$ 62	\$ (1,828)	\$ 3,138	\$ (346)	\$ 964
Commercial loans	(897)	830	(167)	(234)	(1,398)	1,503	(242)	(137)
Leases		79		79	(22)	177	(5)	150
Consumer loans	(7)	326	(47)	272	(18)	631	(109)	504
Total loans and leases receivable	(2,091)	2,686	(416)	179	(3,266)	5,449	(702)	1,481
Mortgage-related securities	14	77	1	92	46	81	2	129
Investment securities	14	(14)	(13)	(13)	1	(20)	(1)	(20)
Other investments	(14)	1	(1)	(14)	(30)	4	(4)	(30)
Fed funds sold and other	(1)	27	(21)	5	(4)	52	(27)	21
Short-term investments	(14)	7	(4)	(11)	(17)	21	(10)	(6)
Total net change in income on interest-earning assets	\$ (2,092)	\$ 2,784	\$ (454)	\$ 238	\$ (3,270)	\$ 5,587	\$ (742)	\$ 1,575
Interest-Bearing Liabilities								
NOW accounts	\$ (512)	\$ (24)	\$ 16	\$ (520)	\$ (852)	\$ (13)	\$ 7	\$ (858)
Money market	(1,310)	(306)	203	(1,413)	(2,226)	(528)	288	(2,466)
Certificates regular	(295)	1,519	(97)	1,127	(96)	2,746	(30)	2,620
Certificates large	(150)	339	(94)	95	(188)	763	(140)	435
Total deposits	(2,267)	1,528	28	(711)	(3,362)	2,968	125	(269)
FHLB advances	(8)	87	(3)	76	(10)	273	(6)	257
Other borrowings	(243)	163	(61)	(141)	(363)	358	(103)	(108)
Total net change in expense on interest-bearing liabilities	\$ (2,518)	\$ 1,778	\$ (36)	\$ (776)	\$ (3,735)	\$ 3,599	\$ 16	\$ (120)
Net change in net interest income	\$ 426	\$ 1,006	\$ (418)	\$ 1,014	\$ 465	\$ 1,988	\$ (758)	\$ 1,695

Net interest income was \$6.7 million for the three months ended June 30, 2008, up 18.0% from the same period in 2007. The improvement in net interest income was primarily attributable to favorable volume increases due to organic growth coupled with favorable rate declines in our interest-bearing liability portfolio. The yield on earning assets was

6.32% for the three months ended June 30, 2008 compared to 7.39% for the comparable period in 2007. The yield on interest-bearing liabilities was 3.77% and 4.92% for the three months ended June 30, 2008 and 2007, respectively. Interest income increased \$238,000, or 1.6%, to \$14.7 million for the three months ended June 30, 2008 compared to the same time period of the prior year. Interest income remained relatively flat due to our ability to generate new volume of business at an equivalent pace and price to offset the effects of a volatile and declining interest rate environment. Average loans and leases receivable increased 20.5% while the average yield on the loans and leases portfolio declined 124 basis points.

The average balance of the commercial real estate and other mortgage loan portfolio was \$547.5 million with a weighted average yield of 6.28% for the three months ended June 30, 2008 compared to an average balance of \$468.0 million with a weighted average yield of 7.29% for the same three months of the prior year. Yields on our commercial real estate and other mortgage loan portfolio decreased by 101 basis points. The majority of loans in this portfolio are fixed rate in nature and are minimally impacted during a volatile interest rate market; however, as the banking industry continues to endure a difficult environment,

competition for the highest asset quality loans is putting pressure on the overall pricing of loans and leases and our ability to grow the loan portfolio at rates we experienced in recent years. The remaining loans have floating rates that are indexed to Prime or LIBOR. The decline in the yield is attributable to the significant decline in the average LIBOR and Prime rates over the comparative periods.

The average balance of the commercial and industrial loan portfolio was \$228.1 million with a weighted average yield of 7.39% for the three months ended June 30, 2008 compared to an average balance of \$192.3 million with a weighted average yield of 9.26% for the same period of the prior year. The yields on our commercial and industrial loan portfolio decreased 187 basis points from the same period one year ago. As approximately 60% of this portfolio is variable rate; this basis point decline is attributable to the basis point decline in the average Prime and LIBOR rates for the comparative periods, partially offset by reduced non-accrual loans in the commercial and industrial loan portfolio.

Interest expense decreased \$776,000, or 8.8%, to \$8.1 million for the three months ended June 30, 2008 compared to the same time period of 2007. Yields on our interest-bearing liabilities decreased 115 basis points. The decrease in interest expense was caused by the significant declines in the rates paid on local deposits due to the falling interest rate environment, specifically the federal funds interest rate which we use to price our money market and NOW accounts, offset by the increased interest expense associated with volume increases in our certificates of deposits. Shortfalls in attracting local deposits were supplemented with brokered deposits. Average deposit balances, including brokered deposits, were approximately \$778.5 million at June 30, 2008 with a weighted average cost of 3.70% compared to an average balance of \$657.9 million with a weighted average cost of funds of 4.81% for the same period of 2007.

Average borrowings were \$77.7 million with a weighted average yield of 4.49% for the three months ended June 30, 2008 compared to \$61.1 million at June 30, 2007 with a weighted average yield of 6.12% for the three months ended June 30, 2007. The decline in this yield is primarily related to the overall lower LIBOR interest rates during the 2008 periods compared to the 2007 period.

Net interest margin was 2.85% for the three months ended June 30, 2008 compared to 2.87% for the comparable time period of 2007. The stability in our net interest margin is attributable to effective management of the composition and duration of interest bearing liabilities to limit the exposure to changing interest rates coupled with market based pricing of assets and liabilities.

For the six months ended June 30, 2008, net interest income was \$12.7 million, up 15.4% from the same period in 2007. Net interest margin was 2.77% for six months ended June 30, 2008 compared to 2.86% for the six months ended June 30, 2007. The yield on earning assets was 6.50% and 7.35% for the six months ended June 30, 2008 and 2007, respectively. The yield on interest bearing liabilities was 4.06% and 4.91% for the six months ended June 30, 2008 and 2007, respectively.

Interest income increased \$1.6 million, or 5.6%, to \$29.9 million for the six months ended June 30, 2008 compared to the same period of the prior year. The increase in interest income is primarily due to the continued growth of the loan and lease portfolio. Average loans and leases receivable increased 21.4% while the average yield on the loans and leases portfolio declined 102 basis points. The average balance of the commercial real estate and other mortgage loan portfolio was \$540.1 million with a weighted average yield of 6.49% for the six months ended June 30, 2008 compared to an average balance of \$454.1 million with a weighted average yield of 7.30% for the same six months of the prior year. Yields on our commercial real estate and other mortgage loan portfolio decreased by 81 basis points. The majority of loans in this portfolio are fixed rate in nature and are minimally impacted during a volatile interest rate market. The remaining loans have floating rates that are indexed to Prime or LIBOR. The decline in the yield is attributable to the significant decline in the average LIBOR and Prime rates over the comparative periods. In addition, we added approximately \$4.6 million of commercial real estate loans to our nonperforming assets since June 2007. Foregone interest for the six months ended June 30, 2008 was \$299,000 compared to \$161,000 for the six months ended June 30, 2007.

The average balance of the commercial and industrial loan portfolio was \$223.0 million with a weighted average yield of 7.66% for the six months ended June 30, 2008 compared to an average balance of \$190.0 million with a weighted average yield of 9.13% for the same period of the prior year. The yields on our commercial and industrial loan portfolio decreased 147 basis points from the same period in 2007. As this portfolio of loans is primarily variable rate, this basis point decline is attributable to the basis point decline in the average Prime and LIBOR rates for the comparative periods and declines in asset-based loan fees, offset by reduced non-accrual loans in the commercial and industrial loan portfolio.

Interest expense remained relatively flat at \$17.2 million for the six months ended June 30, 2008 compared to \$17.3 million for the six months ended June 30, 2007. The average yield on interest-bearing liabilities decreased 85 basis points. We experienced a significant decline of approximately 325 basis points in the average Federal Funds rate, which is utilized as the index to price our interest-bearing transaction deposit accounts thus causing the sharp decline in the overall rates paid on our money market and NOW accounts. The decrease in interest expense related to the falling rate environment is offset by the increase in interest expense associated with volume increases in our certificates of deposits. Shortfalls in attracting local deposits to fund our asset growth are filled by the purchase of brokered certificates of deposits. Year-to-date average deposit balances, including brokered deposits, were approximately \$765.3 million at June 30, 2008 with a weighted average cost of 3.98% compared to an average balance of \$646.0 million with a weighted average cost of funds of 4.80% for the same time period of 2007. During the first quarter of 2008, we exercised our call provision on \$30 million of brokered certificates of deposit. These certificates had two years remaining before their scheduled maturity. At various points throughout the first quarter of 2008, we obtained newly issued brokered certificates of deposits with various maturities. The average cost of the newly issued certificates of deposits was 59 basis points lower than the average cost of the called certificates of deposits. As a result of calling these deposits, we expensed the remaining prepaid broker fee associated with these certificates and recorded approximately \$150,000 of additional interest expense during the first quarter of 2008. We expect to recoup the costs of the accelerated amortization with reduced interest expense by the end of 2008 and then recognize the full benefit of the 59 basis point reduction on \$30 million of our brokered certificates throughout 2009. For the six months ended June 30, 2008, we have recognized a reduction of interest expense on our brokered certificates of deposit of approximately \$68,000 as a result of the replacement of the called brokered certificates of deposits with lower yielding certificates of deposit. Interest rates on brokered deposits are fixed; however, purchases of brokered certificates are structured to match the repricing and maturity of the interest-earning asset portfolio. Our net interest margin declined by nine basis points to 2.77% for the six months ended June 30, 2008 compared to 2.86% for the prior year. The decline is primarily due to the inclusion of the one-time accelerated amortization relating to the call of certain brokered certificates of deposits during the first quarter of 2008, offset by the benefit received by replacing those certificates with lower yielding deposits, and increased non-accrual loans since June 2007 which continue to be included in the average balances for purposes of the yield calculations with no corresponding interest income recognized in our financial statements. Volatility in the interest rate market has had minimal impact on our margin due to market-based pricing of assets and liabilities as well as managing the composition and duration of our interest-bearing liabilities to limit the exposure to changing rates.

Average Interest-Earning Assets, Average Interest-Bearing Liabilities and Interest Rate Spread. The table below shows the Corporation's average balances, interest, average rates, net interest margin and the spread between the combined average rates earned on interest-earning assets and average cost of interest-bearing liabilities for the periods indicated. The average balances are derived from average daily balances.

	Average balance	For the Three Months Ended June 30,		Average balance	Interest	Average yield/cost
		2008	2007			
		Interest	Average yield/cost			(In Thousands)
Interest-Earning Assets						
Commercial real estate and other mortgage loans ⁽¹⁾	\$ 547,544	\$ 8,596	6.28%	\$ 467,957	\$ 8,534	7.29%
Commercial and industrial loans ⁽¹⁾	228,148	4,217	7.39	192,297	4,451	9.26
Leases	28,433	451	6.34	23,456	372	6.34
Consumer loans	23,333	322	5.52	3,102	50	6.45
Total loans and leases receivable ⁽¹⁾	827,458	13,586	6.57	686,812	13,407	7.81
Mortgage-related securities ⁽²⁾	99,038	1,122	4.53	92,115	1,030	4.47
Investment securities ⁽²⁾	58	1	5.62	1,630	14	3.44
Federal Home Loan Bank stock	2,367		0.00	2,195	14	2.55
Fed funds sold and other	1,236	6	1.94	44	1	4.97
Short-term investments	2,230	11	1.97	1,715	22	5.13
Total interest-earning assets	932,387	14,726	6.32	784,511	14,488	7.39
Non-interest-earning assets	31,128			32,140		
Total assets	\$ 963,515			\$ 816,651		
Interest-Bearing Liabilities						
NOW accounts	\$ 68,133	248	1.46	\$ 70,343	768	4.37
Money market	144,380	561	1.55	170,849	1,974	4.62
Certificates regular	497,298	5,759	4.63	374,515	4,632	4.95
Certificates large	68,701	635	3.70	42,213	540	5.12
Total deposits	778,512	7,203	3.70	657,920	7,914	4.81
FHLB advances	29,654	353	4.76	22,581	277	4.91
Other borrowings	48,012	518	4.32	38,512	659	6.84
Total interest-bearing liabilities	856,178	8,074	3.77	719,013	8,850	4.92
Non-interest-bearing liabilities	55,916			50,667		
Total liabilities	912,094			769,680		
Stockholders' equity	51,421			46,971		
Total liabilities and stockholders' equity	\$ 963,515			\$ 816,651		

Net interest income/interest rate spread	\$ 6,652	2.55%	\$ 5,638	2.47%
Net interest-earning assets	\$ 76,209		\$ 65,498	
Net interest margin		2.85%		2.87%
Average interest-earning assets to average interest-bearing liabilities	108.90%		109.11%	
Return on average assets	0.44		0.42	
Return on average equity	8.31		7.31	
Average equity to average assets	5.34		5.75	
Non-interest expense to average assets	2.26		2.34	

(1) The average balances of loans and leases include non-performing loans and leases. Interest income related to non-performing loans and leases is recognized when collected.

(2) Includes amortized cost basis of assets available for sale.

	For the Six Months Ended June 30,					
	Average balance	2008 Interest	Average yield/cost (In Thousands)	Average balance	2007 Interest	Average yield/cost
Interest-Earning Assets						
Commercial real estate and other mortgage loans ⁽¹⁾	\$ 540,145	\$ 17,530	6.49%	\$ 454,119	\$ 16,566	7.30%
Commercial loans ⁽¹⁾	222,966	8,537	7.66	190,040	8,674	9.13
Leases	28,586	907	6.35	23,180	757	6.53
Consumer loans	22,561	607	5.38	3,167	103	6.50
Total loans and leases receivable ⁽¹⁾	814,258	27,581	6.77	670,506	26,100	7.79
Mortgage-related securities ⁽²⁾	97,647	2,229	4.57	94,028	2,100	4.47
Investment securities ⁽²⁾	524	10	3.82	1,641	30	3.66
Federal Home Loan Bank stock	2,367		0.00	2,110	30	2.84
Fed funds sold and other	2,088	29	2.78	280	8	5.24
Short-term investments	2,356	30	2.55	1,492	36	4.83
Total interest-earning assets	919,240	29,879	6.50	770,057	28,304	7.35
Non-interest-earning assets	31,656			31,914		
Total assets	\$ 950,896			\$ 801,971		
Interest-Bearing Liabilities						
NOW accounts	\$ 68,901	682	1.98	\$ 69,492	1,540	4.43
Money market	151,348	1,613	2.13	173,860	4,079	4.69
Certificates regular	475,003	11,481	4.83	362,639	8,861	4.89
Certificates large	70,061	1,453	4.15	40,035	1,018	5.09
Total deposits	765,313	15,229	3.98	646,026	15,498	4.80
FHLB advances	33,224	791	4.76	21,991	534	4.86
Other borrowings	46,741	1,145	4.90	36,351	1,253	6.89
Total interest-bearing liabilities	845,278	17,165	4.06	704,368	17,285	4.91
Non-interest-bearing liabilities	55,077			50,989		
Total liabilities	900,355			755,357		
Stockholders equity	50,541			46,614		
Total liabilities and stockholders equity	\$ 950,896			\$ 801,971		
Net interest income/interest rate spread		\$ 12,714	2.44%		\$ 11,019	2.44%

Net interest-earning assets	\$ 73,962	\$ 65,689	
Net interest margin		2.77%	2.86%
Average interest-earning assets to average interest-earning liabilities	108.75%	109.33%	
Return on average assets	0.39	0.36	
Return on average equity	7.27	6.25	
Average equity to average assets	5.32	5.81	
Non-interest expense to average assets	2.27	2.41	

(1) The average balances of loans and leases include non-performing loans and leases. Interest income related to non-performing loans and leases is recognized when collected.

(2) Includes amortized cost basis of assets held and available for sale.

Provision for Loan and Lease Losses. The provision for loan and lease losses totaled \$743,000 and \$701,000 for the three months ended June 30, 2008 and 2007, respectively. The provision for loan and lease losses was \$1.3 million for both the six months ended June 30, 2008 and 2007. The provision for loan and lease loss recorded in the three and six months ended June 30, 2008 and 2007 is related to increased inherent risk associated with a growing portfolio and also related to an increased provision prescribed by our allowance for loan and lease loss methodology that continues to identify weakening of key performance indicators and other factors. The provision for loan and lease losses is also influenced by the magnitude of

charge-offs recorded in the period and by the required amount of reserves established for impaired loans that present potential collateral shortfall positions. Refer to **Asset Quality** for further information.

Non-Interest Income. Non-interest income, consisting primarily of fees earned for trust and investment services, service charges on deposits, income from bank-owned life insurance and loan fees, increased \$110,000, or 9.5%, to \$1.3 million for the three months ended June 30, 2008 from \$1.2 million for the same period in 2007. Trust and investment services fee income increased \$39,000, or 7.8%, to \$539,000 for the three months ended June 30, 2008 compared to \$500,000 for the same period in 2007. Trust assets under management increased approximately \$23.2 million to \$291.3 million at June 30, 2008 compared to \$268.1 million at June 30, 2007. Equity markets have continued to decline throughout the second quarter of 2008 impacting the overall growth of trust and investment service fee income; however, we experienced an increase in trust assets under management and related trust and investment services fee income due to the continued successful sales efforts. Trust and investment service fee income also includes investment service commissions. At June 30, 2008, brokerage assets under administration decreased \$5.7 million, or 3.9%, to \$139.8 million compared to \$145.5 million at June 30, 2007. Investment service commission fee income remained flat for the three months ended June 30, 2008 compared to the same period in 2007. Investment service fee income is driven by client activity and in part the timing of commissions received. Service charges on deposits increased \$82,000, or 49.1%, to \$249,000 for the three months ended June 30, 2008 from \$167,000 for the same period in 2007. The increase in service charge income is in direct correlation to the declining interest rate environment. Our demand deposit clients receive an earnings credit rate based upon the balances kept within our Banks. These earnings credits are utilized to reduce the service charges incurred on their deposit accounts. As the interest rate index utilized to calculate the earnings credit has substantially fallen, our clients do not have sufficient earnings credits to fully eliminate the service charges on their accounts and thus results in increased service charge income recognized within our consolidated financial statements.

Non-interest income for the six months ended June 30, 2008 increased \$196,000 or 9.1%, to \$2.4 million from \$2.2 million for the comparable period of 2007. Similar to the explanation for the second quarter activity, non-interest income increases are primarily due to increased trust and investment services fee income. Trust and investment service fee income increased \$130,000, or 14.6%, to \$1.0 million for the six months ended June 30, 2008 from \$891,000 for the six months ended June 30, 2007. This is primarily driven by an 8.7% increase in trust assets under management. Service charges on deposits increased \$112,000, or 32.3%, to \$459,000 for the six months ended June 30, 2008 compared to \$347,000 for the six months ended June 30, 2007 due to the declining interest rate environment and the related impact to the earnings credit rate received by our clients as described above.

Non-Interest Expense. Non-interest expense increased \$651,000, or 13.6%, to \$5.4 million for the three months ended June 30, 2008 from \$4.8 million for the comparable period of 2007, primarily due to an increase in compensation expense. In general, non-interest expenses are influenced by the growth of operations, with additional employees necessary to staff such growth. Compensation expense increased \$170,000, or 5.6%, to \$3.2 million for the three months ended June 30, 2008 from \$3.1 million for the three months ended June 30, 2007. This increase is due to more full-time equivalent employees, higher compensation levels from normal annual salary reviews and additional compensation expense associated with share-based compensation awards. Occupancy expense has increased \$60,000, or 23.2%, to \$319,000 for the three months ended June 30, 2008 from \$259,000 for the comparable period of 2007. The increase in occupancy expense is associated with rental expense for new space obtained in late 2007 and early 2008. In December 2007, we occupied the new space completed for our loan production office in Appleton, Wisconsin. Also during the first quarter of 2008, we leased additional space in our corporate office building. Professional fees increased \$270,000, or 87.7%, to \$578,000 for the three months ended June 30, 2008 from \$308,000 for the three months ended June 30, 2007. The increase in professional fees substantially relates to fees incurred to design and implement a shareholder rights plan among other services engaged and the related timing of the completion of those services. Other expenses increased \$150,000, or 27.3%, to \$700,000 for the three months ended June 30, 2008 from \$550,000 for the comparable period of 2007. The increase in other expenses is associated with \$124,000 of additional FDIC insurance premiums caused by increased rates and the overall increase in our deposit base of our Banks to which the premium rate is applied.

Non-interest expense increased \$1.1 million, or 11.5%, to \$10.8 million for the six months ended June 30, 2008 from \$9.7 million for the comparable period of 2007. Compensation expense increased \$619,000, or 10.4%, to \$6.6 million for the six months ended June 30, 2008 compared to \$6.0 million for the comparable period of 2007. Occupancy expense increased \$128,000, or 24.6%, to \$649,000 for the six months ended June 30, 2008 compared to \$521,000 for the six months ended June 30, 2007. Professional fees increased \$190,000, or 24.9%, to \$953,000 for the six months ended June 30, 2008 from \$763,000 for the comparable period of 2007. Other expense increased \$131,000, or 11.4%, to \$1.3 million for the six months ended June 30, 2008 from \$1.2 million for the six months ended June 30, 2007. The reasons for the increases in the aforementioned expenses are consistent with the discussion of the expense for the three month comparative period ended June 30, 2008 and 2007.

Income Taxes. Income tax expense was \$670,000 for the three months ended June 30, 2008, with an effective rate of 38.6% compared to \$448,000 with an effective rate of 34.3% for the three months ended June 30, 2007. Income tax expense was \$1.2 million for the six months ended June 30, 2008, with an effective rate of 38.6% compared to \$780,000 with an effective rate 34.9% for the six months ended June 30, 2007. The primary reason for the increase in the effective tax rate is due to increased state income tax expense including interest related to uncertain tax liabilities coupled with a decline in the level of tax credits.

Financial Condition

10.13

DENTSPLY International Inc. Directors' Deferred Compensation Plan effective January 1, 2007, as amended* (9)
10.14

Board Compensation Arrangement*(10)
10.15

Supplemental Executive Retirement Plan effective January 1, 1999, as amended January 1, 2008* (9)
10.16

Written Description of the Amended and Restated Incentive Compensation Plan* (9)
10.17

AZ Trade Marks License Agreement, dated January 18, 2001 between AstraZeneca AB and Maillefer Instruments Holdings, S.A. (3)
10.18

(a)
Precious metal inventory Purchase and Sale Agreement dated November 30, 2001, as amended October 10, 2006 between Bank of Nova Scotia and the Company (7)

(b)
Precious metal inventory Purchase and Sale Agreement dated December 20, 2001 between JPMorgan Chase Bank and the Company (4)

(c)
Precious metal inventory Purchase and Sale Agreement dated December 20, 2001 between Mitsui & Co., Precious Metals Inc. and the Company (4)

(d)
Precious metal inventory Purchase and Sale Agreement dated December 15, 2005 between ABN AMRO NV, Australian Branch and the Company (7)

(e)
Precious metal inventory Purchase and Sale Agreement dated January 30, 2002 between Dresdner Bank AG, Frankfurt, and the Company (8)

10.19

Executive Change in Control Plan for foreign executives, as amended December 31, 2008* (10)

10.20

2010 Equity Incentive Plan (Filed herewith)

21.1

Subsidiaries of the Company (Filed herewith)

23.1

Consent of Independent Registered Public Accounting Firm - PricewaterhouseCoopers LLP

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Section 302 Certification Statements

32

Section 906 Certification Statement

101.INS

XBRL Instance Document

101.SCH

XBRL Taxonomy Extension Schema Document

101.CAL

XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF

XBRL Taxonomy Extension Definition Linkbase Document

101.LAB

XBRL Extension Labels Linkbase Document

101.PRE

XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan.

(1) Incorporated by reference to exhibit included in the Company's Registration Statement on Form S-8 dated June 4, 1998 (No. 333-56093).

(2) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 1999, File No. 0-16211.

(3) Incorporated by reference to exhibit included in the Company's Form 10-K for the fiscal year ended December 31, 2000, File No. 0-16211.

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

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 and 2008

(in thousands)	Balance at Beginning of Period	Additions		Write-offs Net of Recoveries	Translation Adjustment	Balance at End of Period
		Charged (Credited) To Costs And Expenses	Charged to Other Accounts			
Allowance for doubtful accounts:						
For Year Ended December 31,						
2008	\$ 18,578	\$ 3,674	\$ (348)	\$ (1,705)	\$ (1,350)	\$ 18,849
2009	18,849	(3,124) (a)	17	(4,253)	746	12,235
2010	12,235	(233)	111	(2,611)	(682)	8,820
Allowance for trade discounts:						
For Year Ended December 31,						
2008	\$ 307	\$ 267	\$ 4	\$ -	\$ (59)	\$ 519
2009	519	505	-	-	79	1,103
2010	1,103	655	-	(970)	21	809
Inventory valuation reserves:						
For Year Ended December 31,						
2008	\$ 26,190	\$ 3,261	\$ 1,938	\$ (1,981)	\$ (1,019)	\$ 28,389
2009	28,389	5,883	80	(3,610)	1,190	31,932
2010	31,932	6,590	760	(3,652)	(161)	35,469
Deferred tax asset valuation allowance:						
For Year Ended December 31,						
2008	\$ 50,250	\$ 603	\$ -	\$ (13,203) (b)	\$ (909)	\$ 36,741
2009	36,741	13,419	-	-	1,649	51,809
2010	51,809	29,642	-	-	(6,059)	75,392

(a) See Note 1, Significant Accounting Policies, to the consolidated financial statements, for further discussion.

(b) The write-offs during 2008 are the result of a global tax restructuring project, tax audit closures, and expired tax losses.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES

SELECTED FINANCIAL DATA

(in thousands, except per share amounts)

	Year ended December 31,				
	2010	2009	2008	2007	2006
Statement of Operations Data:					
Net sales	\$ 2,221,014	\$ 2,159,378	\$ 2,191,465	\$ 2,009,833	\$ 1,810,496
Net sales, excluding precious metal content	2,031,757	1,990,666	1,991,542	1,819,899	1,623,074
Gross profit	1,130,158	1,106,363	1,147,900	1,040,783	929,011
Restructuring and other costs	10,984	6,890	32,355	10,527	7,807
Operating income	380,273	381,243	380,461	354,891	314,794
Income before income taxes	357,656	363,356	354,873	358,192	314,837
Net Income	267,335	274,412	283,270	259,654	223,718
Net income attributable to DENTSPLY International	\$ 265,708	\$ 274,258	\$ 283,869	\$ 259,654	\$ 223,718
Earnings per common share:					
Basic	\$ 1.85	\$ 1.85	\$ 1.90	\$ 1.71	\$ 1.44
Diluted	\$ 1.82	\$ 1.83	\$ 1.87	\$ 1.68	\$ 1.41
Cash dividends declared per common share					
	\$ 0.200	\$ 0.200	\$ 0.185	\$ 0.165	\$ 0.145
Weighted Average Common Shares Outstanding:					
Basic	143,980	148,319	149,069	151,707	155,229
Diluted	145,985	150,102	151,679	154,721	158,271
Balance Sheet Data:					
Cash and cash equivalents	\$ 540,038	\$ 450,348	\$ 204,249	\$ 316,323	\$ 65,143
Property, plant and equipment, net	423,105	439,619	432,276	371,409	329,616
Goodwill and other intangibles, net	1,381,798	1,401,682	1,380,744	1,203,587	1,063,030
Total assets	3,257,951	3,087,932	2,830,400	2,675,569	2,181,350
Total debt and notes payable	611,769	469,325	449,474	483,307	370,156
Equity	1,909,912	1,906,958	1,659,413	1,516,106	1,273,835
Return on average equity	13.9%	15.4%	17.9%	18.6%	17.8%
Long-term debt to total capitalization	24.1%	16.9%	20.3%	24.1%	22.4%
Other Data:					
Depreciation and amortization	\$ 66,340	\$ 65,175	\$ 56,929	\$ 50,289	\$ 47,434
Cash flows from operating activities	362,324	362,489	335,981	387,697	271,855
Capital expenditures	44,236	56,481	76,440	64,163	50,616
Interest expense (income), net	20,835	16,864	15,438	(2,645)	(1,683)
Inventory days	100	99	103	92	94
Receivable days	54	55	54	51	57
Effective tax rate	25.0%	24.5%	20.2%	27.5%	28.9%

Item 7.

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

OVERVIEW

The following Management's Discussion and Analysis of Financial Conditions and Results of Operations ("MD&A") is intended to help the reader understand the Company's operations and present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K. The following discussion includes forward-looking statements that involve certain risks and uncertainties. See "Forward-Looking Statements" in Item 1 of this Form 10-K. This overview summarizes the MD&A, which includes the following sections:

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

BUSINESS

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 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 United States and Europe are the Company's largest markets, the Company serves all of the major professional dental markets worldwide.

Principal Measurements

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

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

Management believes that an average internal growth rate of 4% to 6% is a long-term targeted 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 2011 due to the current economic conditions. Historical trends show that growth in the dental industry generally performs better than the overall economy; however, it typically lags the economic trend going into and coming out of slower growth or recessionary periods. There can be no assurance that the Company's assumptions concerning the growth rates in its markets or the general dental market

will continue in the future. If such rates are less than expected, the Company's projected growth rates and results of operations may be adversely affected.

Price changes, other marketing and promotional programs offered to customers from time to time, the management of inventory levels by distributors and the implementation of strategic initiatives may impact sales and inventory levels in a given period.

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

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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 research and development initiatives to support technological development, including collaborations with various research institutions and dental schools. In addition, the Company licenses and purchases technologies developed by third parties. Although the Company believes these activities will lead to new innovative dental 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 acquisitions. Management believes that there will continue to be adequate opportunities to participate as a consolidator in the industry for the foreseeable future.

Impact of Foreign Currencies

Due to the international nature of DENTSPLY's business, movements in foreign exchange rates may impact the consolidated statements of operations. With over 60% of the Company's sales located in regions outside the U.S., the Company's consolidated net sales are impacted negatively by the strengthening or positively by the weakening of the U.S. dollar. Additionally, movements in certain foreign exchange rates may unfavorably or favorably impact the Company's gross profit, certain operating expenses, interest expense, interest income, other expense and other income, as well as the assets and liabilities.

Reclassification of Prior Year Amounts

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

RESULTS OF OPERATIONS

2010 Compared to 2009

Net Sales

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

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

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

(in millions)	Year Ended December 31,		\$ Change	% Change
	2010	2009		
Net sales	\$ 2,221.0	\$ 2,159.4	\$ 61.6	2.9%
Less: Precious metal content of sales	189.2	168.7	20.5	12.2%
Net sales, excluding precious metal content	\$ 2,031.8	\$ 1,990.7	\$ 41.1	2.1%

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The 2.1% increase in net sales, excluding precious metal content, included constant currency growth of 2.6%, offset by currency translation, which reduced net sales, excluding precious metal content, by 0.5%. The constant currency sales growth was comprised of internal growth of 2.1% and acquisition growth of 0.5%.

Constant Currency Sales Growth

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

	Year Ended December 31, 2010			
	United States	Europe	All Other Regions	Worldwide
Internal sales growth	0.1%	2.9%	4.1%	2.1%
Acquisition sales growth	-	0.8%	0.6%	0.5%
Constant currency sales growth	0.1%	3.7%	4.7%	2.6%

	Year Ended December 31, 2009			
	United States	Europe	All Other Regions	Worldwide
Internal sales growth	(1.7)%	(3.8)%	0.3%	(2.1)%
Acquisition sales growth	1.0%	7.8%	4.3%	4.4%
Constant currency sales growth	(0.7)%	4.0%	4.6%	2.3%

United States

During 2010, net sales, excluding precious metal content, were slightly positive, at 0.1% in the U. S. on a constant currency and internal growth basis. Growth in dental specialty and dental consumable sundry products, along with a strong recovery in non-dental sales were offset by lower sales in dental laboratory and dental consumable small equipment products.

Europe

During 2010, net sales, excluding precious metal content, increased 3.7% in Europe on a constant currency basis, including 2.9% internal growth and acquisition growth of 0.8%. Internal sales growth was primarily driven by growth in the dental consumables, dental specialty and non-dental products and a business recovery in the CIS markets, which experienced customer liquidity constraints during 2009. These gains were partially offset by lower sales in the dental laboratory products.

All Other Regions

During 2010, net sales, excluding precious metal content, increased 4.7% across all other regions on a constant currency basis, including 4.1% internal growth and acquisition growth of 0.6%. Internal sales growth was driven primarily by growth in dental specialty products, as well as increases for dental consumable and non-dental products.

Gross Profit

(in millions)	Year Ended December 31,		
	2010	2009	\$ Change

				%
				Change
Gross profit	\$ 1,130.2	\$ 1,106.4	\$ 23.8	2.2%
Gross profit as a percentage of net sales, including precious metal content	50.9%	51.2%		
Gross profit as a percentage of net sales, excluding precious metal content	55.6%	55.6%		

Gross profit as a percentage of net sales, excluding precious metal content, was flat during 2010 compared to 2009. Product price increases and cost containment across the Company's product distribution function were offset by unfavorable product mix and negative foreign currency movements.

Expenses

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

(in millions)	Year Ended December 31,		\$ Change	% Change
	2010	2009		
SG&A expenses	\$ 738.9	\$ 718.2	\$ 20.7	2.9%
SG&A expenses as a percentage of net sales, including precious metal content	33.3%	33.3%		
SG&A expenses as a percentage of net sales, excluding precious metal content	36.4%	36.1%		

The increase in SG&A expenses as a percentage of net sales, excluding precious metal content, from 2009 to 2010 was primarily due to new investments in certain businesses, increased spending in support of new product introductions, reinstatement of annual salary increases and increases in certain discretionary spending categories, such as travel expenses, partially offset by benefits from expense reductions in other areas of the business. The Company continues to maintain its focus on reducing costs and achieving operational efficiencies through the consolidation of operations or functions where opportunities exist.

Restructuring and Other Costs

(in millions)	Year Ended December 31,		\$ Change	% Change
	2010	2009		
Restructuring and other costs	\$ 11.0	\$ 6.9	\$ 4.1	NM

NM- not meaningful

The Company recorded net restructuring and other costs of \$11.0 million in 2010 compared to \$6.9 million in 2009. The Company incurred \$5.8 million of costs related to several restructuring plans. These costs consist of employee severance benefits, payments due under operating contracts and other restructuring costs. The restructuring plans related to the continued effort to streamline the Company's operations to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. Additionally the Company recorded certain other costs of \$5.2 million of which \$3.7 million was related to legal matters.

In 2009, the Company incurred \$5.9 million of costs related to several restructuring plans in response to the worldwide economic crisis that began in late 2008. The restructuring plans related to the closure and/or consolidation of certain production and selling facilities in the United States, Europe and South America to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. Additionally, the Company executed targeted reductions in workforce both in the manufacturing and non-manufacturing business functions in certain locations. Also, the Company recorded certain other costs related to legal matters and an impairment of an intangible asset.

Other Income and Expenses

(in millions)	Year Ended December 31,		\$ Change
	2010	2009	
Net interest expense	\$ 20.8	\$ 16.9	\$ 3.9
Other expense, net	1.8	1.0	0.8
Net interest and other expense	\$ 22.6	\$ 17.9	\$ 4.7

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Net Interest Expense

The change in net interest expense in 2010 compared to 2009, for the year ended December 31, was mainly the result of higher average debt levels in the U.S., and lower cash levels due as a result of stock repurchases and investments in acquisitions combined with weaker average euro exchange and lower average euro interest rates on higher average euro cash balances. Interest income decreased \$0.7 million on lower average interest rates on euro investment balances which were 50 basis points lower in the current year than the prior year and the U.S. dollar was 7% stronger against the euro. Interest expense increased \$3.2 million on higher average debt partially offset by lower interest rate difference on net investment hedges. 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.

Other Expense, Net

Other expense in the 2010 period included approximately \$3.3 million of currency transaction losses and \$1.5 million of other non-operating income. The 2009 period included \$0.3 million of currency transaction losses and \$0.7 million of other non-operating costs.

Income Taxes and Net Income

(in millions, except per share amounts)	Year Ended December 31,		
	2010	2009	\$ Change
Effective income tax rate	25.0%	24.5%	
Equity in net loss of unconsolidated affiliated company	\$ (1.1)	\$ -	\$ (1.1)
Net income (loss) attributable to noncontrolling interests	\$ 1.6	\$ 0.2	\$ 1.4
Net income attributable to DENTSPLY International	\$ 265.7	\$ 274.3	\$ (8.6)
Diluted earnings per common share	\$ 1.82	\$ 1.83	

Income Taxes

The Company's effective income tax rates for 2010 and 2009 were 25.0% and 24.5%, respectively. In 2010, the Company's effective income tax rate included the impact of restructuring and other costs, acquisition related activity, provisions for a credit risk adjustment to outstanding derivatives and various income tax adjustments, which impacted income before income taxes and the provision for income taxes by \$14.9 million and \$3.3 million, respectively. In 2009, the Company's effective income tax rate included the impact of restructuring and other costs, acquisition related activity and various income tax adjustments, which impacted income before income taxes and the provision for income taxes by \$11.0 million and \$8.8 million, respectively. In 2009, various income tax adjustments included the impact of settlements with taxing authorities and statutes closures.

Equity in net loss of unconsolidated affiliated company

The Company's 16% ownership investment of DIO Corporation on December 9, 2010 resulted in a net loss of \$1.1 million on an after-tax basis for 2010. The net loss of DIO was the result of mark-to-market charges related to the derivative accounting for the convertible bonds issued by DIO to DENTSPLY. The Company's portion of the mark-to-market net loss incurred by DIO was approximately \$1.1 million.

Net income (loss) attributable to noncontrolling interests

The portion of consolidated net income attributable to noncontrolling interests increased \$1.4 million from 2009 to 2010. The increase is primarily attributable to the strengthening performance of the Company's Zhermack division, where the Company has had a 60% ownership investment since December 2008.

Net income attributable to DENTSPLY International

In addition to the results reported in accordance with US GAAP, the Company provides adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share. These adjusted amounts consist of US GAAP amounts excluding (1) restructuring and other costs, (2) acquisition related charges, (3) loss on a derivative at an unconsolidated affiliated company, (4) income tax related adjustments, and (5) credit risk adjustment to outstanding derivatives. Adjusted earnings per diluted common share is calculated by dividing adjusted net income attributable to DENTSPLY International by diluted weighted-average common shares outstanding. Adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share are considered measures not calculated in accordance with US GAAP, and therefore are non-US GAAP measures. These non-US GAAP measures may differ from other companies.

The Company believes that the presentation of adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share provides important supplemental information to management and investors seeking to understand the Company's financial condition and results of operations. The non-US GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with US GAAP.

(in thousands, except per share amounts)	Year Ended December 31, 2010	
	Income (Expense)	Per Diluted Common Share
Net income attributable to DENTSPLY International	\$ 265,708	\$ 1.82
Restructuring and other costs, net of tax and noncontrolling interests	7,139	0.05
Acquisition related activities, net of tax and noncontrolling interests	2,152	0.01
Loss on derivative at an unconsolidated affiliated company	1,131	0.01
Income tax related adjustments	1,073	0.01
Credit risk adjustment to outstanding derivatives, net of tax	732	0.01
Rounding	-	(0.01)
Adjusted non-US GAAP earnings	\$ 277,935	\$ 1.90

(in thousands, except per share amounts)	Year Ended December 31, 2009	
	Income (Expense)	Per Diluted Common Share
Net income attributable to DENTSPLY International	\$ 274,258	\$ 1.83
Restructuring and other costs, net of tax and noncontrolling interests	5,075	0.03
Acquisition related activities, net of tax and noncontrolling interests	1,830	0.01
Income tax related adjustments	(5,423)	(0.03)
Adjusted non-US GAAP earnings	\$ 275,740	\$ 1.84

Operating Segment Results

The Company's operating businesses are combined into operating groups, which have overlapping product offerings, geographic presence, customer bases, distribution channels and regulatory oversight. These operating groups are considered the Company's reportable segments as the Company's chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company's operations. Each of these operating groups covers a wide range of product categories and geographic regions. The product categories and geographic regions often overlap across the groups. Further information regarding the details of each group is presented in Note 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.

In January 2010, the Company moved the reporting responsibility for several locations between segments which resulted in a change to the management structure and helped the Company gain operating efficiencies and effectiveness. The segment information below reflects this revised structure for all periods shown.

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Net Sales, Excluding Precious Metal Content (in millions)	Year Ended December 31,			
	2010	2009	\$ Change	% Change
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 526.8	\$ 526.7	\$ 0.1	-
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	\$ 445.6	\$ 436.8	\$ 8.8	2.0%
Canada/Latin America/Endodontics/ Orthodontics	\$ 662.6	\$ 618.4	\$ 44.2	7.1%
Dental Laboratory Business/ Implants/Non-Dental	\$ 400.1	\$ 412.2	\$ (12.1)	(2.9)%
Segment Operating Income (in millions)	Year Ended December 31,			
	2010	2009	\$ Change	% Change
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 176.1	\$ 158.4	\$ 17.7	11.2%
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	\$ 17.2	\$ 19.7	\$ (2.5)	(12.7)%
Canada/Latin America/Endodontics/ Orthodontics	\$ 195.8	\$ 185.8	\$ 10.0	5.4%
Dental Laboratory Business/ Implants/Non-Dental	\$ 83.4	\$ 92.6	\$ (9.2)	(9.9)%

U.S., Germany and Certain Other European Regions Consumable Businesses

Net sales, excluding precious metal content, were unchanged between the years ended December 31, 2010 and 2009. On a constant currency basis, net sales, excluding precious metals content, increased 1.6%, which included positive endodontic sales and dental consumable product sales, excluding small equipment, where 2009 was favorably impacted by increased net sales from promotional activities.

Operating income increased \$17.7 million during the year ended December 31, 2010 compared to 2009. Operating income was positively impacted by gross profit, which was a result of higher net sales in European consumables markets, improved manufacturing performance and an increase in sales price. Additionally, the 2009 results included a roll-off of inventory step-up related to acquisitions of \$4 million. Operating income was further helped by a \$6 million decrease in selling, general and administrative expenses for 2010, of which half was due to foreign currency translation.

France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses

Net sales, excluding precious metal content, increased \$8.8 million, or 2.0%, during the year ended December 31, 2010 compared to 2009. On a constant currency basis, net sales, excluding precious metal content, increased \$8.6 million, or 2.0%. This increase is primarily related to the continuing business recovery in the CIS markets.

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Operating income decreased \$2.5 million during the year ended December 31, 2010 compared to 2009. The decrease was driven primarily attributable to \$4 million higher expenses for certain investments in emerging markets partially offset by an increase of \$1.5 million in gross profit, primarily due to foreign currency translation.

Canada/Latin America/Endodontics/Orthodontics

Net sales, excluding precious metal content, increased \$44.2 million, or 7.1%, during the year ended December 31, 2010 compared to 2009. On a constant currency basis, net sales, excluding precious metal content, increased by 5.5% primarily driven by dental specialty and non-dental products. In addition, the 5.5% of constant currency growth included 1.1% of acquisition growth.

Operating income increased \$10.0 million during the year ended December 31, 2010 compared to 2009. The increase was driven by a \$25 million increase in gross profit which was primarily from the endodontics business, as well as favorable impacts from foreign currency translation. Offsetting this increase in gross profit was a \$15 million increase in selling, general and administrative costs, which included incremental investments to promote certain dental specialty products, the negative impact of foreign currency translation and increased expenses in the Latin America businesses.

Dental Laboratory Business/Implants/Non-Dental

Net sales, excluding precious metal content, decreased \$12.1 million, or 2.9%, during the year ended December 31, 2010 compared to 2009. On a constant currency basis, net sales, excluding precious metal content were flat as growth in the dental implant and non-dental businesses was offset by the dental laboratory business.

Operating income decreased \$9.2 million during the year ended December 31, 2010 compared to 2009, primarily due to lower operating income in the dental laboratory business.

RESULTS OF OPERATIONS

2009 Compared to 2008

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.

(in millions)	Year Ended December 31,		\$ Change	% Change
	2009	2008		
Net sales	\$ 2,159.4	\$ 2,191.5	\$ (32.1)	(1.5)%
Less: Precious metal content of sales	168.7	200.0	(31.3)	(15.7)%
Net sales, excluding precious metal content	\$ 1,990.7	\$ 1,991.5	\$ (0.8)	-

Net sales, excluding precious metal content, for 2009 was \$1,990.7 million, which remained relatively unchanged when compared to 2008. Net sales, excluding precious metal content, included constant currency growth of 2.3%, offset by currency translation, which reduced sales by 2.4%. The constant currency sales growth was comprised of acquisition growth of 4.4%, partially offset by internal growth of negative 2.1%. Sales for dental products grew on a

constant currency basis by 3.0%, including internal growth of negative 1.3% and acquisition growth of 4.3%.

Internal Sales Growth

United States

In 2009, net sales, excluding precious metal content, decreased 0.7% in the United States on a constant currency basis, including 1.0% acquisition growth and internal growth of negative 1.7%. The negative internal growth was primarily driven by lower sales in dental laboratory and non-dental products, which was partially offset by internal growth in dental consumables products.

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Europe

In 2009, net sales, excluding precious metal content, increased 4.0% in Europe on a constant currency basis, including 7.8% acquisition growth and internal growth of negative 3.8%. The negative internal growth was primarily driven by lower sales in dental consumables, dental laboratory products and non-dental products, which was partially offset by internal growth in dental specialty products.

All Other Regions

In 2009, net sales, excluding precious metal content, increased 4.6% across all other regions on a constant currency basis, including 4.3% acquisition growth and internal growth of 0.3%. The dental consumables and dental specialty products had positive internal growth, which was partially offset by negative internal growth in dental laboratory and non-dental products.

Gross Profit

(in millions)	Year Ended December 31,		\$ Change	% Change
	2009	2008		
Gross profit	\$ 1,106.4	\$ 1,147.9	\$ (41.5)	(3.6)%
Gross profit as a percentage of net sales, including precious metal content	51.2%	52.4%		
Gross profit as a percentage of net sales, excluding precious metal content	55.6%	57.6%		

Gross profit as a percentage of net sales, excluding precious metal content, decreased 2.0 percentage points in 2009 compared to 2008. The decrease is the result of unfavorable product and geographic sales mix, unfavorable manufacturing overhead absorption and movements in foreign currencies. Additionally, acquisitions completed in 2008 negatively impacted gross profit as a percentage of net sales.

Expenses

Selling, General and Administrative Expenses

(in millions)	Year Ended December 31,		\$ Change	% Change
	2009	2008		
SG&A expenses	\$ 718.2	\$ 735.1	\$ (16.9)	(2.3)%
SG&A expenses as a percentage of net sales, including precious metal content	33.3%	33.5%		
SG&A expenses as a percentage of net sales, excluding precious metal content	36.1%	36.9%		

The reduction in SG&A expenses as a percentage of net sales, excluding precious metal content, was largely the result of the Company's focus on cost containment in response to the recessionary economic conditions that occurred in late 2008 through 2009. In early 2009, the Company undertook action on discretionary expense categories, such as travel, and addressed non-discretionary expense categories where appropriate. Additionally, the Company executed several restructuring plans that focused on reductions in overhead spending. Although cost reductions were made across the Company, management continues to focus on controlling costs while creating and maintaining financial

flexibility. These cost containment efforts were partially offset by a higher percentage of SG&A expenses in businesses acquired in 2008, costs related to the 2009 biennial International Dental Show and cost increases and higher investments in sales and marketing to support future growth in certain geographic areas.

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Restructuring and Other Costs

(in millions)	Year Ended December 31,		\$ Change	% Change
	2009	2008		
Restructuring and other costs	\$ 6.9	\$ 32.4	\$ (25.5)	NM

NM - Not Meaningful

The Company recorded net restructuring and other costs of \$6.9 million in 2009 compared to \$32.4 million in 2008. The Company incurred \$5.9 million of costs in 2009 related to several restructuring plans in response to the worldwide economic crisis that began in late 2008. The restructuring plans related to the closure and/or consolidation of certain production and selling facilities in the United States, Europe and South America to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. Additionally, the Company executed targeted reductions in workforce both in the manufacturing and non-manufacturing business functions in certain locations. Also, the Company recorded certain other costs related to legal matters and an impairment of an intangible asset. The 2010 restructuring plans and ongoing benefits associated with these plans were immaterial to the current period as well as future periods. The majority of the benefits of the 2009 and 2008 and prior period restructuring plans have been incorporated into the Company's results. While certain restructuring plans continue to be executed, the future benefits of these on the Company's results would be immaterial in the period realized.

In 2008, the Company recorded costs of \$24.2 million related to legal settlements and impairments of long-term assets. The legal settlements related to several legal matters with multiple plaintiffs. These cases included a patent dispute and cases relating to a prior distribution practice of the Company in connection with the sale of artificial teeth. The impairment charge was related to abandonment of patented technology purchased in 2005 and the impairment of a long-term note receivable recorded from a sale of a business in 2006. The impairment of the long-term note receivable occurred as the result of a change in payment terms on the non-interest bearing note receivable. Additionally, the Company initiated several restructuring plans primarily related to the closure and consolidation of certain production and selling facilities in the United States, Europe and Asia to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. These restructuring plans included charges of \$5.9 million. The Company also expensed \$2.3 million for the fair value of in-process research and development associated with acquired businesses (See Note 14, Restructuring and Other Costs, to the consolidated financial statements).

Other Income and Expenses

(in millions)	Year Ended December 31,		\$ Change
	2009	2008	
Net interest expense (income)	\$ 16.9	\$ 15.4	\$ 1.5
Other expense (income), net	1.0	10.2	(9.2)
Net interest and other expense (income)	\$ 17.9	\$ 25.6	\$ (7.7)

Net Interest Expense (Income)

The change in net interest expense in 2009 compared to 2008 was primarily due to lower interest rates earned on invested cash balances offset by lower average debt and interest rates on the Company's Euro net investment hedges. 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.

Other Expense (Income), Net

Other expense in the 2009 period included approximately \$0.3 million of currency transaction losses and \$0.7 million of other non-operating costs. The 2008 period included \$8.9 million of currency transaction losses and \$1.3 million of other non-operating costs. In the fourth quarter of 2008, currency exchange rate volatility was extremely high 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.

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Income Taxes and Net Income

(in millions, except per share amounts)	Year Ended December 31,		\$ Change
	2009	2008	
Effective income tax rate	24.5%	20.2%	
Net income attributable to DENTSPLY International	\$ 274.3	\$ 283.9	\$ (9.6)
Diluted earnings per common share	\$ 1.83	\$ 1.87	

Income Taxes

The Company's effective income tax rates for 2009 and 2008 were 24.5% and 20.2%, respectively. In 2009, the Company's effective income tax rate included the impact of restructuring, impairments and other costs, acquisition related activity and various income tax adjustments, which impacted income before income taxes and the provision for income taxes by \$11.0 million and \$8.8 million, respectively. In 2008, the Company's effective income tax rate included the impact of restructuring, impairments and other costs, acquisition related activity, provisions for the fair value measurement adjustment and various income tax adjustments, which impacted income before income taxes and the provision for income taxes by \$30.5 million and \$28.3 million, respectively. The various income tax adjustments included the impact of settlements with taxing authorities and statutes closures for both periods.

Net Income attributable to DENTSPLY International

In addition to the results reported in accordance with US GAAP, the Company provides adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share. These adjusted amounts consist of US GAAP amounts excluding (1) restructuring and other costs, (2) acquisition related charges, (3) income tax related adjustments, and (4) credit risk adjustments. Adjusted earnings per diluted common share is calculated by dividing adjusted net income attributable to DENTSPLY International by diluted weighted-average common shares outstanding. Adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share are considered measures not calculated in accordance with US GAAP, and therefore are non-US GAAP measures. These non-US GAAP measures may differ from other companies.

The Company believes that the presentation of adjusted net income attributable to DENTSPLY International and adjusted earnings per diluted common share provides important supplemental information to management and investors seeking to understand the Company's financial condition and results of operations. The non-US GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with US GAAP.

(in thousands, except per share amounts)	Year Ended December 31, 2009	
	Income (Expense)	Per Diluted Common Share
Net income attributable to DENTSPLY International	\$ 274,258	\$ 1.83
Restructuring and other costs, net of tax and noncontrolling interests	5,075	0.03
Acquisition related activities, net of tax and noncontrolling interests	1,830	0.01
Income tax related adjustments	(5,423)	(0.03)

Adjusted non-US GAAP earnings	\$ 275,740	\$ 1.84
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(in thousands, except per share amounts)	Year Ended December 31, 2008	
	Income (Expense)	Per Diluted Common Share
Net income attributable to DENTSPLY International	\$ 283,869	\$ 1.87
Restructuring and other costs, net of tax and noncontrolling interests	19,770	0.13
Credit risk adjustment to outstanding derivatives, net of tax	(1,129)	(0.01)
Income tax related adjustments	(17,055)	(0.11)
Adjusted non-US GAAP earnings	\$ 285,455	\$ 1.88

Operating Segment Results

The Company's operating businesses are combined into operating groups, which have overlapping product offerings, geographic presence, customer bases, distribution channels and regulatory oversight. These operating groups are considered the Company's reportable segments as the Company's chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company's operations. Each of these operating groups covers a wide range of product categories and geographic regions. The product categories and geographic regions often overlap across the groups. Further information regarding the details of each group is presented in Note 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.

In January 2009, the Company moved the reporting responsibility for several locations between segments which resulted in a change to the management structure and helped the Company gain operating efficiencies and effectiveness. The segment information below reflects this revised structure for all periods shown.

Net Sales, Excluding Precious Metal Content

(in millions)	Year Ended December 31,			
	2009	2008	\$ Change	% Change
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 526.7	\$ 459.7	\$ 67.0	14.6%
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	\$ 436.8	\$ 456.2	\$ (19.4)	(4.3)%
Canada/Latin America/Endodontics/Orthodontics	\$ 618.4	\$ 628.9	\$ (10.5)	(1.7)%
Dental Laboratory Business/Implants/Non-Dental	\$ 412.2	\$ 452.4	\$ (40.2)	(8.9)%

Segment Operating Income
(in millions)

	Year Ended December 31,		\$ Change	% Change
	2009	2008		
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 158.4	\$ 162.7	\$ (4.3)	(2.6)%
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	\$ 19.7	\$ 14.5	\$ 5.2	35.9%
Canada/Latin America/Endodontics/Orthodontics	\$ 185.8	\$ 200.1	\$ (14.3)	(7.1)%
Dental Laboratory Business/Implants/Non-Dental	\$ 92.6	\$ 123.4	\$ (30.8)	(25.0)%

U.S., Germany and Certain Other European Regions Consumable Businesses

Net sales, excluding precious metal content, increased \$67.0 million, or 14.6% during the year ended December 31, 2009 compared to 2008. On a constant currency basis, sales increased 15.7%, which was driven primarily by acquisition growth of 14.8%.

Operating income decreased \$4.3 million during the year ended December 31, 2009 compared to 2008. Operating income was negatively affected by lower sales in certain European markets, unfavorable product and geographic sales mix, and currency translation. In addition, the decrease in operating income included the roll-off of a \$4 million inventory step-up related to an acquisition completed in late 2008. The segment, excluding an acquisition completed in 2008, reduced operating expenses during 2009 when compared to the same period in 2008 by \$5 million.

France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses

Net sales, excluding precious metal content, decreased \$19.4 million, or 4.3% during the year ended December 31, 2009 compared to 2008, of which negative 2.9% was the result of currency translation. On a constant currency basis, sales were negative 1.4% primarily due to lower sales in the CIS partially offset by an acquisition growth of 1.5% and growth in the Pacific Rim businesses of 1.1%.

Operating income increased \$5.2 million during the year ended December 31, 2009 compared to 2008. Gross profit decreased \$2 million primarily due to the negative impact of foreign currency translation and lower sales in the CIS, partially offset by higher sales and gross profit in the Pacific Rim. More than offsetting this decrease in gross profit was a reduction in selling, general and administrative cost of \$7 million, of which, approximately one half was due to foreign currency translation.

Canada/Latin America/Endodontics/Orthodontics

Net sales, excluding precious metal content, decreased \$10.5 million, or 1.7% during the year ended December 31, 2009 compared to 2008, of which negative 2.4% was the result of currency translation. On a constant currency basis, sales increased by 0.7% as a result of an acquisition completed in 2008.

Operating income decreased \$14.3 million during the year ended December 31, 2009 compared to 2008. The decrease was the result of a \$19 million decrease in gross profit due to lower sales in non-dental products, unfavorable absorption and a negative impact from foreign currency translations of \$6 million. Partially offsetting this decrease in gross profit is a reduction in selling, general and administrative of \$5 million, primarily due to the impact of foreign currency translation.

Dental Laboratory Business/Implants/Non-Dental

Net sales, excluding precious metal content, decreased \$40.2 million, or 8.9% during the year ended December 31, 2009 compared to 2008, of which negative 3.3% was the result of currency translation. On a constant currency basis, sales decreased 5.6%, primarily driven by the lower sales in dental laboratory products, dental implant products and non-dental products partially offset by acquisition growth of 2.2%.

Operating income decreased \$30.8 million during the year ended December 31, 2009 compared to 2008 as a result of profitability being down across the segment primarily related to lower sales in the dental laboratory businesses, unfavorable product sales mix and foreign currency translation.

CRITICAL ACCOUNTING JUDGMENTS AND POLICIES

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

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 an 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 improve or deteriorate, their ability to make required payments may become less or more impaired and decreases or 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

Goodwill

The Company follows the accounting standards for goodwill, which requires an annual test for impairment to goodwill using a fair value approach. In addition to minimum annual impairment tests, the Company also requires that impairment assessments be made more frequently if events or changes in circumstances indicate that the goodwill might be impaired. If impairment related to goodwill is identified as a result of impairment tests, 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.

Other Long-Lived Assets

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

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Impairment Assessment

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

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 income before income taxes. 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 are typically in the form of ranges, and the Company records the liabilities at the low point of the ranges. The ranges established by management are based on an analysis made by internal and external legal counsel who considers information known at the time. If the Company determines a liability to be only reasonably possible, it considers the same information to estimate the possible exposure and disclose any material potential liability. These loss contingencies are monitored regularly for a change in fact or circumstance that would require an accrual adjustment. The Company believes it has estimated liabilities for probable losses well in the past; however, the unpredictability of litigation and court decisions could cause a liability to be incurred in excess of estimates. Legal costs related to these lawsuits are expensed as incurred.

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

The Company applies a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company recognizes in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. Deferred tax assets are recognized if it is more likely than not that the assets will be realized in future years. The Company establishes a valuation allowance for deferred tax assets for which realization is not likely. As of December 31, 2010, the Company recorded a valuation allowance of \$75.4 million against the benefit of certain deferred tax assets of foreign and domestic subsidiaries.

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

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities during the year ended December 31, 2010 were \$362.3 million compared to \$362.5 million during the year ended December 31, 2009. The decrease of \$0.2 million in the 2010 period compared to 2009 was primarily the result of higher working capital changes of \$19.6 million offset by earnings adjusted for favorable non-cash charges of \$23.2 million. Inventory levels increased by \$37.0 million, which was partially offset by a decrease in accounts receivable of \$22.1 million, in 2010 when compared to 2009. The Company's cash, cash equivalents and short-term investments increased by \$89.7 million during the year ended December 31, 2010 to \$540.1 million.

For the years ended December 31, 2010 and 2009, the number of days for sales outstanding in accounts receivable was 54 days and 55 days, respectively. On a constant currency basis, the number of days sales in inventory was 100 days and 99 days for the years ended December 31, 2010 and 2009, respectively.

Investing activities during 2010 include capital expenditures of \$44.2 million. Activity related to the acquisition of businesses, for the year ended December 31, 2010, totaled \$85.2 million. Investments of \$35.6 million related to the acquisition of several orthodontic and implant distributors in Europe and Asia plus certain final payment on an acquisition from previous years and \$49.6 million to acquire a 56.6 billion South Korea won ("KRW") Convertible Bond related to a minority investment in DIO Corporation, a Korean implant manufacturer. (See Note 3, Business Acquisitions, to the consolidated financial statements).

At December 31, 2010, the Company had authorization to maintain up to 22.0 million shares of treasury stock under its stock repurchase program as approved by the Board of Directors. Under this program, the Company purchased approximately 6.7 million shares, or approximately 4.6% of average diluted shares outstanding, during 2010 at an average price of \$33.36. As of December 31, 2010 and 2009, the Company held 21.0 million and 15.8 million shares of treasury stock, respectively. The Company also received proceeds of \$30.2 million primarily as a result of 1.5 million stock option exercises during the year ended December 31, 2010.

DENTSPLY's total long-term debt, including the current portion, at December 31, 2010 and 2009 was \$606.5 million and \$453.7 million, respectively. The Company's long-term borrowings increased by a net of \$152.8 million during the year ended December 31, 2010. This net change included a net increase in borrowings of \$126.5 million during the year ended 2010, plus an increase of \$26.3 million due to exchange rate fluctuations on debt denominated in foreign currencies. During the year ended December 31, 2010, the Company's ratio of long-term debt, including the current

portion, to total capitalization increased to 24.1% compared to 19.2% at December 31, 2009. DENTSPLY defines total capitalization as the sum of total long-term debt, including the current portion, plus total equity.

On February 19, 2010, the Company received the proceeds of a \$250.0 million Private Placement Note (“PPN”) at a fixed rate of 4.1% for an average term of five years and a final maturity of six years. The PPN is unsecured and contains certain affirmative and negative covenants relating to its operations and financial condition of the Company similar in substance to the \$150.0 million U.S. Private Placement Note that matured March 15, 2010.

On March 1, 2010, the Company entered into a Term Loan Agreement (“Term Loan”) with PNC Bank providing for the issuance by the Company of Swiss francs 65.0 million aggregate principal amount of floating rate Senior Term Loan with a final maturity in March 2012. This Term Loan is unsecured and contains certain affirmative and negative covenants relating to its operations and financial condition of the Company similar in substance to the existing multi-currency revolving credit agreement maturing May 7, 2013. The new Term Loan was used to refinance a loan under the existing multi-currency revolving credit agreement.

On May 7, 2010, the Company entered into a \$200.0 million multi-currency revolving credit agreement (“Revolver”) with a syndicate of eight lenders with a final maturity in May 2013. The multi-currency revolving credit agreement replaced the \$500.0 million multi-currency revolving credit agreement which matured May 9, 2010. This Revolver is unsecured and contains certain affirmative and negative covenants relating to its operations and financial condition of the Company similar in substance to the previous multi-currency revolving credit agreement which matured May 9, 2010. As a consequence of the smaller multi-currency revolving credit agreement, the Company also reduced its U.S. dollar Commercial Paper facility to \$200.0 million in May 2010.

Under its multi-currency revolving credit agreement, the Company is able to borrow up to \$200.0 million through May 7, 2013. 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, 2010, the Company was in compliance with these covenants. The Company also has available an aggregate \$200.0 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 \$200.0 million with \$2.1 million outstanding under the multi-currency facility and \$119.5 million outstanding under the commercial paper facility at December 31, 2010. As of December 31, 2010, the Company has classified \$121.6 million as long-term debt. The long-term debt classification is supported by the fact that the Company has demonstrated its intent and ability to fund existing short-term debt with the multicurrency revolver.

The Company entered into new cross currency swaps of Swiss francs 100.0 million and Swiss francs 55.5 million on February 18, 2010 and March 1, 2010 respectively to replace maturing trades. The contracts are designated as net investment hedges. The Company entered into new cross currency swaps of Euros 108.0 million on December 13, 2010 to replace maturing trades. The contracts are designated as net investment hedges.

The Company also has access to \$77.3 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, 2010, \$5.3 million was outstanding under these short-term lines of credit. At December 31, 2010, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of \$150.5 million.

At December 31, 2010, the Company held \$122.6 million of precious metals on consignment from several financial institutions. These consignment agreements allow the Company to acquire the precious metal at market rates at a point in time, which is approximately the same time, and for the same price as alloys are sold to the Company’s customers. In the event that the financial institutions would discontinue offering these consignment arrangements, and if the Company could not obtain other comparable arrangements, the Company may be required to obtain third party financing to fund an ownership position in the required precious metal inventory levels.

The following table presents the Company's scheduled contractual cash obligations at December 31, 2010:

Contractual Obligations (in thousands)	Less Than	1-3	3-5	Greater	Total
	1 Year	Years	Years	Than 5 Years	
Long-term borrowings	\$ 2,478	\$ 351,956	\$ 176,048	\$ 76,011	\$ 606,493
Operating leases	25,778	27,557	12,107	9,072	74,514
Interest on long-term borrowings, net of interest rate swap agreements	21,948	29,750	11,265	454	63,417

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Postretirement obligations	9,467	20,429	22,222	64,131	116,249
Cross currency swaps	21,516	147,589	-	-	169,105
Precious metal consignment agreements	122,554	-	-	-	122,554
	\$ 203,741	\$ 577,281	\$ 221,642	\$ 149,668	\$ 1,152,332

Due to the uncertainty with respect to the timing of future cash flows associated with the Company's unrecognized tax benefits at December 31, 2010, the Company is unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, \$19.2 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, to the consolidated financial statements. As noted in the Company's Consolidated Statements of Cash Flows, the Company continues to generate strong cash flows from operations, which is used to finance the Company's activities.

NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 1, Significant Accounting Policies, to the Consolidated Financial Statements for a discussion of recent accounting guidance and pronouncements.

Item 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's major market risk exposures are changing interest rates, movements in foreign currency exchange rates and potential price volatility of commodities used by the Company in its manufacturing processes. The Company's policy is to manage interest rates through the use of floating rate debt and interest rate swaps to adjust interest rate exposures when appropriate, based upon market conditions. The Company employs foreign currency denominated debt and currency swaps which serve to partially offset the Company's exposure on its net investments in subsidiaries denominated in foreign currencies. The Company's policy generally is to hedge major foreign currency transaction exposures through foreign exchange forward contracts. These contracts are entered into with major financial institutions thereby minimizing the risk of credit loss. In order to limit the unanticipated earnings fluctuations from volatility in commodity prices, the Company selectively enters into commodity swaps to convert variable raw material costs to fixed costs. The Company does not hold or issue derivative financial instruments for speculative or trading purposes. The Company is subject to other foreign exchange market risk exposure in addition to the risks on its financial instruments, such as possible impacts on its pricing and production costs, which are difficult to reasonably predict, and have therefore not been included 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 long term debt, including current portion of long-term debt, was \$611.2 million and \$606.5 million, respectively, as of December 31, 2010. As of December 31, 2009, the fair value approximated the carrying value, which was \$453.7 million. The interest rate on the \$250.0 million Private Placement Note is a fixed rate of 4.1%, and the fair value is based on the interest rates as of December 31, 2010. The interest rates on term loan debt and commercial paper are variable, and therefore the fair value of these instruments approximates their carrying values. The following table shows the Company's principal outstanding debt amounts and the associated weighted average interest rates as of December 31, 2010.

Financial Instruments

(in thousands)	EXPECTED MATURITY DATES						December 31, 2010	
	2011	2012	2013	2014	2015	2016 and beyond	Carrying Value	Fair Value
Notes Payable:								
U.S. dollar denominated	\$ 900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 900	\$ 900
Average interest rate	2.3%						2.3%	
Taiwan dollar denominated	185	-	-	-	-	-	185	185
Average interest rate	0.0%						0.0%	
Euro denominated	4,191	-	-	-	-	-	4,191	4,191
Average interest rate	2.5%						2.5%	
Total Notes Payable	\$ 5,276	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,276	\$ 5,276
	2.4%						2.4%	
Current Portion of Long-term Debt:								
Euro denominated	\$ 2,478	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,478	\$ 2,478
Average interest rate	1.9%						1.9%	
Total Current Portion of Long-Term Debt	\$ 2,478	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,478	\$ 2,478
	1.9%						1.9%	
Long Term Debt:								
U.S. dollar denominated	\$ -	\$ -	\$ 121,623	\$ 75,015	\$ 100,000	\$ 75,000	\$ 371,638	\$ 376,313
Average interest rate			0.4%	4.1%	4.1%	4.1%	2.9%	
Swiss franc denominated	-	-	69,560	-	-	-	69,560	69,560
Average interest rate			1.7%				1.7%	
Japanese yen denominated	-	154,626	-	-	-	-	154,626	154,626
Average interest rate		0.9%					0.9%	
Euro denominated	-	4,833	1,314	703	330	1,011	8,191	8,191

Average interest rate		3.6%	2.5%	3.0%	2.9%	2.9%	3.3%	
Total Long Term Debt, net current portion	\$ -	\$ 159,459	\$ 192,497	\$ 75,718	\$ 100,330	\$ 76,011	\$ 604,015	\$ 608,690
		1.0%	0.9%	4.1%	4.1%	4.1%	2.3%	

Derivative Financial Instruments

The Company employs derivative financial instruments to hedge certain anticipated transactions, firm commitments, or assets and liabilities denominated in foreign currencies. Additionally, the Company utilizes interest rate swaps to convert 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. The forward foreign exchange contracts 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. 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. 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's significant contracts outstanding as of December 31, 2010 are summarized in the table that follows.

Foreign Exchange Forward Contracts:

EXPECTED MATURITY DATES

(represents notional amounts for derivative financial instruments)

(in thousands)

	2011	2012	December 31, 2010 Carrying Value	Fair Value
Forward sale, 11.2 million Australian dollars	\$ 10,460	\$ 972	\$ (784)	\$ (784)
Forward purchase, 8.4 million British pounds	(12,286)	(772)	250	250
Forward sale, 34.3 million Canadian dollars	31,114	3,428	(664)	(664)
Forward sale, 5.2 million Danish krone	925	-	10	10
Forward sale, 5.2 million Euros	6,923	-	1,916	1,916
Forward sale, 407.5 million Japanese yen	5,019	-	268	268
Forward sale, 118.7 million Mexican pesos	9,615	-	12	12
Forward purchase, 1.5 million Norwegian krone	(262)	-	1	1
Forward sale, 2.0 million Singapore dollars	1,585	-	(10)	(10)
Forward sale, 527.9 million South Korean won	509	-	(3)	(3)
Forward purchase, 11.5 million Swiss francs	(12,324)	-	423	423
Forward sale, 23.6 million Taiwanese dollars	805	-	4	4
Total Foreign Exchange Forward Contracts	\$ 42,083	\$ 3,628	\$ 1,423	\$ 1,423

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.

During the first quarter of 2010, the Company entered into new cross currency basis swaps of Swiss francs 100.0 million and Swiss francs 55.5 million (collectively the “Swiss Swaps”). The Swiss Swaps mature in February 2013, and the Company pays three month Swiss franc London Inter-Bank Offered Rate (“LIBOR”) and receives three month U.S. dollar LIBOR on \$93.0 million and \$51.1 million, respectively. The new contracts were entered into to replace maturing contracts. During the fourth quarter of 2010, the Company entered into new cross currency basis swaps of Euro 108.0 million (“Euro Swaps”). The Euro Swaps mature in December 2013, and the Company pays three month Euro Inter-Bank Offered Rate (“EURIBOR”) and receives three month U.S. dollar LIBOR on \$143.1 million. The new contracts were entered into to replace maturing contracts. 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, 2010 and 2009, the Company had Swiss franc-denominated and Japanese yen-denominated debt and cross currency basis swaps denominated in euro and Swiss franc to hedge the currency exposure related to a designated portion of the net assets of its European, Swiss and Japanese subsidiaries. The fair value 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, 2010 and December 31, 2009, the estimated net fair values of the cross currency interest rate swap agreements were negative \$169.1 million and negative \$176.6 million, respectively, which are recorded in accumulated other comprehensive income, net of tax effects. At December 31, 2010 and 2009, 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 \$45.4 million and \$111.1 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, 2010 are summarized in the table that follows.

Cross Currency Basis
Swaps

EXPECTED MATURITY DATES

(represents notional amounts for derivative
financial instruments)

(in thousands)				December 31, 2010	
	2011	2012	2013	Carrying Value	Fair Value
Swiss franc 592.5 million @ 1.17	\$ 86,040	\$ 60,570	\$ 487,455	\$ (126,987)	\$ (126,987)
pay CHF 3mo. LIBOR rec. USD 3mo. LIBOR	(0.1)%	(0.1)%	(0.2)%		
Euros 358.0 million @ \$1.22	-	-	478,360	(42,118)	(42,118)
pay EUR 3mo. EURIBOR rec. USD 3mo. LIBOR			0.7%		
Total Cross Currency Basis Swaps	\$ 86,040	\$ 60,570	\$ 965,815	\$ (169,105)	\$ (169,105)

Interest Rate Risk Management

The Company uses interest rate swaps to convert a portion of its variable interest rate debt to fixed interest rate debt. As of December 31, 2010, the Company has two groups of significant variable interest 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 interest rate of 1.6% for a term of ten years, ending in September 2012. Another swap has a notional amount of 65.0 million Swiss francs, and effectively converts the underlying variable interest rates to a fixed interest rate of 4.2% for a term of seven years, ending in September 2012. The Company enters into interest rate swap contracts infrequently as they are only used to manage interest rate risk on long-term debt instruments and not for speculative purposes. The Company's significant contracts outstanding as of December 31, 2010 are summarized in the table that follows.

Interest Rate
Swaps

EXPECTED MATURITY DATES

(represents notional amounts for derivative financial instruments)

(in thousands)							December 31, 2010	
	2011	2012	2013	2014	2015	2016 and beyond	Carrying Value	Fair Value
Interest rate swaps - Euro	\$ 1,262	\$ 1,262	\$ 1,262	\$ 965	\$ 965	\$ 2,171	\$ (660)	\$ (660)
Average interest rate	3.6%	3.6%	3.6%	3.7%	3.7%	3.7%		
Interest rate swaps - Japanese yen	-	154,626	-	-	-	-	(2,058)	(2,058)

Average interest rate	1.6%							
Interest rate swaps - Swiss francs	-	69,560	-	-	-	-	(3,026)	(3,026)
Average interest rate	4.2%							
Total Interest Rate Swaps	\$ 1,262	\$ 225,448	\$ 1,262	\$ 965	\$ 965	\$ 2,171	\$ (5,744)	\$ (5,744)

Commodity Risk Management

The Company selectively enters into commodity swaps to effectively fix certain variable raw material costs. These swaps are used purely to stabilize the cost of components used in the production of certain of the Company's products. The Company generally accounts for the commodity swaps as cash flow hedges. As a result, the Company records the fair value of the 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, 2010 are summarized in the table that follows.

Commodity Contracts:

(in thousands)	EXPECTED MATURITY DATES		
	2011	December 31, 2010 Carrying Value	Fair Value
Silver Swap - U.S. dollar	\$ (93)	\$ 82	\$ 82
Platinum Swap - U.S. dollar	(470)	6	6
Total Commodity Contracts	\$ (563)	\$ 88	\$ 88

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, 2010, the Company had 95,999 troy ounces of precious metal, primarily gold, platinum and palladium, on consignment for periods of less than one year with a market value of \$122.6 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, 2010, the average annual rate charged by the consignor banks was 0.84%. These compensatory payments are considered to be a cost of the metals purchased and are recorded as part of the cost of products sold.

Management's Report on Internal Control Over Financial Reporting

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

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

Management of the Company has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making its assessment, management used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its assessment management concluded that, as of December 31, 2010, the Company's internal control over financial reporting was effective based on the criteria established in Internal Control - Integrated Framework issued by the COSO.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears herein.

/s/ Bret W. Wise
Bret W. Wise
Chairman of the Board and
Chief Executive Officer
February 18, 2011

/s/ William R. Jellison
William R. Jellison
Senior Vice President and
Chief Financial Officer
February 18, 2011

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of DENTSPLY International Inc. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's Report on Internal Control over Financial Reporting" appearing under Item 15(a)(1). Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 18, 2011

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

	Year Ended December 31,		
	2010	2009	2008
Net sales	\$ 2,221,014	\$ 2,159,378	\$ 2,191,465
Cost of products sold	1,090,856	1,053,015	1,043,565
Gross profit	1,130,158	1,106,363	1,147,900
Selling, general and administrative expenses	738,901	718,230	735,084
Restructuring and other costs	10,984	6,890	32,355
Operating income	380,273	381,243	380,461
Other income and expenses:			
Interest expense	25,089	21,896	32,527
Interest income	(4,254)	(5,032)	(17,089)
Other expense (income), net	1,782	1,023	10,150
Income before income taxes	357,656	363,356	354,873
Provision for income taxes	89,225	88,944	71,603
Equity in net loss of unconsolidated affiliated company	(1,096)	-	-
Net income	267,335	274,412	283,270
Less: Net income (loss) attributable to noncontrolling interests	1,627	154	(599)
Net income attributable to DENTSPLY International	\$ 265,708	\$ 274,258	\$ 283,869
Earnings per common share:			
Basic	\$ 1.85	\$ 1.85	\$ 1.90
Diluted	\$ 1.82	\$ 1.83	\$ 1.87
Weighted average common shares outstanding:			
Basic	143,980	148,319	149,069
Diluted	145,985	150,102	151,679

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

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

	December 31,	
	2010	2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 540,038	\$ 450,348
Accounts and notes receivable-trade, net	344,796	348,684
Inventories, net	308,738	291,640
Prepaid expenses and other current assets	121,473	127,124
Total Current Assets	1,315,045	1,217,796
Property, plant and equipment, net	423,105	439,619
Identifiable intangible assets, net	78,743	89,086
Goodwill, net	1,303,055	1,312,596
Other noncurrent assets, net	138,003	28,835
Total Assets	\$ 3,257,951	\$ 3,087,932
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 114,479	\$ 100,847
Accrued liabilities	224,745	249,169
Income taxes payable	13,113	12,366
Notes payable and current portion of long-term debt	7,754	82,174
Total Current Liabilities	360,091	444,556
Long-term debt	604,015	387,151
Deferred income taxes	72,489	72,524
Other noncurrent liabilities	311,444	276,743
Total Liabilities	1,348,039	1,180,974
Commitments and contingencies		
Equity:		
Preferred stock, \$.01 par value; .25 million shares authorized; no shares issued	-	-
Common stock, \$.01 par value; 200.0 million shares authorized; 162.8 million shares issued at December 31, 2010 and December 31, 2009	1,628	1,628
Capital in excess of par value	204,902	195,495
Retained earnings	2,320,350	2,083,459
Accumulated other comprehensive income	24,156	83,542
Treasury stock, at cost, 21.0 million shares at December 31, 2010 and 15.8 million shares at December 31, 2009	(711,650)	(532,019)
Total DENTSPLY International Equity	1,839,386	1,832,105
Noncontrolling Interests	70,526	74,853
Total Equity	1,909,912	1,906,958
Total Liabilities and Equity	\$ 3,257,951	\$ 3,087,932

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

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

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total DENTSPLY International Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2007	\$ 1,628	\$ 173,084	\$ 1,582,683	\$ 145,819	\$ (387,108)	\$ 1,516,106	\$ 296	\$ 1,516,402
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	-	71,931	71,931
Comprehensive Income:								
Net income	-	-	283,869	-	-	283,869	(599)	283,270
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustment	-	-	-	(71,521)	-	(71,521)	63	(71,458)
Net loss on derivative financial instruments	-	-	-	(13,986)	-	(13,986)	-	(13,986)
Pension liability adjustments	-	-	-	(20,700)	-	(20,700)	-	(20,700)
Comprehensive Income						177,662	(536)	177,126
Exercise of stock options	-	(7,268)	-	-	19,994	12,726	-	12,726
Tax benefit from stock options exercised	-	3,910	-	-	-	3,910	-	3,910
Share based compensation expense	-	17,290	-	-	-	17,290	-	17,290
Funding of Employee Stock Option Plan	-	62	-	-	118	180	-	180
	-	-	-	-	(112,634)	(112,634)	-	(112,634)

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Treasury shares purchased									
RSU dividends	-	76	(76)	-	-	-	-	-	-
Cash dividends (\$0.185 per share)	-	-	(27,518)	-	-	(27,518)	-	(27,518)	
Balance at December 31, 2008	\$ 1,628	\$ 187,154	\$ 1,838,958	\$ 39,612	\$ (479,630)	\$ 1,587,722	\$ 71,691	\$ 1,659,413	
Comprehensive Income:									
Net income	-	-	274,258	-	-	274,258	154	274,412	
Other comprehensive income (loss), net of tax:									
Foreign currency translation adjustment	-	-	-	50,566	-	50,566	3,008	53,574	
Net loss on derivative financial instruments	-	-	-	(13,960)	-	(13,960)	-	(13,960)	
Pension liability adjustments	-	-	-	7,324	-	7,324	-	7,324	
Comprehensive Income						318,188	3,162	321,350	
Exercise of stock options	-	(11,515)	-	-	24,921	13,406	-	13,406	
Tax benefit from stock options exercised	-	3,505	-	-	-	3,505	-	3,505	
Share based compensation expense	-	16,276	-	-	-	16,276	-	16,276	
Funding of Employee Stock Option Plan	-	(63)	-	-	1,408	1,345	-	1,345	
Treasury shares purchased	-	-	-	-	(78,718)	(78,718)	-	(78,718)	
RSU dividends	-	138	(138)	-	-	-	-	-	
Cash dividends (\$0.200 per share)	-	-	(29,619)	-	-	(29,619)	-	(29,619)	
Balance at December 31, 2009	\$ 1,628	\$ 195,495	\$ 2,083,459	\$ 83,542	\$ (532,019)	\$ 1,832,105	\$ 74,853	\$ 1,906,958	
Comprehensive Income:									

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Net income	-	-	265,708	-	-	265,708	1,627	267,335
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustment	-	-	-	(49,519)	-	(49,519)	(4,592)	(54,111)
Net loss on derivative financial instruments	-	-	-	(12,848)	-	(12,848)	-	(12,848)
Net unrealized holding gains on available-for-sale investments	-	-	-	11,029	-	11,029	-	11,029
Pension liability adjustments	-	-	-	(8,048)	-	(8,048)	-	(8,048)
Comprehensive Income						206,322	(2,965)	203,357
Exercise of stock options	-	(10,107)	-	-	40,296	30,189	-	30,189
Tax benefit from stock options exercised	-	4,663	-	-	-	4,663	-	4,663
Share based compensation expense	-	18,803	-	-	-	18,803	-	18,803
Funding of Employee Stock Option Plan	-	208	-	-	1,132	1,340	-	1,340
Treasury shares purchased	-	-	-	-	(223,993)	(223,993)	-	(223,993)
Dividends from noncontrolling interest	-	-	-	-	-	-	(1,362)	(1,362)
RSU distributions	-	(4,313)	-	-	-	(4,313)	-	(4,313)
RSU dividends	-	153	(153)	-	2,934	2,934	-	2,934
Cash dividends (\$0.200 per share)	-	-	(28,664)	-	-	(28,664)	-	(28,664)
Balance at December 31, 2010	\$ 1,628	\$ 204,902	\$ 2,320,350	\$ 24,156	\$ (711,650)	\$ 1,839,386	\$ 70,526	\$ 1,909,912

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

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

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 267,335	\$ 274,412	\$ 283,270
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	56,868	54,087	47,887
Amortization	9,472	11,088	9,042
Deferred income taxes	1,386	195	13,371
Share based compensation expense	18,803	16,276	17,290
Restructuring and other costs - non-cash	379	369	8,303
Stock option income tax benefit	(4,663)	(3,505)	(3,910)
Other non-cash expense (income)	7,249	(8,650)	(19,654)
Loss (gain) on disposal of property, plant and equipment	113	(1,997)	1,373
Changes in operating assets and liabilities, net of acquisitions:			
Accounts and notes receivable-trade, net	5,115	(16,942)	(3,690)
Inventories, net	(9,309)	27,710	(32,824)
Prepaid expenses and other current assets	(3,705)	6,996	(1,220)
Other non current assets	(1,154)	(192)	390
Accounts payable	2,165	(4,947)	5,430
Accrued liabilities	9,004	(1,708)	5,748
Income taxes	3,017	8,104	4,594
Other noncurrent liabilities	249	1,193	581
Net cash provided by operating activities	362,324	362,489	335,981
Cash flows from investing activities:			
Cash paid for acquisitions of businesses and equity investments	(35,556)	(2,986)	(117,300)
Capital expenditures	(44,236)	(56,481)	(76,440)
Purchase of convertible debt issued by affiliate	(49,654)	-	-
Purchase of company owned life insurance policies	(2,000)	-	-
Expenditures for identifiable intangible assets	(1,606)	(14)	(2,477)
Purchases of short-term investments	-	-	(166,208)
Liquidations of short-term investments	-	222	314,025
Proceeds from sale of property, plant and equipment	3,562	5,860	596
Net cash used in investing activities	(129,490)	(53,399)	(47,804)
Cash flows from financing activities:			
Proceeds from long-term borrowings, net of deferred financing costs	368,611	86,091	117,900
Payments on long-term borrowings	(242,137)	(58,403)	(226,147)
(Decrease) increase in short-term borrowings	(9,657)	(7,465)	2,111
Proceeds from exercise of stock options	30,189	13,406	12,726

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Excess tax benefits from share based compensation	4,663	3,505	3,910
Cash paid for treasury stock	(223,993)	(78,718)	(112,634)
Cash dividends paid	(29,077)	(29,836)	(26,952)
Net cash used in financing activities	(101,401)	(71,420)	(229,086)
Effect of exchange rate changes on cash and cash equivalents	(41,743)	8,687	(24,484)
Net increase in cash and cash equivalents	89,690	246,357	34,607
Cash and cash equivalents at beginning of period	450,348	203,991	169,384
Cash and cash equivalents at end of period	\$ 540,038	\$ 450,348	\$ 203,991
Supplemental disclosures of cash flow information:			
Interest paid, net of amounts capitalized	\$ 21,856	\$ 23,231	\$ 34,222
Income taxes paid	\$ 64,787	\$ 76,207	\$ 66,696

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

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Description of Business

DENTSPLY International Inc. (“DENTSPLY” or the “Company”), designs, develops, manufactures and markets a broad range of professional dental products. The Company believes that it is the world's leading manufacturer and distributor of dental prosthetics, endodontic instruments and materials, and ultrasonic scalers; the leading United States manufacturer and distributor of denture teeth, dental handpieces, dental x-ray film holders, film mounts and prophylaxis paste; and a leading worldwide manufacturer or distributor of dental injectable anesthetics, impression materials, orthodontic appliances, dental cutting instruments, dental implants and restorative dental materials, dental sealants, and crown and bridge materials. The Company distributes its dental products in over 120 countries under some of the most well established brand names in the industry.

DENTSPLY is committed to the development of innovative, high quality, cost effective products for the dental market.

Use of Estimates

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

Principles of Consolidation

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

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

Cash and Cash Equivalents

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

Short-term Investments

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

Accounts and Notes Receivable-Trade

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

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Accounts receivable – trade is stated net of these allowances that were \$8.8 million and \$12.2 million at December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, the Company wrote-off \$2.6 million and \$4.3 million, respectively, of accounts receivable that were previously reserved. The tighter credit markets caused the Company to reassess and tighten its controls over customer credit terms, increase collection efforts and analyze accounts receivable activity. This, along with improved customer liquidity, enabled the Company to reduce the provision for doubtful accounts by \$0.2 million and \$3.1 million in 2010 and 2009, respectively.

Additionally, notes receivable – trade is stated net of these allowances that were \$0.8 million and \$1.1 million at December 31, 2010 and 2009, respectively. The Company recorded provisions for doubtful accounts on notes receivable – trade of \$0.7 million for 2010 and \$0.5 million for 2009. Additionally, the Company wrote-off \$1.0 million in 2010.

Inventories

Inventories are stated at the lower of cost or market. At December 31, 2010 and 2009, the cost of \$6.9 million, or 2.2%, and \$7.8 million, or 2.7%, respectively, of inventories was determined by the last in, first-out (“LIFO”) method. The cost of other inventories was determined by the first-in, first-out (“FIFO”) or average cost methods. The Company establishes reserves for inventory estimated to be obsolete or unmarketable equal to the difference between the cost of inventory and estimated market value based upon assumptions about future demand and market conditions.

If the FIFO method had been used to determine the cost of LIFO inventories, the amounts at which net inventories are stated would be higher than reported at December 31, 2010 and 2009 by \$4.9 million and \$4.0 million, respectively.

Valuation of Goodwill and Other Long-Lived Assets

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

Goodwill

US GAAP requires that at least an annual impairment test be applied to goodwill. The Company performs impairment tests using a fair value approach. If impairment is identified on goodwill, the resulting charge is determined by recalculating goodwill through a hypothetical purchase price allocation of the fair value and reducing the current carrying value to the extent it exceeds the recalculated goodwill.

The Company’s fair value approach involves using a discounted cash flow model with market-based support as its valuation technique to measure the fair value for its reporting units. The discounted cash flow model uses five year forecasted cash flows plus a terminal value based on a multiple of earnings. In addition, the Company applies gross

profit and operating expense assumptions consistent with its historical trends. The total cash flows were discounted based on market participant data, which included the Company's weighted-average cost of capital. The Company considered the current market conditions when determining its assumptions. Lastly, the Company reconciled the aggregate fair values of its reporting units to its market capitalization, which included a reasonable control premium based on market conditions. Additional information related to the testing for goodwill impairment is provided in Note 8, Goodwill and Intangible Assets.

Identifiable Definite-Lived Intangible Assets

Identifiable definite-lived intangible assets, which primarily consist of patents, trademarks, brand names, non-compete agreements and licensing agreements, are amortized on a straight-line basis over their estimated useful lives. These assets are reviewed for impairment whenever events or circumstances suggest that the carrying amount of the asset may not be recoverable. The Company closely monitors certain intangible assets related to new and existing technologies for indicators of impairment as these assets have more risk of becoming impaired. Impairment is based upon an initial evaluation of the identifiable undiscounted cash flows. If the initial evaluation identifies a potential impairment, a fair value is determined by using a discounted cash flows valuation. If impaired, the resulting charge reflects the excess of the asset's carrying cost over its fair value.

Property, Plant and Equipment

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

Marketable Security

The Company's marketable securities consist of debt instruments that are classified as available-for-sale in "Other noncurrent assets" on the consolidated balance sheets as the instruments mature in December 2015. The Company determined the appropriate classification at the time of purchase and will re-evaluate such designation as of each balance sheet date. In addition, the Company reviews the securities each quarter for indications of possible impairment. Once impairment is identified, the determination of whether the impairment is temporary or other-than-temporary requires significant judgment. The primary factors that the Company considers in classifying the impairment include the extent and time the fair value of each investment has been below cost and the existence of a credit loss. If a decline in fair value is judged other-than-temporary, the basis of the securities is written down to fair value and the amount of the write-down is included as a realized loss.

Derivative Financial Instruments

The Company 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 ("AOCI").

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

Pension and Other 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 United States 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 earnings before income taxes. 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. The Company predominantly uses liability durations in establishing its discount rates, which are observed from indices of high-grade corporate bond yields in the respective economic regions of the plans. The expected return on plan assets is the weighted average long-term expected return based upon asset allocations and historic average returns for the markets where the assets are invested,

principally in foreign locations. The Company reports the funded status of its defined benefit pension and other postretirement benefit plans on its consolidated balance sheets as a net liability or asset. Additional information related to the impact of changes in these assumptions is provided in Note 13, Benefit Plans.

Accruals for Self-Insured Losses

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

Litigation

The Company and its subsidiaries are from time to time parties to lawsuits arising out of their respective operations. The Company records liabilities when a loss is probable and can be reasonably estimated. These estimates are typically in the form of ranges, and the Company records the liabilities at the low point of the ranges. The ranges established by management are based on an analysis made by internal and external legal counsel who considers information known at the time. If the Company determines a liability to be only reasonably possible, it considers the same information to estimate the possible exposure and disclose any material potential liability. These loss contingencies are monitored regularly for a change in fact or circumstance that would require an accrual adjustment. The Company believes it has estimated liabilities for probable losses well in the past; however, the unpredictability of litigation and court decisions could cause a liability to be incurred in excess of estimates. Legal costs related to these lawsuits are expensed as incurred.

Accumulated Other Comprehensive Income

AOCI includes foreign currency translation adjustments related to the Company's foreign subsidiaries, net of the related changes in certain financial instruments hedging these foreign currency investments. In addition, changes in the Company's fair value of certain derivative financial instruments, net unrealized holding gain on available-for-sale securities and pension liability adjustments and prior service costs, net are recorded in AOCI. These changes are recorded in AOCI net of any related tax adjustments. For the years ended December 31, 2010, 2009 and 2008, these tax adjustments were \$158.7 million, \$143.0 million and \$138.5 million, respectively, primarily related to foreign currency translation adjustments.

The balances included in AOCI in the consolidated balance sheets are as follows:

(in thousands)	December 31,	
	2010	2009
Foreign currency translation adjustments	\$ 170,597	\$ 220,116
Net loss on derivative financial instruments	(126,648)	(113,800)
Net unrealized holding gain on available for-sale securities	11,029	-
Pension liability adjustments	(30,822)	(22,774)
	\$ 24,156	\$ 83,542

The cumulative foreign currency translation adjustments included translation gains of \$294.6 million and \$327.8 million as of December 31, 2010 and 2009, respectively, offset by losses of \$124.0 million and \$107.7 million, respectively, on loans designated as hedges of net investments.

Foreign Currency Translation

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

Assets and liabilities of foreign subsidiaries are translated at foreign exchange rates on the balance sheet date; revenue and expenses are translated at the average year-to-date foreign exchange rates. The effects of these translation adjustments are reported in Equity within AOCI of the consolidated balance sheets. During the year ended December 31, 2010, the Company had losses of \$16.3 million on its loans designated as hedges of net investments and translation losses of \$33.2 million. During the year ended December 31, 2009, the Company had gains of \$0.9 million

on its loans designated as hedges of net investments and translation gains of \$49.7 million.

Foreign exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved and remeasurement adjustments in countries with highly inflationary economies are included in income. Net foreign exchange losses of \$3.3 million, net foreign exchange gains of \$0.3 million and net foreign exchange losses of \$8.9 million in 2010, 2009, and 2008, respectively, are included in “Other expense (income), net.”

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Revenue Recognition

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

Certain of the Company's customers are offered cash rebates based on targeted sales increases. In accounting for these rebate programs, the Company records an accrual as a reduction of net sales for the estimated rebate as sales take place throughout the year.

A portion of the Company's net sales is comprised of sales of precious metals generated through its precious metal dental alloy product offerings. As the precious metal content of the Company's sales is largely a pass-through to customers, the Company uses its cost of precious metal purchased as a proxy for the precious metal content of sales, as the precious metal content of sales is not separately tracked and invoiced to customers. The Company believes that it is reasonable to use the cost of precious metal content purchased in this manner since precious metal alloy sale prices are typically adjusted when the prices of underlying precious metals change. The precious metals content of sales was \$189.2 million, \$168.7 million and \$200.0 million for 2010, 2009 and 2008, respectively.

Cost of Products Sold

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

Warranties

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

Selling, General and Administrative Expenses

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

Research and Development Costs

Research and development ("R&D") costs relate primarily to internal costs for salaries and direct overhead expenses. In addition, the Company contracts with outside vendors to conduct R&D activities. All such R&D costs are charged to expense when incurred. The Company capitalizes the costs of equipment that have general R&D uses and expenses such equipment that is solely for specific R&D projects. The depreciation expense related to this capitalized equipment is included in the Company's R&D costs. R&D costs are included in "Selling, general and administrative expenses" and amounted to \$49.4 million, \$50.3 million and \$48.5 million for 2010, 2009 and 2008, respectively. The

year-over-year comparisons for 2010 versus 2009 and 2009 versus 2008 were both impacted by foreign currency translation which decreased the reported expense variations.

Stock Compensation

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

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Income Taxes

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

The Company applies a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company recognizes in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

Earnings Per Share

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

Business Acquisitions

The Company acquires businesses as well as partial interests in businesses. Acquired businesses are accounted for using the acquisition method of accounting which requires that the purchase price be allocated to net assets at their respective fair values. Any excess of the purchase price over estimated fair values of net assets is recorded as goodwill. Under the acquisition method, amounts allocated to acquired in-process research and development and contingent consideration are recorded to the consolidated balance sheet at the date of acquisition at their respective fair values. The assumptions made in determining fair value assigned to acquired assets and liabilities as well as asset lives can materially impact the results of operations.

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

Equity Method Investments

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

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

The Company classifies its equity in net earnings of unconsolidated affiliates in the consolidated statements of operations under the title of “Equity in net loss of unconsolidated affiliated company”.

Noncontrolling Interests

The Company reports noncontrolling interest (“NCI”) in a subsidiary as a separate component of Equity in the consolidated balance sheets. Additionally, the Company reports the portion of net income and comprehensive income (loss) attributed to the Company and NCI separately in the consolidated statements of operations. The Company also includes a separate column for NCI in the consolidated statements of changes in equity and comprehensive income.

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Variable Interest Entities

On January 1, 2010, the Company adopted the new accounting guidance for variable interest entities (“VIE”). The guidance includes: (1) the elimination of the exemption from consolidation for qualifying special purpose entities, (2) a new approach for determining the primary beneficiary of a VIE, which requires that the primary beneficiary have both (i) the power to control the most significant activities of the VIE and (ii) either the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, and (3) the requirement to continually reassess who should consolidate a VIE. The adoption did not have a material impact on the Company’s financial position and results of operations.

The Company consolidates all VIE where the Company has determined that it has the power to direct the activities that most significantly impact the VIE’s economic performance and shares in either the significant risks or rewards of the VIE. The Company continually reassesses VIE to determine if consolidation is appropriate. The Company continues to believe that it is the primary beneficiary of Materialise Dental N.V. (“Materialise”) and Zhermack S.p.A. (“Zhermack”) under this new accounting guidance for VIE. The accounting for Materialise and Zhermack are discussed further in Note 3, Business Acquisitions.

Segment Reporting

The Company has numerous operating businesses covering a wide range of products and geographic regions, primarily serving the professional dental market. Professional dental products represented approximately 97% of sales in 2010, 2009 and 2008. The Company has four reportable segments and a description of the activities of these segments is included in Note 4, Segment and Geographic Information.

Fair Value Measurement

Recurring Basis

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

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

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

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

The degree of judgment utilized in measuring the fair value of certain financial assets and liabilities generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument. Financial assets and liabilities with readily available active quoted prices or for which

fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial assets and liabilities rarely traded or not quoted will generally have less, or no pricing observability and a higher degree of judgment utilized in measuring fair value.

The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Company considers its credit risks and its counterparties' credit risks when determining the fair values of its financial assets and liabilities. The Company has presented the required disclosures in Note 16, Fair Value Measurement.

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Non-Recurring Basis

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

Reclassification of Prior Year Amounts

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

NOTE 2 - EARNINGS PER COMMON SHARE

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

(in thousands, except for share amounts)	Net income attributable to DENTSPLY International	Shares	Earnings per common share
Year Ended December 31, 2010			
Basic	\$ 265,708	143,980	\$ 1.85
Incremental shares from assumed exercise of dilutive options	-	2,005	
Diluted	\$ 265,708	145,985	\$ 1.82
Year Ended December 31, 2009			
Basic	\$ 274,258	148,319	\$ 1.85
Incremental shares from assumed exercise of dilutive options	-	1,783	
Diluted	\$ 274,258	150,102	\$ 1.83
Year Ended December 31, 2008			
Basic	\$ 283,869	149,069	\$ 1.90
Incremental shares from assumed exercise of dilutive options	-	2,610	
Diluted	\$ 283,869	151,679	\$ 1.87

Options to purchase 3.1 million, 2.9 million and 1.6 million shares of common stock that were outstanding during the years ended 2010, 2009 and 2008, respectively, were not included in the computation of diluted earnings per common share since the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

NOTE 3 - BUSINESS ACQUISITIONS AND INVESTMENTS IN AFFILIATES

During 2010, the acquisition related activity was \$35.6 million, net of cash acquired, which included a payment for a non-controlling interest investment in DIO Corporation ("DIO"). In 2009, the acquisition related activity was \$3.0 million, net of cash. This activity was related to an additional earn-out payment on a prior acquisition from 2007 and

the acquisition of a small sales and marketing organization of 3D digital implantology products.

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Investment in Affiliates

On December 9, 2010, the Company purchased an initial ownership interest of 16% of the outstanding shares of DIO. The Company accounts for the ownership in DIO under the equity method of accounting as it has significant influence over DIO. In addition, on December 9, 2010, the Company invested \$49.7 million in the corporate convertible bonds of DIO, which may be converted into common shares after a one year period. The bonds are designated by the Company as available-for-sale securities which are reported in, "Other noncurrent assets, net," on the consolidated balance sheets and the changes in fair value are reported in AOCI. The convertible feature of the bond has not been bifurcated from the underlying bond as the feature does not contain a net-settlement feature, nor would the Company be able to achieve a hypothetical net-settlement that would substantially place the Company in a comparable cash settlement position. As such, the derivative is not accounted for separately from the bond. The cash paid by the Company is equal to the face value of the bonds issued by DIO, and therefore, the Company has not recorded any bond premium or discount on acquiring the bonds. At December 31, 2010, the amortized cost and fair value of the DIO bond was \$49.7 million and \$66.0 million, respectively, and \$11.0 million of unrealized holding gains on available-for-sale securities, net of tax, have been recorded in AOCI. The contractual maturity of the bond is in December 2015.

DIO is located in Busan, South Korea and manufactures a wide range of dental implants including STEADY®, BioTite-H, SM implant, internal implant, external implant, ProTem implant, and SM Extra Wide implant systems. In addition, DIO offers various dental devices including implant surgical devices, handpieces, dental materials, impression materials sterilizers, toothpaste that contains dxydroxyapatite, and the iTero® 3D intra-oral scanner (Cadent Inc.).

Business Acquisitions

The business acquisitions were related to the purchase of several small distributors that sell dental specialty products. The purchase agreements for three of the acquisitions provide for additional payments to be made based upon the achievement of certain operating performance of the respective businesses; however, the Company does not expect the additional payments to be material to the financial statements. The results of operations for these businesses have been included in the accompanying financial statements since the effective date of the respective transactions. The purchase prices have been allocated on the basis of preliminary estimates of the fair values of assets acquired and liabilities assumed.

Variable Interest Entities

The Company adopted new accounting guidance for VIE on January 1, 2010, which is discussed in Note 1, Significant Accounting Policies. The Company continues to believe that it will be the primary beneficiary of Materialise and Zhermack under this accounting guidance for VIE.

Additional Earn-out Payments

Several of the Company's 2005, 2007 and 2008 acquisitions included provisions for possible additional payments based on the future performance of the individual businesses (generally for two to three years). During 2010, the Company paid \$5.1 million in additional purchase price under these agreements.

Fair Value Allocations for the Business Acquisitions and Additional Earnout Payments

As of December 31, 2010, the Company has recorded a total of \$20.4 million in goodwill related to four business combinations, one investment in an unconsolidated affiliate, and additional earn-out payments on acquisitions from

prior years. None of this goodwill is expected to be deductible for tax purposes.

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The following table summarizes the estimated fair values of the indentified assets acquired and liabilities assumed (in thousands):

Current assets	\$	10,755
Property, plant and equipment		1,255
Identifiable intangible assets and goodwill		21,055
Other long-term assets		28
Total assets	\$	33,093
Current liabilities		(12,495)
Long-term liabilities		(1,283)
Total liabilities	\$	(13,778)
Net assets	\$	19,315

Also, as a result of the finalization of fair values assigned to assets acquired and liabilities assumed from 2010 acquisition related activity, the Company has recorded a total of \$0.7 million in intangible assets as non-compete agreements and customer lists with an average weighted life of 5.0 years.

Goodwill was assigned to the following four segments:

- \$1.5 million to U.S., Germany, and Certain Other European Regions Consumable Businesses;
- \$12.7 million Canada/Latin America/Endodontics/Orthodontics; and,
- \$6.2 million to Dental Laboratory Business/Implants/Non-Dental.

NOTE 4 – SEGMENT AND GEOGRAPHIC INFORMATION

The operating businesses are combined into operating groups, which have overlapping product offerings, geographical presence, customer bases, distribution channels and regulatory oversight. These operating groups are considered the Company's reportable segments as the Company's chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company's operations. The accounting policies of the segments are consistent with those described for the consolidated financial statements in the summary of significant accounting policies (see Note 1, Significant Accounting Policies). The Company measures segment income for reporting purposes as net operating income before restructuring, impairments, and other costs, interest and taxes. Additionally, net operating income is derived from net third party sales, excluding precious metal content. A description of the services provided within each of the Company's four reportable segments is provided below. The disclosure below reflects the Company's segment reporting structure.

In January 2010, the Company moved the reporting responsibility for several locations between segments as a result of a change to the management structure. This change also helped the Company gain operating efficiencies and effectiveness. The segment information below reflects this revised structure for all periods shown.

United States, Germany and Certain Other European Regions Consumable Businesses

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

France, United Kingdom, Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses

This business group includes responsibility for the sales and distribution for certain small equipment, chairside consumable products, certain laboratory products and certain Endodontic products in France, United Kingdom, Italy, the Commonwealth of Independent States ("CIS"), Middle East, Africa, Asia (excluding Japan), Japan and Australia, as well as the sale and distribution of implant products and bone substitute/grafting materials in France, Italy, Asia and Australia. This business group also includes the responsibility for sales and distribution for certain laboratory products, implants products and bone substitution/grafting materials for Austria. It also is responsible for sales and distribution of certain small equipment and chairside consumable products, certain laboratory products, implant products and bone substitution/grafting materials in certain other European countries. In addition this business group also includes the manufacturing and sale of Orthodontic products and certain laboratory products in Japan, and the manufacturing of certain laboratory and certain Endodontic products in Asia.

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Canada/Latin America/Endodontics/Orthodontics

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

Dental Laboratory Business/Implants/Non-Dental

This business group includes the responsibility for the design, manufacture, sales and distribution of most laboratory products, excluding certain countries mentioned previously, and the design, manufacture, and/or sales and distribution of the Company's dental implant products and bone substitute/grafting materials, excluding sales and distribution of implants and bone substitute/grafting materials in the United States; France, Italy, Austria, and certain other Eastern European countries; and Australia. This business group is also responsible for most of the Company's non-dental business.

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

Generally, the Company evaluates performance of the operating groups based on the groups' operating income, excluding restructuring, impairments and other costs, interest and taxes, and net third party sales, excluding precious metal content. The Company considers net third party sales, excluding precious metal content, as the appropriate sales measurement due to the fluctuations of precious metal prices and due to the fact that the precious metal content is largely a pass-through to customers and has a minimal effect on earnings.

The following table sets forth information about the Company's operating groups for the years ended December 31, 2010, 2009 and 2008.

Third Party Net Sales

(in thousands)	2010	2009	2008
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 526,781	\$ 526,668	\$ 459,678
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	482,146	471,232	487,126

Canada/Latin America/Endodontics/ Orthodontics	665,032	621,256	632,151
Dental Laboratory Business/ Implants/Non-Dental	550,359	543,637	618,077
All Other (a)	(3,304)	(3,415)	(5,567)
Total net sales	\$ 2,221,014	\$ 2,159,378	\$ 2,191,465

(a) Includes amounts recorded at Corporate headquarters.

Third Party Net Sales, Excluding Precious Metal Content

(in thousands)	2010	2009	2008
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 526,781	\$ 526,668	\$ 459,678
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	445,627	436,790	456,192
Canada/Latin America/Endodontics/Orthodontics	662,556	618,414	628,887
Dental Laboratory Business/Implants/Non-Dental	400,097	412,209	452,352
All Other (b)	(3,304)	(3,415)	(5,567)
Total net sales, excluding precious metal content	\$ 2,031,757	\$ 1,990,666	\$ 1,991,542
Precious metal content of sales	189,257	168,712	199,923
Total net sales, including precious metal content	\$ 2,221,014	\$ 2,159,378	\$ 2,191,465

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

Intersegment Net Sales

(in thousands)	2010	2009	2008
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 116,440	\$ 104,328	\$ 130,463
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	17,103	13,202	15,941
Canada/Latin America/Endodontics/Orthodontics	115,158	103,329	106,031
Dental Laboratory Business/Implants/Non-Dental	112,285	114,591	123,157
All Other (c)	179,780	176,539	177,251
Eliminations	(540,766)	(511,989)	(552,843)
Total	\$ -	\$ -	\$ -

(c) Includes amounts recorded at Corporate headquarters.

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Depreciation and Amortization

(in thousands)	2010	2009	2008
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 16,315	\$ 14,945	\$ 12,807
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	3,939	3,884	3,188
Canada/Latin America/Endodontics/ Orthodontics	18,419	16,978	17,179
Dental Laboratory Business/ Implants/Non-Dental	20,479	21,461	16,062
All Other (d)	7,188	7,907	7,693
Total	\$ 66,340	\$ 65,175	\$ 56,929

(d) Includes amounts recorded at Corporate headquarters.

Segment Operating Income

(in thousands)	2010	2009	2008
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 176,128	\$ 158,389	\$ 162,717
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	17,187	19,737	14,474
Canada/Latin America/Endodontics/ Orthodontics	195,817	185,772	200,101
Dental Laboratory Business/ Implants/Non-Dental	83,428	92,554	123,442
All Other (e)	(81,303)	(68,319)	(87,918)
Segment Operating Income	\$ 391,257	\$ 388,133	\$ 412,816
Reconciling Items:			
Restructuring and other costs	10,984	6,890	32,355
Interest expense	25,089	21,896	32,527
Interest income	(4,254)	(5,032)	(17,089)
Other expense (income), net	1,782	1,023	10,150
Income before income taxes	\$ 357,656	\$ 363,356	\$ 354,873

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

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Capital Expenditures

(in thousands)	2010	2009	2008
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 9,267	\$ 8,333	\$ 19,836
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	2,978	2,506	3,839
Canada/Latin America/Endodontics/ Orthodontics	17,078	14,434	19,593
Dental Laboratory Business/ Implants/Non-Dental	11,397	25,546	24,510
All Other (f)	3,516	5,662	8,662
Total	\$ 44,236	\$ 56,481	\$ 76,440

(f) Includes capital expenditures of Corporate headquarters.

Assets

(in thousands)	2010	2009
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 578,770	\$ 602,272
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	390,572	388,831
Canada/Latin America/Endodontics/ Orthodontics	932,126	809,924
Dental Laboratory Business/ Implants/Non-Dental	995,090	973,764
All Other (g)	361,393	313,141
Total	\$ 3,257,951	\$ 3,087,932

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

Geographic Information

The following table sets forth information about the Company's operations in different geographic areas for the years ended December 31, 2010, 2009 and 2008. Net sales reported below represent revenues for shipments made by operating businesses located in the country or territory identified, including export sales. Assets reported represent those held by the operating businesses located in the respective geographic areas.

(in thousands)	United States	Germany	Other Foreign	Consolidated
2010				
Net sales	\$ 841,232	\$ 469,796	\$ 909,986	\$ 2,221,014
Long-lived assets	119,533	116,916	186,656	423,105
2009				
Net sales	\$ 843,349	\$ 482,130	\$ 833,899	\$ 2,159,378
Long-lived assets	124,129	132,348	183,143	439,620
2008				
Net sales	\$ 865,743	\$ 470,836	\$ 854,886	\$ 2,191,465
Long-lived assets	129,286	131,960	171,029	432,275

Product and Customer Information

The following table presents net sales information by product category:

(in thousands)	2010	December 31, 2009	2008
Dental consumables products	\$ 717,718	\$ 708,713	\$ 677,758
Dental laboratory products	511,061	504,526	558,291
Dental specialty products	925,317	892,421	888,484
Non-dental products	66,918	53,718	66,932
Total net sales	\$ 2,221,014	\$ 2,159,378	\$ 2,191,465

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

Dental laboratory products are used in dental laboratories in the preparation of dental appliances. DENTSPLY's products in this category include dental prosthetics, including artificial teeth, precious metal dental alloys, dental ceramics, crown and bridge materials, and equipment products used in laboratories consisting of computer aided machining (CAM) ceramic systems and porcelain furnaces.

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

Non-dental products are comprised primarily of investment casting materials that are used in the production of jewelry, golf club heads and other casting products, as well as certain medical products.

One customer, Henry Schein, Incorporated, a dental distributor, accounted for more than ten percent of consolidated net sales in 2010, 2009 and 2008 accounting for 11% of all net sales. Third party export sales from the U.S. are less than ten percent of consolidated net sales.

NOTE 5 – OTHER EXPENSE (INCOME), NET

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

(in thousands)	2010	December 31, 2009	2008
Foreign exchange transaction losses (gains), net	\$ 3,331	\$ 336	\$ 8,881
Other (income) expense, net	(1,549)	687	1,269
	\$ 1,782	\$ 1,023	\$ 10,150

NOTE 6 – INVENTORIES, NET

Inventories, net, consist of the following:

(in thousands)	2010	December 31, 2009
Finished goods	\$ 189,343	\$ 178,721
Work-in-process	57,272	53,056
Raw materials and supplies	62,123	59,863
	\$ 308,738	\$ 291,640

The Company's inventory valuation reserve was \$35.5 million for 2010 and \$31.9 million for 2009.

NOTE 7- PROPERTY, PLANT AND EQUIPMENT, NET

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

(in thousands)	2010	December 31, 2009
Assets, at cost:		
Land	\$ 40,032	\$ 43,207
Buildings and improvements	304,341	295,297
Machinery and equipment	576,704	546,806
Construction in progress	20,639	18,610
	941,716	903,920
Less: Accumulated depreciation	518,611	464,301
Property, plant and equipment, net	\$ 423,105	\$ 439,619

NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

The Company requires that impairment tests on goodwill or other indefinite-lived intangible assets be performed annually and are based upon a fair value approach. If goodwill impairment is identified, the resulting charge is calculating the implied goodwill through a hypothetical purchase price allocation of the fair value and reducing the current carrying value to the extent it exceeds the implied 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 intangible assets with finite lives are amortized over their useful lives and tested for impairment when events or changes in

circumstances indicate that the finite-lived intangible assets may be impaired

In addition to minimum annual impairment tests, the Company also requires that impairment assessments be made more frequently if events or changes in circumstances indicate that the goodwill or indefinite-lived intangible assets might be impaired. As the Company learns of such changes in circumstances through periodic analysis of actual results or through the annual development of operating unit business plans in the fourth quarter of each year, for example, impairment assessments will be performed as necessary.

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The Company performs its annual goodwill impairment test in the second quarter of each year. This impairment assessment includes an evaluation of various reporting units, which is an operating segment or one reporting level below the operating segment. The Company compares the fair value of each reporting unit to its carrying amount to determine if there is potential goodwill impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill of the reporting unit is less than the carrying value of its goodwill.

The Company performed the required annual impairment tests of goodwill as of April 30, 2010 on seven reporting units. To determine the fair value of the Company's reporting units, the Company uses a discounted cash flow model with market-based support as its valuation technique to measure the fair value for its reporting units. The discounted cash flow model uses five year forecasted cash flows plus a terminal value based on a multiple of earnings. In addition, the Company applies gross margin and operating expense assumptions consistent with historical trends. The total cash flows were discounted based on a range between 7% to 10%, which included assumptions regarding the Company's weighted-average cost of capital. The Company considered the current market conditions when determining its assumptions as the global economy, and to a certain extent the U.S. economy, began to stabilize from the recessionary conditions in 2009. Lastly, the Company reconciled the aggregated fair values of its reporting units to its market capitalization, which included a reasonable control premium based on market conditions. As a result of the annual impairment tests of goodwill, no impairment was identified.

As of December 31, 2010, the Company has assigned no value to indefinite-lived intangible assets. Impairments of identifiable definite-lived intangible assets for the years ended December 31, 2010, 2009 and 2008 were \$0.4 million, \$0.3 million and \$2.7 million, respectively.

The table below presents the net carrying values of goodwill and identifiable definite-lived intangible assets.

(in thousands)	December 31,	
	2010	2009
Goodwill	\$ 1,303,055	\$ 1,312,596
Identifiable definite-lived intangible assets, net	\$ 78,743	\$ 89,086

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

(in thousands)	December 31,	
	2010	2009
Balance, beginning of the year	\$ 1,312,596	\$ 1,277,026
Acquisition activity	20,382	3,572
Changes to purchase price allocations	-	5,245
Effects of exchange rate changes	(29,923)	26,753
Balance, end of the year	\$ 1,303,055	\$ 1,312,596

The change in the net carrying value of goodwill from 2009 to 2010 was due to foreign currency translation adjustments, additional payments based on the performance of the previously acquired businesses and changes to purchase price allocations. The purchase price allocation changes were primarily related to the finalization of the purchase price allocation on 2009 acquisitions.

Goodwill by reportable segment is as follows:

(in thousands)	December 31,	
	2010	2009
U.S., Germany and Certain Other European Regions Consumable Businesses	\$ 249,522	\$ 252,538
France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses	167,258	159,383
Canada/Latin America/Endodontics/ Orthodontics	282,321	267,427
Dental Laboratory Business/ Implants/Non-Dental	603,954	633,248
Total	\$ 1,303,055	\$ 1,312,596

Identifiable definite-lived intangible assets consist of the following:

(in thousands)	December 31, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	\$ 21,956	\$ (12,108)	\$ 9,848	\$ 38,840	\$ (25,842)	\$ 12,998
Trademarks	68,344	(20,835)	47,509	70,353	(17,939)	52,414
Licensing agreements	28,509	(15,709)	12,800	28,880	(14,138)	14,742
Other	16,994	(8,408)	8,586	15,364	(6,432)	8,932
	\$ 135,803	\$ (57,060)	\$ 78,743	\$ 153,437	\$ (64,351)	\$ 89,086

Amortization expense for identifiable definite-lived intangible assets for 2010, 2009 and 2008 was \$9.0 million, \$10.6 million and \$8.7 million, respectively. The annual estimated amortization expense related to these intangible assets for each of the five succeeding fiscal years is \$8.4 million, \$7.7 million, \$6.3 million, \$5.6 million and \$5.5 million for 2011, 2012, 2013, 2014 and 2015, respectively.

NOTE 9 - ACCRUED LIABILITIES

Accrued liabilities consist of the following:

(in thousands)	December 31,	
	2010	2009
Payroll, commissions, bonuses, other cash compensation and employee benefits	\$ 61,334	\$ 60,083
General insurance	12,118	13,222
Sales and marketing programs	31,070	28,468
Professional and legal costs	10,844	10,248
Restructuring costs	9,191	9,966
Warranty liabilities	4,253	4,141
Deferred income	5,656	3,385
Accrued vacation and holidays	12,528	13,425
Third party royalties	9,184	9,806
Current portion of derivatives	27,668	59,250
Other	40,899	37,175
	\$ 224,745	\$ 249,169

A reconciliation of changes in the Company's warranty liability for 2010 and 2009 is as follows:

(in thousands)	December 31,	
	2010	2009
Balance, beginning of the year	\$ 4,141	\$ 4,260
Accruals for warranties issued during the year	1,581	1,129
Accruals related to pre-existing warranties	103	-
Warranty settlements made during the year	(1,494)	(1,295)
Effects of exchange rate changes	(78)	47
Balance, end of the year	\$ 4,253	\$ 4,141

NOTE 10 - FINANCING ARRANGEMENTS

Financing Activities

On February 19, 2010, the Company received the proceeds of a \$250.0 million Private Placement Note ("PPN") at a fixed rate of 4.1% for an average term of five years and a final maturity of six years. The PPN is unsecured and contains certain affirmative and negative covenants relating to its operations and financial condition of the Company similar in substance to the \$150.0 million U.S. Private Placement Note that matured March 15, 2010.

On March 1, 2010, the Company entered into a Term Loan Agreement ("Term Loan") with PNC Bank providing for the issuance by the Company of 65.0 million Swiss francs aggregate principal amount of floating rate Senior Term Loan with a final maturity in March 2012. This Term Loan is unsecured and contains certain affirmative and negative covenants relating to its operations and financial condition of the Company similar in substance to the existing multi-currency revolving credit agreement maturing May 7, 2013. The new Term Loan was used to refinance a loan under the existing multi-currency revolving credit agreement.

On May 7, 2010, the Company entered into a \$200.0 million multi-currency revolving credit agreement (“Revolver”) with a syndicate of eight lenders with a final maturity in May 2013. The multi-currency revolving credit agreement replaced the \$500.0 million multi-currency revolving credit agreement which matured May 9, 2010. This Revolver is unsecured and contains certain affirmative and negative covenants relating to its operations and financial condition of the Company similar in substance to the previous multi-currency revolving credit agreement which matured May 9, 2010.

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Short-Term Borrowings

Short-term bank borrowings amounted to \$5.3 million and \$15.6 million at December 31, 2010 and 2009, respectively. The weighted-average interest rates of these borrowings were 3.0% at December 31, 2010 and 2009. Unused lines of credit for short-term financing at December 31, 2010 and 2009 were \$72.1 million and \$56.9 million, respectively. Substantially all other short-term borrowings were classified as long-term as of December 31, 2010 and 2009, reflecting the Company's intent and ability to refinance these obligations beyond one year and are included in the following table. The unused lines of credit have no major restrictions and are provided under demand notes between the Company and the lending institution. Interest is charged on borrowings under these lines of credit at various rates, generally below prime or equivalent money rates.

Long-Term Borrowings

(in thousands)	December 31,	
	2010	2009
Multi-currency revolving credit agreement		
expiring May 2013:		
U.S. dollar denominated	\$ 2,123	\$ 3,967
Swiss francs 65 million	-	62,844
Private placement notes:		
U.S. dollar denominated expiring March 2010 at 0.55%	-	150,000
U.S. dollar denominated expiring March 2016 at 4.11%	250,000	-
Term Loan Agreement:		
Swiss francs denominated expiring March 2012 at 1.67%	69,560	-
Term Loan Agreement:		
Japanese yen denominated expiring March 2012 at 0.91%	154,626	134,776
U.S. dollar commercial paper:		
Facility rated A/2-P/2 U.S. dollar borrowings at 0.40%	119,500	85,200
Other borrowings, various currencies and rates	10,684	16,944
	\$ 606,493	\$ 453,731
Less: Current portion		
(included in notes payable and current portion of long-term debt)		
Long-term portion	\$ 2,478	\$ 66,580
	\$ 604,015	\$ 387,151

The table below reflects the contractual maturity dates of the various borrowings at December 31, 2010. The borrowings under the commercial paper program are considered contractually due in 2013.

(in thousands)

2011	\$ 2,478
2012	159,459
2013	192,497

2014	75,718
2015	100,330
2016 and beyond	76,011
	\$ 606,493

The Company utilizes interest rate swaps to convert the Swiss franc denominated Term Loan debt to fixed rate debt. The Company utilizes interest rate swaps to convert the variable rate Japanese yen denominated notes to fixed rate debt. The Company's use of interest rate swaps is further described in Note 15, Financial Instruments and Derivatives.

The Company has a \$200.0 million revolving credit agreement with participation from eight banks, which expires in May 2013. The revolving credit agreement contains a number of covenants and two financial ratios, which the Company is required to satisfy. The most restrictive of these covenants pertain to asset dispositions and prescribed ratios of indebtedness to total capital and operating income excluding depreciation and amortization to interest expense. Any breach of any such covenants or restrictions would result in a default under the existing borrowing documentation that would permit the lenders to declare all borrowings under such documentation to be immediately due and payable and, through cross default provisions, would entitle the Company's other lenders to accelerate their loans. At December 31, 2010, the Company was in compliance with these covenants. The Company pays a facility fee of 0.25% annually on the amount of the commitment under the \$200.0 million three-year facility. Interest rates on amounts borrowed under the facility will depend on the maturity of the borrowing, the currency borrowed, the interest rate option selected, and the Company's long-term credit rating from Standard and Poor's and Moody's.

The Company has a U.S. dollar commercial paper facility totaling \$200.0 million, which has utilization, dealer and annual appraisal fees which on average cost 0.16% annually. The \$200.0 million revolving credit facility acts as back-up credit to this commercial paper facility. The total available credit under the commercial paper facility and the revolving credit facility is \$200.0 million. As of December 31, 2010, the Company had \$119.5 million outstanding in commercial paper and \$2.1 million in revolving credit obligations.

At December 31, 2010, the Company had total unused lines of credit, including lines available under its short-term arrangements and revolving credit agreement, of \$150.5 million.

NOTE 11 - EQUITY

At December 31, 2010, the Company had authorization to repurchase shares under its stock repurchase program in an amount up to 22,000,000 shares of treasury stock. Under its stock repurchase program, the Company purchased 6,714,508 shares and 2,452,903 shares during 2010 and 2009 at an average price of \$33.36 and \$32.09, respectively. As of December 31, 2010 and 2009, the Company held 21.0 million and 15.8 million shares of treasury stock, respectively. During 2010, the Company repurchased \$224.0 million in treasury stock. The Company also received proceeds of \$30.2 million primarily as a result of the exercise of 1.5 million stock options during the year ended December 31, 2010. It is the Company's practice to issue shares from treasury stock when options are exercised. The tax benefit realized for the options exercised during the year ended December 31, 2010 is \$5.4 million.

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

(in thousands)	Common Shares	Treasury Shares	Outstanding Shares
Balance at December 31, 2007	162,776	(11,954)	150,822
Shares Issued	-	677	677
Repurchase of common stock at cost	-	(2,971)	(2,971)
Balance at December 31, 2008	162,776	(14,248)	148,528
Shares Issued	-	886	886
Repurchase of common stock at cost	-	(2,453)	(2,453)
Balance at December 31, 2009	162,776	(15,815)	146,961
Shares Issued	-	1,489	1,489
Repurchase of common stock at cost	-	(6,715)	(6,715)
Balance at December 31, 2010	162,776	(21,041)	141,735

The Company maintains the 2010 Equity Incentive Plan (the "Plan") under which it may grant non-qualified stock options, incentive stock options, restricted stock, restricted stock units ("RSU") and stock appreciation rights, collectively referred to as "Awards." Awards are granted at exercise prices that are equal to the closing stock price on the date of grant. The Company authorized grants under the Plan of 13.0 million shares of common stock, plus any unexercised portion of cancelled or terminated stock options granted under the DENTSPLY International Inc. 2002 Equity Incentive Plan, as amended, subject to adjustment as follows: each January, if 7% of the total outstanding common shares of the Company exceed 13.0 million, the excess becomes available for grant under the Plan. No more than 2.5 million shares may be awarded as restricted stock and RSU, and no key employee may be granted restricted stock and RSU in excess of approximately 0.2 million shares of common stock in any calendar year. The number of shares available for grant under the 2010 Plan as of December 31, 2010 is 13.8 million.

Stock options generally expire ten years after the date of grant under these plans and grants become exercisable over a period of three years after the date of grant at the rate of one-third per year, except when they become immediately exercisable upon death, disability or qualified retirement. RSU vest 100% on the third anniversary of the date of grant and are subject to a service condition, which requires grantees to remain employed by the Company during the three-year period following the date of grant. In addition to the service condition, certain key executives are subject to performance requirements. Similar to stock options, RSU become immediately exercisable upon death, disability or qualified retirement. The fair value of each RSU assumes that performance goals will be achieved. If such goals are not met, no compensation cost is recognized and any recognized compensation costs is reversed. Under the terms of the RSU, the three-year period is referred to as the restricted period. RSU and the rights under the award may not be sold, assigned, transferred, donated, pledged or otherwise disposed of during the three year restricted period prior to vesting. Upon the expiration of the applicable restricted period and the satisfaction of all conditions imposed, all restrictions imposed on RSU will lapse, and one share of common stock will be issued as payment for each vested RSU.

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

(in millions)	December 31,		
	2010	2009	2008
Stock option expense	\$ 10.4	\$ 8.7	\$ 11.7
RSU expense	7.2	6.4	4.4
Total stock based compensation expense	\$ 17.6	\$ 15.1	\$ 16.1
Related deferred income tax benefit	\$ 4.9	\$ 3.6	\$ 3.9

The stock option expense shown in the preceding table represents the aggregate fair value of shares vested during the year ended December 31, 2010, 2009 and 2008. There were 1.8 million non-qualified stock options unvested as of December 31, 2010. The remaining unamortized compensation cost related to non-qualified stock options is \$8.9 million, which will be expensed over the weighted average remaining vesting period of the options, or 1.4 years. The unamortized compensation cost related to RSU is \$6.9 million, which will be expensed over the remaining weighted average restricted period of the RSU, or 1.2 years.

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

	December 31,		
	2010 (a)	2009	2008
Weighted average fair value per share	\$ 9.06	\$ 7.31	\$ 5.23
Expected dividend yield	0.58%	0.60%	0.69%
Risk-free interest rate	2.55%	2.14%	1.85%
Expected volatility	22%	22%	21%
Expected life (years)	6.42	4.84	4.66

(a) In 2010, the Human Resources Committee of the Company's Board of Directors reviewed the Company's practices for NQSO grants and determined that it would be more appropriate to make all regular equity grants in the February time frame, after the Company's financial results are known for the prior year. Accordingly, there were no grants of NQSO in December 2010, which had been the historic practice.

The total intrinsic value of options exercised for the years ended December 31, 2010, 2009 and 2008 was \$16.5 million, \$12.3 million and \$13.7 million, respectively.

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The following table summarizes the non-qualified stock option transactions for the year ended December 31, 2010:

(in thousands, except per share amounts)	Shares	Outstanding Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Exercisable Weighted Average Exercise Price	Aggregate Intrinsic Value
December 31, 2009	12,038	\$ 28.34	\$ 94,148	8,682	\$ 26.78	\$ 80,839
Granted	150	34.56				
Exercised	(1,344)	22.46				
Forfeited	(208)	33.15				
December 31, 2010	10,636	\$ 29.07	\$ 66,722	8,815	\$ 28.58	\$ 61,450

The weighted average remaining contractual term of all outstanding options is 5.8 years and the weighted average remaining contractual term of exercisable options is 5.1 years.

The following table summarizes information about non-qualified stock options outstanding for the year ended December 31, 2010:

Incremental Changes in Stock Price	Number Outstanding at December 31, 2010	Outstanding Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Exercisable Number at December 31, 2010	Weighted Average Exercise Price
10.01 - 15.00	30,600	0.5	\$ 13.61	30,600	\$ 13.61
15.01 - 20.00	1,165,283	1.6	17.64	1,165,283	17.64
20.01 - 25.00	1,037,798	3.1	22.17	1,019,398	22.17
25.01 - 30.00	4,270,074	6.1	27.07	3,681,669	27.18
30.01 - 35.00	2,844,220	7.6	32.81	1,749,067	32.19
35.01 - 40.00	203,315	7.8	36.77	93,764	37.29
40.01 - 45.00	37,774	7.2	41.16	28,587	41.19
45.01 - 50.00	1,046,867	6.8	45.15	1,046,867	45.15
	10,635,931	5.8	\$ 29.07	8,815,235	\$ 28.58

The following table summarizes the unvested RSU transactions for the year ended December 31, 2010:

(in thousands, except per share amounts)	Shares	Unvested Restricted Stock Units Weighted Average Grant Date Fair Value
Unvested at December 31, 2009	668	\$ 31.95
Granted	250	32.92
Exercised	(144)	30.95
Forfeited	(30)	32.86

Unvested at December 31, 2010

744 \$ 32.43

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NOTE 12 - INCOME TAXES

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

(in thousands)	2010	December 31, 2009	2008
United States	\$ 104,424	\$ 99,009	\$ 45,171
Foreign	253,232	264,347	309,702
	\$ 357,656	\$ 363,356	\$ 354,873

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

(in thousands)	2010	December 31, 2009	2008
Current:			
U.S. federal	\$ 21,848	\$ 30,851	\$ (9,913)
U.S. state	3,795	5,886	2,291
Foreign	62,196	52,012	65,854
Total	\$ 87,839	\$ 88,749	\$ 58,232
Deferred:			
U.S. federal	\$ 3,067	\$ (8,046)	\$ 23,496
U.S. state	1,062	(476)	3,283
Foreign	(2,743)	8,717	(13,408)
Total	\$ 1,386	\$ 195	\$ 13,371
	\$ 89,225	\$ 88,944	\$ 71,603

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

	2010	December 31, 2009	2008
Statutory federal income tax rate	35.0%	35.0%	35.0%
Effect of:			
State income taxes, net of federal benefit	0.9	1.0	1.0
Federal benefit of R&D and foreign tax credits	(6.9)	(11.3)	(15.8)
Tax effect of international operations	(4.7)	0.7	4.9
Net effect of tax audit activity	1.0	(1.3)	(4.4)
Tax effect of enacted statutory rate changes	-	-	0.1
Federal tax on unremitted earnings of certain foreign subsidiaries	0.2	0.1	(0.3)

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Other	(0.5)	0.3	(0.3)
Effective income tax rate on operations	25.0%	24.5%	20.2%

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

(in thousands)	December 31, 2010		December 31, 2009	
	Deferred Tax Asset	Deferred Tax Liability	Deferred Tax Asset	Deferred Tax Liability
Commission and bonus accrual	\$ 1,201	\$ -	\$ 1,764	\$ -
Employee benefit accruals	33,139	-	27,876	-
Inventory	17,497	-	15,554	-
Identifiable intangible assets	-	138,621	-	130,419
Insurance premium accruals	4,610	-	5,068	-
Miscellaneous accruals	7,088	-	8,529	-
Other	13,820	-	12,827	-
Unrealized losses included in other comprehensive income	59,618	-	55,545	-
Property, plant and equipment	-	36,881	-	38,663
Product warranty accruals	901	-	980	-
R&D and foreign tax credit carryforward	34,844	-	35,609	-
Restructuring and other cost accruals	1,011	-	777	-
Sales and marketing accrual	4,545	-	4,553	-
Taxes on unremitted earnings of foreign subsidiaries	-	2,083	-	1,486
Tax loss carryforwards and other tax attributes	94,286	-	70,010	-
Valuation allowance	(75,392)	-	(51,809)	-
	\$ 197,168	\$ 177,585	\$ 187,283	\$ 170,568

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

(in thousands)	December 31,	
	2010	2009
Prepaid expenses and other current assets	\$ 55,747	\$ 77,277
Income taxes payable	3,004	1,747
Other noncurrent assets	39,329	13,709
Deferred income taxes	72,489	72,524

The Company has \$34.8 million of foreign tax credit carryforwards, of which \$7.8 million, \$7.1 million, \$9.9 million, \$7.1 million, and \$2.9 million will expire in 2015, 2016, 2017, 2019, and 2020 respectively.

Certain foreign and domestic subsidiaries of the Company have tax loss carryforwards of \$585.7 million at December 31, 2010, of which \$443.1 million expire through 2030 and \$142.6 million may be carried forward indefinitely. The tax benefit of certain tax loss carryforwards and deferred tax assets has been offset by a valuation allowance as of December 31, 2010, because it is uncertain whether the benefits will be realized in the future. The valuation allowance at December 31, 2010 and 2009 was \$75.4 million and \$51.8 million, respectively.

The Company has provided federal income taxes on certain undistributed earnings of its foreign subsidiaries that the Company anticipates will be repatriated. Deferred federal income taxes have not been provided on \$800.1 million of cumulative earnings of foreign subsidiaries that the Company has determined to be permanently reinvested. It is not practicable to estimate the amount of tax that might be payable on these permanently reinvested earnings.

Tax Contingencies

The Company applies a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company recognizes in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

The total amount of gross unrecognized tax benefits at December 31, 2010, is approximately \$19.2 million, of this total, approximately \$17.8 million represents the amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate. It is reasonably possible that certain amounts of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date of the Company's consolidated financial statements. Final settlement and resolution of outstanding tax matters in various jurisdictions during the next twelve months could include unrecognized tax benefits of approximately \$3.1 million. In addition, expiration of statutes of limitation in various jurisdictions during the next twelve months could include unrecognized tax benefits of approximately \$0.3 million.

The total amount of accrued interest and penalties were \$6.0 million and \$5.6 million as of December 31, 2010 and 2009, respectively. The Company has consistently classified interest and penalties recognized in its consolidated financial statements as income taxes based on the accounting policy election of the Company. During the year ended December 31, 2010 and December 31, 2009, the Company recognized income tax benefits in the amount of \$0.6 million and \$1.7 million for interest and penalties. During the year ended December 31, 2008, the company recognized income tax expense of \$5.5 million in interest and penalties.

The Company is subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The significant jurisdictions include the U.S., Germany and Switzerland. The Company has substantially concluded all U.S. federal income tax matters for years through 2005, resulting in the years 2006 through 2009 being subject to future potential tax audit adjustments while years prior to 2006 are settled. The Company has concluded audits in Germany through the tax year 2003 and is currently under audit for the years 2004 through 2008. The taxable years that remain open for Switzerland are 2000 through 2009.

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

(in thousands)	2010	December 31, 2009	2008
Unrecognized tax benefits at beginning of period	\$ 12,864	\$ 17,285	\$ 36,307
Gross change for prior period positions	47	(5,120)	(10,154)
Gross change for current year positions	1,036	1,630	785
Decrease due to settlements and payments	-	(255)	(2,584)
Decrease due to statute expirations	(424)	(1,026)	(5,752)
Increase due to effect of foreign currency translation	-	350	-
Decrease due to effect from foreign currency translation	(380)	-	(1,317)
Unrecognized tax benefits at end of period	\$ 13,143	\$ 12,864	\$ 17,285

NOTE 13 - BENEFIT PLANS

Substantially all of the employees of the Company and its subsidiaries are covered by government or Company-sponsored benefit plans. Total costs for Company-sponsored defined benefit, defined contribution and employee stock ownership plans amounted to \$26.2 million, \$24.6 million and \$21.2 million in 2010, 2009 and 2008, respectively.

Defined Contribution Plans

The DENTSPLY Employee Stock Ownership Plan (“ESOP”) and 401(k) plans are designed to have contribution allocations of “Covered Compensation,” with a targeted 3% going into the ESOP in Company stock and a targeted 3% going into the 401(k) as a Non-Elective Contribution (“NEC”) in cash. The Company sponsors an employee 401(k) savings plan for its U.S. workforce to which enrolled participants may contribute up to Internal Revenue Service (“IRS”) defined limits. The annual expense and cash contribution to the 401(k) is expected to be \$4.7 million for 2010 (to be contributed in the first quarter of 2011), and was \$5.3 million for 2009 (contributed in the first quarter of 2010), and \$5.0 million for 2008 (contributed in the first quarter of 2009).

The ESOP is a non-contributory defined contribution plan that covers substantially all of the U.S. based non-union employees of the Company. Contributions to the ESOP, net of forfeitures, are expected to be \$3.0 million for 2010 (to be contributed in the first quarter of 2011), and were \$1.4 million for 2009 (contributed in the first quarter of 2010), and were \$1.3 million for 2008 (contributed in the first quarter of 2009).

All future ESOP allocations will come from a combination of forfeited shares and shares acquired in the open market. The Company has targeted future ESOP allocations at 3% of “Covered Compensation.” The share allocation will be accounted at fair value at the point of allocation, which is normally year-end.

Defined Benefit Plans

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

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

Defined Benefit Pension Plan Assets

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

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

The defined benefit pension plan assets maintained in Germany, Japan, the Netherlands, Switzerland and Taiwan all have separate investment policies but generally have an objective to achieve a long-term rate of return in excess 5% while at the same time mitigating the impact of investment risk associated with investment categories that are expected to yield greater than average returns. In accordance with the investment policies for the plans outside the U.S., the plans' assets were invested in the following investment categories: interest-bearing cash, U.S. and foreign equities, foreign fixed income securities (primarily corporate and government bonds), insurance company contracts, real estate and hedge funds.

Postretirement Healthcare

The plans for postretirement healthcare have no plan assets. The postretirement healthcare plans cover certain union and salaried employee groups in the U.S. and is contributory, with retiree contributions adjusted annually to limit the

Company's contribution for participants who retired after June 1, 1985. The Company also sponsors unfunded non-contributory postretirement medical plans for a limited number of union employees and their spouses and retirees of a discontinued operation.

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

(in thousands)	Pension Benefits December 31,		Other Postretirement Benefits December 31,	
	2010	2009	2010	2009
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 191,976	\$ 183,785	\$ 11,666	\$ 10,501
Service cost	8,108	8,375	58	50
Interest cost	8,415	8,003	605	676
Participant contributions	2,886	2,774	616	689
Actuarial losses (gains)	7,976	(7,202)	(548)	1,018
Amendments	-	(29)	-	-
Divestitures	291	286	-	-
Effects of exchange rate changes	3,474	4,929	-	-
Settlement gains	-	(808)	-	-
Benefits paid	(11,622)	(8,137)	(790)	(1,268)
Benefit obligation at end of year	\$ 211,504	\$ 191,976	\$ 11,607	\$ 11,666
Change in Plan Assets				
Fair value of plan assets at beginning of year	\$ 88,866	\$ 75,986	\$ -	\$ -
Actual return on assets	1,883	5,687	-	-
Settlement gains	-	-	-	-
Effects of exchange rate changes	8,374	2,474	-	-
Employer contributions	9,159	10,082	174	579
Participant contributions	2,886	2,774	616	689
Benefits paid	(11,622)	(8,137)	(790)	(1,268)
Fair value of plan assets at end of year	\$ 99,546	\$ 88,866	\$ -	\$ -
Funded status at end of year	\$ (111,958)	\$ (103,110)	\$ (11,607)	\$ (11,666)

The amounts recognized in the accompanying consolidated balance sheets, net of tax effects, are as follows:

(in thousands)	Pension Benefits December 31,		Other Postretirement Benefits December 31,	
	2010	2009	2010	2009
Other noncurrent assets	\$ -	\$ 1	\$ -	\$ -
Deferred tax asset	9,834	7,177	1,113	1,427
Total assets	\$ 9,834	\$ 7,178	\$ 1,113	\$ 1,427
Current liabilities	(3,462)	(3,604)	(1,099)	(1,107)
Long-term liabilities	(108,496)	(99,507)	(10,508)	(10,559)
Deferred tax liability	(22)	(238)	-	-
Total liabilities	\$ (111,980)	\$ (103,349)	\$ (11,607)	\$ (11,666)

Accumulated other comprehensive income	29,050	20,504	1,771	2,270
Net amount recognized	\$ (73,096)	\$ (75,667)	\$ (8,723)	\$ (7,969)

Amounts recognized in AOCI consist of:

(in thousands)	Pension Benefits December 31,		Other Postretirement Benefits December 31,	
	2010	2009	2010	2009
Net actuarial loss	\$ 38,694	\$ 27,056	\$ 2,884	\$ 3,697
Net prior service cost	168	262	-	-
Net transition obligation	-	125	-	-
Pretax AOCI	\$ 38,862	\$ 27,443	\$ 2,884	\$ 3,697
Less deferred taxes	9,812	6,939	1,113	1,427
Post tax AOCI	\$ 29,050	\$ 20,504	\$ 1,771	\$ 2,270

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

(in thousands)	December 31,	
	2010	2009
Projected benefit obligation	\$ 211,504	\$ 191,785
Accumulated benefit obligation	200,574	182,594
Fair value of plan assets	99,546	88,674

Components of net periodic benefit cost:

(in thousands)	Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008
Service cost	\$ 8,108	\$ 8,375	\$ 6,980	\$ 58	\$ 50	\$ 50
Interest cost	8,415	8,003	7,910	605	676	635
Expected return on assets	(4,662)	(3,991)	(4,458)	-	-	-
Amortization of actuarial losses	124	240	240	-	-	-
Amortization of prior service	86	138	141	-	-	-
Amortization of net loss	1,002	1,652	155	265	281	168
Settlement gains	-	(1,148)	(2,259)	-	-	-
Net periodic benefit cost	\$ 13,073	\$ 13,269	\$ 8,709	\$ 928	\$ 1,007	\$ 853

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

(in thousands)	Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008

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Net actuarial (gain) loss	\$ 12,640	\$ (7,994)	\$ 26,214	\$ (548)	\$ 1,020	\$ 670
Net prior service (credit)	(8)	(37)	(3)	-	-	-
Net transition obligation	(1)	1	32	-	-	-
Amortization	(1,212)	(2,030)	(536)	(265)	(281)	(168)
Total recognized in AOCI	\$ 11,419	\$ (10,060)	\$ 25,707	\$ (813)	\$ 739	\$ 502
Total recognized in net periodic benefit cost and AOCI	\$ 24,493	\$ 3,209	\$ 34,416	\$ 114	\$ 1,746	\$ 1,355

The estimated net loss, prior service cost and transition obligation for the defined benefit plans that will be amortized from AOCI into net periodic benefit cost over the next fiscal year are \$1.6 million. The estimated net loss and prior service credit for the other postretirement plans that will be amortized from AOCI into net periodic benefit cost over the next fiscal year is \$0.2 million.

The amounts in AOCI that are expected to be amortized as net expense (income) during fiscal year 2011 are as follows:

(in thousands)	Pension Benefits	Other Postretirement Benefits
Amount of net transition obligation (asset)	\$ -	\$ -
Amount of net prior service cost	0.1	-
Amount of net loss	1.5	0.2

The weighted average assumptions used to determine benefit obligations for the Company's plans, principally in foreign locations, are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008
Discount rate	4.1%	4.7%	4.5%	5.0%	5.5%	6.3%
Rate of compensation increase	2.6%	2.7%	2.7%	n/a	n/a	n/a
Health care cost trend	n/a	n/a	n/a	8.0%	8.5%	9.0%
Ultimate health care cost trend	n/a	n/a	n/a	5.0%	5.0%	5.0%
Years until ultimate trend is reached	n/a	n/a	n/a	7.0	8.0	9.0

The weighted average assumptions used to determine net periodic benefit cost for the Company's plans, principally in foreign locations, are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008
Discount rate	4.7%	4.5%	5.0%	5.5%	6.3%	6.3%
Expected return on plan assets	5.2%	5.2%	5.4%	n/a	n/a	n/a
Rate of compensation increase	2.7%	2.7%	2.8%	n/a	n/a	n/a
Health care cost trend	n/a	n/a	n/a	8.0%	8.5%	9.0%
Ultimate health care cost trend	n/a	n/a	n/a	5.0%	5.0%	5.0%
Years until ultimate trend is reached	n/a	n/a	n/a	7.0	8.0	9.0
Measurement Date	12/31/2010	12/31/2009	12/31/2008	12/31/2010	12/31/2009	12/31/2008

To develop the assumptions for the expected long-term rate of return on assets, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the assets are invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocations to

develop the assumptions for the expected long-term rate of return on assets.

Assumed health care cost trend rates have an impact on the amounts reported for postretirement benefits. A one percentage point change in assumed healthcare cost trend rates would have the following effects for the year ended December 31, 2010:

(in thousands)	Other Postretirement Benefits	
	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 59	\$ (49)
Effect on postretirement benefit obligation	988	(845)

Fair Value Measurements of Plan Assets

The fair value of the Company's pension plan assets at December 31, 2010 are presented in the table below by asset category. Over 80% of the total plan assets are categorized as Level 1, and therefore, the values assigned to these pension assets are based on quoted prices available in active markets. For the other category levels, a description of the valuation is provided in Note 1, Significant Accounting Policies, under the "fair value measurement" heading.

December 31, 2010

(in thousands)	Total	Level 1	Level 2	Level 3
Assets Category				
Cash and cash equivalents	\$ 3,028	\$ 2,775	\$ 253	\$ -
Equity securities:				
U. S.	1,103	1,103	-	-
International	29,944	29,944	-	-
Fixed income securities:				
Fixed rate bonds (a)	41,215	41,215	-	-
Other types of investments:				
Mutual funds (b)	8,857	417	8,440	-
Common trusts (c)	1,648	-	-	1,648
Insurance contracts	4,858	-	3,034	1,824
Hedge funds	1,334	-	-	1,334
Real estate	7,559	7,199	-	360
Total	\$ 99,546	\$ 82,653	\$ 11,727	\$ 5,166

December 31, 2009

(in thousands)	Total	Level 1	Level 2	Level 3
Assets Category				
Cash and cash equivalents	\$ 3,180	\$ 3,038	\$ 142	\$ -
Equity securities:				
U. S.	954	954	-	-
International	27,907	27,907	-	-
Fixed income securities:				
Fixed rate bonds (a)	35,350	35,350	-	-
Other types of investments:				
Mutual funds (b)	7,872	-	7,872	-
Common trusts (c)	1,932	90	-	1,842
Insurance contracts	4,567	-	2,825	1,742
Hedge funds	1,672	-	-	1,672
Real estate	5,432	5,107	-	325
Total	\$ 88,866	\$ 72,446	\$ 10,839	\$ 5,581

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

(b) Mutual funds balanced between moderate-income generation and moderate capital appreciation with investments allocation of approximately 50% equities and 50% fixed income investments.

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

The following tables provide a reconciliation from December 31, 2009 to December 31, 2010 for the plans assets categorized as Level 3. No assets were transferred in or out of the Level 3 category during the year ended December 31, 2010.

(in thousands)	Changes within Level 3 Category for Year Ended December 31, 2010					Total
	Common Trust	Insurance Contracts	Hedge Funds	Real Estate		
Beginning balance at December 31, 2009	\$ 1,842	\$ 1,742	\$ 1,672	\$ 325	\$ 5,581	
Actual return on plan assets:						
Relating to assets still held at the reporting date	116	29	37	-	182	
Relating to assets sold during the period	46	-	-	-	46	
Purchases, sales and settlements	(356)	109	(541)	-	(788)	
Effects of exchange rate changes	-	(56)	166	35	145	
Ending balance at December 31, 2010	\$ 1,648	\$ 1,824	\$ 1,334	\$ 360	\$ 5,166	

The following tables provide a reconciliation from December 31, 2008 to December 31, 2009 for the plans assets categorized as Level 3. No assets were transferred in or out of the Level 3 category during the year ended December 31, 2009.

(in thousands)	Changes within Level 3 Category for Year Ended December 31, 2009					Total
	Common Trust	Insurance Contracts	Hedge Funds	Real Estate		
Beginning balance at December 31, 2008	\$ 1,233	\$ 1,578	\$ 1,002	\$ 314	\$ 4,127	
Actual return on plan assets:						
Relating to assets still held at the reporting date	239	31	(224)	-	46	
Relating to assets sold during the period	16	-	-	-	16	
Purchases, sales and settlements	354	89	832	-	1,275	
Effects of exchange rate changes	-	44	62	11	117	
Ending balance at December 31, 2009	\$ 1,842	\$ 1,742	\$ 1,672	\$ 325	\$ 5,581	

Fair values for Level 3 assets are determined as follows:

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

Real Estate: Investment is stated by its appraised value.

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

Cash Flows

In 2011, the Company expects to contribute \$6.2 million to its defined benefit pension plans and \$1.1 million to its postretirement medical plans.

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Estimated Future Benefit Payments

(in thousands)	Other	
	Pension Benefits	Postretirement Benefits
2011	\$ 8,368	\$ 1,099
2012	8,656	1,124
2013	9,569	1,080
2014	10,140	1,046
2015	10,058	978
2016-2019	59,982	4,149