

DENTSPLY INTERNATIONAL INC /DE/  
Form 10-Q  
July 28, 2011

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, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-16211

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

39-1434669  
(I.R.S. Employer  
Identification No.)

221 West Philadelphia Street, York, PA  
(Address of principal executive offices)

17405-0872  
(Zip Code)

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer" and "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: At July 25, 2011, DENTSPLY International Inc. had 141,330,451 shares of Common Stock outstanding, with a par value of \$.01 per share.

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DENTSPLY International Inc.

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## PART I – FINANCIAL INFORMATION

## Item 1 – Financial Statements

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

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |             |
|---|--------------------------------|-----------|------------------------------|-------------|
|   | 2011                           | 2010      | 2011                         | 2010        |
| Net sales   | \$609,443                      | \$565,086 | \$1,179,946                  | \$1,111,030 |
| Cost of products sold                                     | 294,592                        | 277,491   | 565,111                      | 541,397     |
| Gross profit  | 314,851                        | 287,595   | 614,835                      | 569,633     |
| Selling, general and administrative expenses              | 210,984                        | 182,383   | 411,751                      | 370,417     |
| Restructuring and other costs                             | 6,863                          | 243       | 7,496                        | 4,923       |
| Operating income  | 97,004                         | 104,969   | 195,588                      | 194,293     |
| Other income and expenses:                                |                                |           |                              |             |
| Interest expense  | 5,570                          | 6,686     | 11,913                       | 12,406      |
| Interest income   | (2,430 )                       | (827 )    | (4,258 )                     | (1,614 )    |
| Other expense (income), net                               | 1,434                          | 722       | 1,504                        | 1,667       |
| Income before income taxes                                | 92,430                         | 98,388    | 186,429                      | 181,834     |
| Provision for income taxes                                | 17,957                         | 25,042    | 41,669                       | 46,297      |
| Equity in net income of unconsolidated affiliated company | 917                            | -         | 93                           | -           |
| Net income  | 75,390                         | 73,346    | 144,853                      | 135,537     |
| Less: Net income attributable to noncontrolling interests | 1,154                          | 960       | 1,533                        | 1,308       |
| Net income attributable to DENTSPLY International         | \$74,236                       | \$72,386  | \$143,320                    | \$134,229   |
| Earnings per common share:                                |                                |           |                              |             |
| Basic   | \$0.53                         | \$0.50    | \$1.01                       | \$0.92      |
| Diluted   | \$0.52                         | \$0.49    | \$1.00                       | \$0.91      |
| Weighted average common shares outstanding:               |                                |           |                              |             |
| Basic   | 141,052                        | 144,779   | 141,331                      | 145,772     |
| Diluted   | 143,373                        | 146,939   | 143,694                      | 148,048     |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

|  | June 30,<br>2011   | December 31,<br>2010 |
|--|--------------------|----------------------|
| <b>Assets</b>  |                    |                      |
| Current Assets:  |                    |                      |
| Cash and cash equivalents  | \$671,710          | \$ 540,038           |
| Accounts and notes receivables-trade, net  | 404,661            | 344,796              |
| Inventories, net   | 337,200            | 308,738              |
| Prepaid expenses and other current assets  | 138,842            | 121,473              |
| <b>Total Current Assets</b>  | <b>1,552,413</b>   | <b>1,315,045</b>     |
| Property, plant and equipment, net   | 442,957            | 423,105              |
| Identifiable intangible assets, net  | 86,770             | 78,743               |
| Goodwill, net  | 1,391,289          | 1,303,055            |
| Other noncurrent assets, net   | 183,214            | 138,003              |
| <b>Total Assets</b>  | <b>\$3,656,643</b> | <b>\$ 3,257,951</b>  |
| <b>Liabilities and Equity</b>  |                    |                      |
| Current Liabilities:   |                    |                      |
| Accounts payable   | \$113,870          | \$ 114,479           |
| Accrued liabilities  | 283,616            | 224,745              |
| Income taxes payable   | 24,440             | 13,113               |
| Notes payable and current portion of long-term debt  | 8,500              | 7,754                |
| <b>Total Current Liabilities</b>   | <b>430,426</b>     | <b>360,091</b>       |
| Long-term debt   | 654,873            | 604,015              |
| Deferred income taxes  | 81,324             | 72,489               |
| Other noncurrent liabilities   | 408,787            | 311,444              |
| <b>Total Liabilities</b>   | <b>1,575,410</b>   | <b>1,348,039</b>     |
| <b>Commitments and contingencies</b>   |                    |                      |
| <b>Equity:</b>   |                    |                      |
| 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 June 30, 2011 and December 31, 2010 | 1,628              | 1,628                |
| Capital in excess of par value   | 227,071            | 204,902              |
| Retained earnings  | 2,449,463          | 2,320,350            |
| Accumulated other comprehensive income   | 103,513            | 24,156               |
| Treasury stock, at cost, 21.5 million shares at June 30, 2011 and 21.0 million shares at December 31, 2010                         | (739,445 )         | (711,650 )           |

|                                     |             |              |
|-------------------------------------|-------------|--------------|
| Total DENTSPLY International Equity | 2,042,230   | 1,839,386    |
| Noncontrolling interests            | 39,003      | 70,526       |
| Total Equity                        | 2,081,233   | 1,909,912    |
| Total Liabilities and Equity        | \$3,656,643 | \$ 3,257,951 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

Six Months Ended  
June 30,  
2011                      2010

Cash flows from operating activities:

|   |            |            |
|---|------------|------------|
| Net income  | \$ 144,853 | \$ 135,537 |
| Adjustments to reconcile net income to net cash provided by operating activities: |            |            |
| Depreciation  | 32,359     | 29,438     |
| Amortization  | 4,736      | 4,771      |
| Deferred income taxes   | 6,894      | (57 )      |
| Share-based compensation expense  | 10,316     | 10,238     |
| Restructuring and other costs - noncash   | (787 )     | 363        |
| Excess tax benefits from share-based compensation                                 | (6,217 )   | (4,666 )   |
| Changes in operating assets and liabilities, net of acquisitions:                 |            |            |
| Accounts and notes receivable-trade, net  | (40,357 )  | (28,487 )  |
| Inventories, net  | (8,368 )   | (9,111 )   |
| Prepaid expenses and other current assets   | (1,927 )   | (16,549 )  |
| Accounts payable  | 4,129      | 12,603     |
| Accrued liabilities   | 9,051      | 4,183      |
| Income taxes payable  | 12,942     | 4,913      |
| Other, net  | (2,660 )   | 7,292      |
| Net cash provided by operating activities   | 164,964    | 150,468    |

Cash flows from investing activities:

|  |           |           |
|--|-----------|-----------|
| Capital expenditures   | (25,338 ) | (18,897 ) |
| Cash paid for acquisitions of businesses, net of cash acquired | (20,087 ) | (8,309 )  |
| Expenditures for identifiable intangible assets                | (332 )    | (255 )    |
| Proceeds from sale of property, plant and equipment, net       | 175       | 279       |
| Net cash used in investing activities                          | (45,582 ) | (27,182 ) |

Cash flows from financing activities:

|  |           |            |
|--|-----------|------------|
| Net change in short-term borrowings  | (177 )    | (5,237 )   |
| Cash paid for treasury stock   | (79,500 ) | (176,630 ) |
| Cash dividends paid  | (14,312 ) | (15,741 )  |
| Cash paid for contingent consideration on prior acquisitions                       | (1,780 )  | -          |
| Cash paid for acquisition of noncontrolling interests of consolidated subsidiaries | (16,431 ) | -          |
| Proceeds from long-term borrowings   | 38,254    | 250,000    |
| Repayments of long-term borrowings   | (2,403 )  | (240,108 ) |
| Proceeds from exercise of stock options  | 33,993    | 25,845     |

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|  |           |            |
|--|-----------|------------|
| Excess tax benefits from share-based compensation            | 6,217     | 4,666      |
| Net cash used in financing activities                        | (36,139 ) | (157,205 ) |
| Effect of exchange rate changes on cash and cash equivalents | 48,429    | (76,082 )  |
| Net increase(decrease) in cash and cash equivalents          | 131,672   | (110,001 ) |
| Cash and cash equivalents at beginning of period             | 540,038   | 450,348    |
| Cash and cash equivalents at end of period                   | \$671,710 | \$340,347  |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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## DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES

## Consolidated Statements of Changes in Equity

(In thousands)

(unaudited)

|   | Capital in      |                           | Accumulated          |  | Total             |                                     | Noncontrolling<br>Interests | Total<br>Equity |
|---|-----------------|---------------------------|----------------------|--|-------------------|-------------------------------------|-----------------------------|-----------------|
|   | Common<br>Stock | Excess of<br>Par<br>Value | Retained<br>Earnings | Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | DENTSPLY<br>International<br>Equity |                             |                 |
| Balance at<br>December 31,<br>2009                    | \$ 1,628        | \$ 195,495                | \$ 2,083,459         | \$ 83,542                                  | \$ (532,019)      | \$ 1,832,105                        | \$ 74,853                   | \$ 1,906,958    |
| Comprehensive<br>Income:                              |                 |                           |                      |  |                   |                                     |                             |                 |
| Net income  | -               | -                         | 134,229              | -  | -                 | 134,229                             | 1,308                       | 135,537         |
| Other comprehensive<br>income (loss), net of tax:     |                 |                           |                      |  |                   |                                     |                             |                 |
| Foreign currency<br>translation<br>adjustments        | -               | -                         | -                    | (204,568)                                  | -                 | (204,568 )                          | (10,465)                    | (215,033 )      |
| Net gain on<br>derivative<br>financial<br>instruments | -               | -                         | -                    | 63,672                                     | -                 | 63,672                              | -                           | 63,672          |
| Pension liability<br>adjustments                      | -               | -                         | -                    | 1,676                                      | -                 | 1,676                               | -                           | 1,676           |
| Comprehensive<br>Income                               |                 |                           |                      |  |                   | (4,991 )                            | (9,157 )                    | (14,148 )       |
| Exercise of stock<br>options                          | -               | (8,213 )                  | -                    | -  | 34,058            | 25,845                              | -                           | 25,845          |
| Tax benefit from<br>stock options<br>exercised        | -               | 4,666                     | -                    | -  | -                 | 4,666                               | -                           | 4,666           |
| Share based<br>compensation<br>expense                | -               | 10,238                    | -                    | -  | -                 | 10,238                              | -                           | 10,238          |
| Funding of<br>Employee Stock<br>Ownership Plan        | -               | 207                       | -                    | -  | 1,132             | 1,339                               | -                           | 1,339           |
| Treasury shares<br>purchased                          | -               | -                         | -                    | -  | (176,630)         | (176,630 )                          | -                           | (176,630 )      |
| RSU distributions                                     | -               | (4,234 )                  | -                    | -  | 2,856             | (1,378 )                            | -                           | (1,378 )        |
| RSU dividends   | -               | 78                        | (78 )                | -  | -                 | -                                   | -                           | -               |
|   | -               | -                         | (15,480 )            | -  | -                 | (15,480 )                           | -                           | (15,480 )       |

Cash dividends  
(\$0.10 per share)

|                          |          |            |              |              |               |              |           |              |
|--------------------------|----------|------------|--------------|--------------|---------------|--------------|-----------|--------------|
| Balance at June 30, 2010 | \$ 1,628 | \$ 198,237 | \$ 2,202,130 | \$ (55,678 ) | \$ (670,603 ) | \$ 1,675,714 | \$ 65,696 | \$ 1,741,410 |
|--------------------------|----------|------------|--------------|--------------|---------------|--------------|-----------|--------------|

|  | Accumulated |   |                      |  |                   | Total                               |                             | Total        |
|--|-------------|---|----------------------|--|-------------------|-------------------------------------|-----------------------------|--------------|
|  | Common      | Capital in<br>Excess of<br>Par<br>Value | Retained<br>Earnings | Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | DENTSPLY<br>International<br>Equity | Noncontrolling<br>Interests |              |
| Balance at December 31, 2010                                   | \$ 1,628    | \$ 204,902                              | \$ 2,320,350         | \$ 24,156                                  | \$ (711,650)      | \$ 1,839,386                        | \$ 70,526                   | \$ 1,909,912 |
| Comprehensive Income:  |             |   |                      |  |                   |                                     |                             |              |
| Net income   | -           | -                                       | 143,320              | -  | -                 | 143,320                             | 1,533                       | 144,853      |
| Other comprehensive income (loss), net of tax:                 |             |   |                      |  |                   |                                     |                             |              |
| Foreign currency translation adjustments                       | -           | -                                       | -                    | 146,824                                    | -                 | 146,824                             | 5,943                       | 152,767      |
| Net loss on derivative financial instruments                   | -           | -                                       | -                    | (63,403 )                                  | -                 | (63,403 )                           | -                           | (63,403 )    |
| Net unrealized holding gains on available-for-sale adjustments | -           | -                                       | -                    | (2,031 )                                   | -                 | (2,031 )                            | -                           | (2,031 )     |
| Pension liability adjustments                                  | -           | -                                       | -                    | (2,033 )                                   | -                 | (2,033 )                            | -                           | (2,033 )     |
| Comprehensive Income   |             |   |                      |  |                   | 222,677                             | 7,476                       | 230,153      |
| Acquisition of noncontrolling interest                         | -           | 22,394                                  | -                    | -  | -                 | 22,394                              | (38,825)                    | (16,431 )    |
| Exercise of stock options                                      | -           | (11,578 )                               | -                    | -  | 45,571            | 33,993                              | -                           | 33,993       |
| Tax benefit from stock options exercised                       | -           | 6,217                                   | -                    | -  | -                 | 6,217                               | -                           | 6,217        |
| Share based compensation expense                               | -           | 10,362                                  | -                    | -  | -                 | 10,362                              | -                           | 10,362       |
| Funding of Employee Stock Ownership Plan                       | -           | 379                                     | -                    | -  | 2,595             | 2,974                               | -                           | 2,974        |

|   |          |            |              |            |              |              |           |              |
|---|----------|------------|--------------|------------|--------------|--------------|-----------|--------------|
| Treasury shares purchased                 | -        | -          | -            | -          | (79,500 )    | (79,500 )    | -         | (79,500 )    |
| Dividends paid by noncontrolling interest | -        | -          | -            | -          | -            | -            | (174 )    | (174 )       |
| RSU distributions                         | -        | (5,696 )   | -            | -          | 3,539        | (2,157 )     | -         | (2,157 )     |
| RSU dividends                             | -        | 91         | (91 )        | -          | -            | -            | -         | -            |
| Cash dividends (\$0.10 per share)         | -        | -          | (14,116 )    | -          | -            | (14,116 )    | -         | (14,116 )    |
| Balance at June 30, 2011                  | \$ 1,628 | \$ 227,071 | \$ 2,449,463 | \$ 103,513 | \$ (739,445) | \$ 2,042,230 | \$ 39,003 | \$ 2,081,233 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY International Inc. and Subsidiaries

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and the rules of the United States Securities and Exchange Commission ("SEC"). The year-end consolidating balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. Results for interim periods should not be considered indicative of results for a full year. These financial statements and related notes contain the accounts of DENTSPLY International Inc. and Subsidiaries ("DENTSPLY" or the "Company") on a consolidated basis and should be read in conjunction with the consolidated financial statements and notes included in the Company's most recent Form 10-K for the year ended December 31, 2010.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company, as applied in the interim consolidated financial statements presented herein are substantially the same as presented in the Company's Form 10-K for the year ended December 31, 2010, except as may be indicated below:

Accounts and Notes Receivable-Trade, Net

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 based on historical averages of aged receivable balances and the Company's experience in collecting those balances, customer specific circumstances, as well as changes in the economic and political environments. The Company records a provision for doubtful accounts, which is included in "Selling, general and administrative expenses."

Accounts and notes receivables – trade, net are stated net of allowances for doubtful accounts and trade discounts, which were \$10.8 million and \$9.6 million at June 30, 2011 and December 31, 2010, respectively.

Litigation

The Company and its subsidiaries are from time to time parties to lawsuits arising out of their respective operations. The Company records liabilities when a loss is probable and can be reasonably estimated. These estimates are typically in the form of ranges, and the Company records the liabilities at the low point of the ranges, when no other point within the ranges are a better estimate of the probable loss. The ranges established by management are based on analysis made by internal and external legal counsel who considers information known at the time. If the Company determines a liability to be only reasonably possible, it considers the same information to estimate the possible exposure and will 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 appropriately in the past; however, the unpredictability of litigation and court decisions could cause a liability to be incurred in excess of estimates. Legal costs related to these lawsuits are expensed as incurred.

Marketable Securities

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

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On December 9, 2010, the Company invested \$49.7 million in the corporate convertible bonds of DIO Corporation (“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 accumulated other comprehensive income (“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. The fair value of the DIO bond was \$67.5 million and \$66.0 million at June 30, 2011 and December 31, 2010, respectively. At June 30, 2011 and December 31, 2010, \$9.0 million and \$11.0 million, respectively, 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.

### Revenue Recognition

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

### Revisions in Classification

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

### NOTE 2 – STOCK COMPENSATION

The following table represents total stock based compensation expense for non-qualified stock options, restricted stock units (“RSU”) and the tax related benefit for the three and six months ended June 30, 2011 and 2010:

| (in thousands)                         | Three Months Ended |         | Six Months Ended |         |
|--|--------------------|---------|------------------|---------|
|  | 2011               | 2010    | 2011             | 2010    |
| Stock option expense                   | \$3,035            | \$2,937 | \$5,373          | \$5,836 |
| RSU expense                            | 2,296              | 1,757   | 4,347            | 3,768   |
| Total stock based compensation expense | \$5,331            | \$4,694 | \$9,720          | \$9,604 |
| Total related tax benefit              | \$1,620            | \$1,507 | \$2,872          | \$2,897 |

The remaining unamortized compensation cost related to non-qualified stock options is \$16.9 million, which will be expensed over the weighted average remaining vesting period of the options, or 1.8 years. The unamortized compensation cost related to RSU is \$14.0 million, which will be expensed over the remaining restricted period of the RSU, or 2.1 years.

The following table reflects the non-qualified stock option transactions from December 31, 2010 through June 30, 2011:

| (in thousands,<br>except per share data) | Shares   | Outstanding<br>Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value | Shares | Exercisable<br>Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
|--|----------|---|---------------------------------|--------|---|---------------------------------|
| December 31, 2010                        | 10,636   | \$29.07   | \$66,722                        | 8,815  | \$28.58   | \$61,450                        |
| Granted                                  | 1,474    | 36.74   |                                 |        |   |                                 |
| Exercised                                | (1,502 ) | 22.64   |                                 |        |   |                                 |
| Cancelled                                | (36 )    | 45.15   |                                 |        |   |                                 |
| Forfeited                                | (53 )    | 31.72   |                                 |        |   |                                 |
| June 30, 2011                            | 10,519   | \$30.99   | \$81,928                        | 7,377  | \$29.76   | \$68,681                        |

The weighted average remaining contractual term of all outstanding options is 6.2 years and the weighted average remaining contractual term of exercisable options is 5.0 years.

The following table summarizes the unvested RSU transactions from December 31, 2010 through June 30, 2011:

| (in thousands, except per share data) | Shares | Weighted Average<br>Grant Date<br>Fair Value |
|---------------------------------------|--------|--|
| Unvested at December 31, 2010         | 744    | \$ 32.43                                     |
| Granted                               | 353    | 36.69  |
| Vested                                | (174 ) | 41.04  |
| Forfeited                             | (16 )  | 29.97  |
| Unvested at June 30, 2011             | 907    | \$ 32.48                                     |

### NOTE 3 – COMPREHENSIVE INCOME

The changes to balances included in AOCI, net of tax, in the consolidated balance sheets for the three and six months ended June 30, 2011 and 2010 are as follows:

| (in thousands)  | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | 2011               | 2010       | 2011             | 2010       |
| Net income  | \$75,390           | \$73,346   | \$144,853        | \$135,537  |
| Other comprehensive income:   |                    |            |                  |            |
| Foreign currency translation adjustments                                | 62,051             | (137,840 ) | 152,767          | (215,033 ) |
| Net (loss) gain on derivative financial instruments                     | (36,391 )          | 39,948     | (63,403 )        | 63,672     |
| Net unrealized holding losses on available-for-sale securities          | (6,233 )           | -          | (2,031 )         | -          |
| Amortization of unrecognized losses and prior year service pension cost | (1,500 )           | 913        | (2,033 )         | 1,676      |
| Total other comprehensive income (loss)                                 | 17,927             | (96,979 )  | 85,300           | (149,685 ) |
| Total comprehensive income (loss)                                       | 93,317             | (23,633 )  | 230,153          | (14,148 )  |

|  |       |          |       |          |
|--|-------|----------|-------|----------|
| Comprehensive income (loss) attributable to the noncontrolling interests | 3,833 | (5,734 ) | 7,476 | (9,157 ) |
|--|-------|----------|-------|----------|

|  |          |             |           |            |
|--|----------|-------------|-----------|------------|
| Comprehensive income (loss) attributable to DENTSPLY International | \$89,484 | \$(17,899 ) | \$222,677 | \$(4,991 ) |
|--|----------|-------------|-----------|------------|

During the quarter ended June 30, 2011, foreign currency translation adjustments included currency translation gains of \$52.4 million and gains on the Company's loans designated as hedges of net investments of \$9.7 million. During the quarter ended June 30, 2010, foreign currency translation adjustments included currency translation losses of \$134.2 million and losses on the Company's loans designated as hedges of net investments of \$3.6 million. During the six months ended June 30, 2011, foreign currency translation adjustments included currency translation gains of \$142.1 million and gains on the Company's loans designated as hedges of net investments of \$10.7 million. During the six months ended June 30, 2010, foreign currency translation adjustments included currency translation losses of \$212.3 million and losses on the Company's loans designated as hedges of net investments of \$2.7 million. These foreign currency translation adjustments were offset by net gains on derivative financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.



The balances included in AOCI, net of tax, in the consolidated balance sheets are as follows:

| (in thousands)  | June 30,<br>2011 | December 31,<br>2010 |
|---|------------------|----------------------|
| Foreign currency translation adjustments                      | \$ 317,421       | \$ 170,597           |
| Net loss on derivative financial instruments                  | (190,051 )       | (126,648 )           |
| Net unrealized holding gains on available-for-sale securities | 8,998            | 11,029               |
| Pension liability adjustments                                 | (32,855 )        | (30,822 )            |
|   | \$ 103,513       | \$ 24,156            |

The cumulative foreign currency translation adjustments included translation gains of \$447.0 million and \$294.6 million at June 30, 2011 and December 31, 2010, respectively, partially offset by losses of \$129.6 million and \$124.0 million, respectively, on loans designated as hedges of net investments. These foreign currency translation adjustments were offset by net losses on derivatives financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

#### NOTE 4 - EARNINGS PER COMMON SHARE

The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The following table sets forth the computation of basic and diluted earnings per common share for the three and six months ended June 30, 2011 and 2010:

|   | Three Months Ended |           | Six Months Ended |            |
|---|--------------------|-----------|------------------|------------|
| Basic Earnings Per Common Share<br>Computation<br>(in thousands, except per share amounts)        | 2011               | 2010      | 2011             | 2010       |
| Net income attributable to DENTSPLY International   | \$ 74,236          | \$ 72,386 | \$ 143,320       | \$ 134,229 |
| Common shares outstanding   | 141,052            | 144,779   | 141,331          | 145,772    |
| Earnings per common share - basic   | \$ 0.53            | \$ 0.50   | \$ 1.01          | \$ 0.92    |
| Diluted Earnings Per Common Share<br>Computation<br>(in thousands, except per share amounts)      |                    |           |                  |            |
| Net income attributable to DENTSPLY International   | \$ 74,236          | \$ 72,386 | \$ 143,320       | \$ 134,229 |
| Common shares outstanding   | 141,052            | 144,779   | 141,331          | 145,772    |
| Incremental shares from assumed exercise of dilutive options from stock-based compensation awards | 2,321              | 2,160     | 2,363            | 2,276      |
| Total shares  | 143,373            | 146,939   | 143,694          | 148,048    |
| Earnings per common share - diluted   | \$ 0.52            | \$ 0.49   | \$ 1.00          | \$ 0.91    |

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Options to purchase 3.0 million and 3.4 million shares of common stock that were outstanding during the three and six months ended June 30, 2011, were not included in the computation of diluted earnings per share since the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. There were 3.1 million and 3.2 million antidilutive shares of common stock outstanding during the three and six months ended June 30, 2010, respectively.

#### NOTE 5 – BUSINESS ACQUISITIONS

The acquisition related activity for the six months ended June 30, 2011 of \$38.3 million, net of cash acquired, was related to five acquisitions and two earn-out payments for acquisitions completed during or prior to 2010.

The purchase agreements for certain acquisitions made during the six months ended June 30, 2011 provide for additional payments to be made based upon the operating performance of the respective business. The initial fair value for contingent consideration arrangements for transactions entered into during the six months ended June 30, 2011 was \$10.7 million, and further discussed in Note 11, Fair Value Measurements.

The results of operations for these businesses have been included in the accompanying financial statements as of the effective date of the respective transactions. The purchase prices have been assigned on the basis of preliminary estimates of the fair values of assets acquired and liabilities assumed. At June 30, 2011, the Company has recorded a total of \$23.5 million in goodwill related to the difference between the fair value of assets acquired and liabilities assumed and the consideration given. The goodwill is primarily associated with the Canada/Latin America/Endodontics/Orthodontics segment.

In addition, during the second quarter 2011, the Company signed a definitive agreement with AstraZeneca Plc. to acquire Astra Tech AB (“Astra Tech”), a leading developer, manufacturer and marketer of dental implants, customized implant abutments and consumable medical devices in the urology and surgery market segments. Astra Tech recorded approximately \$535 million in worldwide revenue in 2010. The purchase price for the transaction is approximately \$1.8 billion. The Company expects to use the available cash on hand and committed financing to fund the purchase of this business. The transaction is subject to regulatory approval and customary closing conditions and is expected to close in 2011.

For the three and six months ended June 30, 2011, in connection with pending or completed acquisitions, the Company has incurred \$6.3 million and \$6.7 million, respectively, of transaction related costs, primarily banking fees and amounts paid to third party advisers.

#### NOTE 6 - SEGMENT INFORMATION

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 for the three and six months ended June 30, 2011 and 2010.

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 groups are consistent with those described in the Company's most recently filed Form 10-K in the summary of significant accounting policies. The Company measures segment income for reporting purposes as operating income before restructuring and other costs, interest expense, interest income, other income and expenses and income taxes.

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.

## 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, sales and distribution of implants in Brazil, sales of dental lasers and 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 and general and administrative costs.

Generally, the Company evaluates performance of the operating groups based on the groups' operating income, excluding restructuring and other costs, and net third party sales, excluding precious metal content.

The following tables set forth information about the Company's operating groups for the three and six months ended June 30, 2011 and 2010:

## Third Party Net Sales

| (in thousands)   | Three Months Ended |           | Six Months Ended |             |
|--|--------------------|-----------|------------------|-------------|
|  | 2011               | 2010      | 2011             | 2010        |
| U.S., Germany and Certain Other European Regions Consumable Businesses                                     | \$151,513          | \$137,245 | \$292,580        | \$272,219   |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | 140,249            | 121,601   | 264,938          | 231,886     |
| Canada/Latin America/Endodontics/ Orthodontics   | 176,493            | 170,715   | 343,352          | 327,335     |
| Dental Laboratory Business/Implants/Non-Dental   | 142,826            | 136,265   | 281,757          | 281,375     |
| All Other (a)  | (1,638 )           | (740 )    | (2,681 )         | (1,785 )    |
| Total  | \$609,443          | \$565,086 | \$1,179,946      | \$1,111,030 |

(a) Includes amounts recorded at Corporate headquarters

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## Third Party Net Sales, Excluding Precious Metal Content

| (in thousands)  | Three Months Ended |           | Six Months Ended |             |
|---|--------------------|-----------|------------------|-------------|
|   | 2011               | 2010      | 2011             | 2010        |
| U.S., Germany and Certain Other European Regions          |                    |           |                  |             |
| Consumable Businesses                                     | \$151,513          | \$137,245 | \$292,580        | \$272,219   |
| France, U.K., Italy and Certain Other European Countries, |                    |           |                  |             |
| CIS, Middle East, Africa, Pacific Rim Businesses          | 129,447            | 112,037   | 243,970          | 214,107     |
| Canada/Latin America/Endodontics/Orthodontics             | 175,702            | 170,011   | 341,817          | 326,041     |
| Dental Laboratory Business/Implants/Non-Dental            | 108,966            | 100,256   | 215,309          | 205,574     |
| All Other (a)   | (1,638 )           | (741 )    | (2,681 )         | (1,786 )    |
| Total excluding precious metal content                    | 563,990            | 518,808   | 1,090,995        | 1,016,155   |
| Precious mental content                                   | 45,453             | 46,278    | 88,951           | 94,875      |
| Total including precious metal content                    | \$609,443          | \$565,086 | \$1,179,946      | \$1,111,030 |

(a) Includes amounts recorded at Corporate headquarters

## Inter-segment Net Sales

| (in thousands)  | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | 2011               | 2010       | 2011             | 2010       |
| U.S., Germany and Certain Other European Regions          |                    |            |                  |            |
| Consumable Businesses                                     | \$30,541           | \$30,846   | \$58,299         | \$57,063   |
| France, U.K., Italy and Certain Other European Countries, |                    |            |                  |            |
| CIS, Middle East, Africa, Pacific Rim Businesses          | 4,971              | 5,037      | 9,440            | 8,656      |
| Canada/Latin America/Endodontics/Orthodontics             | 37,037             | 29,357     | 68,511           | 54,677     |
| Dental Laboratory Business/Implants/Non-Dental            | 29,217             | 30,915     | 57,004           | 57,595     |
| All Other (a)   | 55,458             | 45,081     | 106,835          | 89,084     |
| Eliminations  | (157,224 )         | (141,236 ) | (300,089 )       | (267,075 ) |
| Total   | \$-                | \$-        | \$-              | \$-        |

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

## Segment Operating Income

| (in thousands)   | Three Months Ended |           | Six Months Ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | 2011               | 2010      | 2011             | 2010      |
| U.S., Germany and Certain Other European Regions Consumable Businesses                                     | \$53,701           | \$49,654  | \$100,046        | \$94,515  |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | 3,902              | 5,536     | 3,333            | 5,407     |
| Canada/Latin America/Endodontics/Orthodontics  | 50,128             | 49,141    | 99,945           | 97,163    |
| Dental Laboratory Business/Implants/Non-Dental   | 21,856             | 22,494    | 45,806           | 44,957    |
| All Other (a)  | (25,720 )          | (21,613 ) | (46,046 )        | (42,826 ) |
| Segment operating income   | 103,867            | 105,212   | 203,084          | 199,216   |
| Reconciling Items:   |                    |           |                  |           |
| Restructuring and other costs  | (6,863 )           | (243 )    | (7,496 )         | (4,923 )  |
| Interest expense   | (5,570 )           | (6,686 )  | (11,913 )        | (12,406 ) |
| Interest income  | 2,430              | 827       | 4,258            | 1,614     |
| Other expense (income), net  | (1,434 )           | (722 )    | (1,504 )         | (1,667 )  |
| Income before income taxes   | \$92,430           | \$98,388  | \$186,429        | \$181,834 |

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

## Assets

| (in thousands)   | June 30,<br>2011 | December 31,<br>2010 |
|--|------------------|----------------------|
| U.S., Germany and Certain Other European Regions Consumable Businesses                                     | \$ 623,586       | \$ 578,770           |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | 416,013          | 390,572              |
| Canada/Latin America/Endodontics/Orthodontics  | 996,465          | 932,126              |
| Dental Laboratory Business/Implants/Non-Dental   | 1,083,938        | 995,090              |
| All Other (a)  | 536,641          | 361,393              |
| Total  | \$ 3,656,643     | \$ 3,257,951         |

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

## NOTE 7 - INVENTORIES

Inventories are stated at the lower of cost or market. At June 30, 2011 and December 31, 2010, the cost of \$9.0 million, or 2.7%, and \$6.9 million, or 2.2%, respectively, of inventories was determined using the last-in, first-out ("LIFO") method. The cost of the remaining inventories was determined using the first-in, first-out ("FIFO") or average cost methods.



If the FIFO method had been used to determine the cost of LIFO inventories, the amounts at which net inventories are stated would be higher than reported at June 30, 2011 and December 31, 2010 by \$4.4 million and \$4.9 million, respectively.

The Company establishes reserves for inventory in order to present the net realizable value. The inventory valuation reserves were \$37.7 million and \$35.5 million at June 30, 2011 and December 31, 2010, respectively.

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

| (in thousands)             | June 30,<br>2011 | December 31,<br>2010 |
|----------------------------|------------------|----------------------|
| Finished goods             | \$ 198,735       | \$ 189,343           |
| Work-in-process            | 64,704           | 57,272               |
| Raw materials and supplies | 73,761           | 62,123               |
|                            | \$ 337,200       | \$ 308,738           |

#### NOTE 8 - BENEFIT PLANS

The following sets forth the components of net periodic benefit cost of the Company's defined benefit plans and for the Company's other postretirement employee benefit plans for the three and six months ended June 30, 2011 and 2010:

| Defined Benefit Plans<br>(in thousands)      | Three Months Ended |          | Six Months Ended |          |
|--|--------------------|----------|------------------|----------|
|  | 2011               | 2010     | 2011             | 2010     |
| Service cost                                 | \$2,578            | \$1,918  | \$5,012          | \$3,933  |
| Interest cost                                | 2,305              | 2,014    | 4,492            | 4,157    |
| Expected return on plan assets               | (1,290 )           | (1,116 ) | (2,506 )         | (2,268 ) |
| Amortization of transition obligation        | -                  | 28       | -                | 59       |
| Amortization of prior service cost           | 21                 | 24       | 41               | 44       |
| Amortization of net loss                     | 405                | 234      | 788              | 475      |
| Net periodic benefit cost                    | \$4,019            | \$3,102  | \$7,827          | \$6,400  |
| Other Postretirement Plans<br>(in thousands) | Three Months Ended |          | Six Months Ended |          |
|  | 2011               | 2010     | 2011             | 2010     |
| Service cost                                 | \$16               | \$15     | \$32             | \$29     |
| Interest cost                                | 139                | 153      | 277              | 306      |
| Amortization of net loss                     | 49                 | 68       | 98               | 137      |
| Net periodic benefit cost                    | \$204              | \$236    | \$407            | \$472    |

The following sets forth the information related to the contributions to the Company's benefit plans for 2011:

| (in thousands)                          | Pension<br>Benefits | Other<br>Postretirement<br>Benefits |
|---|---------------------|-------------------------------------|
| Actual at June 30, 2011                 | \$ 5,319            | \$ 169                              |
| Projected for the remainder of the year | 4,806               | 930                                 |
| Total for year                          | \$ 10,125           | \$ 1,099                            |

#### NOTE 9 – RESTRUCTURING AND OTHER COSTS

##### Other Costs

During the three and six months ended June 30, 2011, the Company recorded other costs of \$6.2 million and \$6.8 million, respectively, which were primarily related to Astra Tech acquisition costs. For the six months ended June 30, 2010, other costs were \$3.9 million and were primarily related to several legal matters. These other costs are reflected in "Restructuring and other costs" in the consolidated statements of operations.

##### Restructuring Costs

The Company recorded restructuring costs of \$0.7 million for both the three and six months ended June 30, 2011. During the three and six months ended June 30, 2010, the Company recorded restructuring costs of \$0.2 million and \$1.0 million, respectively. These costs are recorded in "Restructuring and other costs" in the consolidated statements of operations and the associated liabilities are recorded in accrued liabilities in the consolidated balance sheets. These costs primarily consist of employee severance costs.

During the second quarter of 2011, as a result of the impact of the Japan natural disaster as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q, the Company initiated a restructuring plan related to the Orthodontic business. The restructuring plan addressed overhead costs related to the business and will reduce those costs as the Orthodontic business is impacted by the lack of product supply. The Company recorded \$1.4 million of charges in the second quarter of 2011 for this new plan. In addition to the restructuring charges, the Company incurred approximately \$0.7 million of selling, general and administrative expenses related to costs of maintaining the critical Orthodontic business processes and structures during the lack of product supply.

Partially offsetting the charges for the Orthodontic restructuring plan, the Company recorded income of \$0.7 million during the second quarter of 2011 for adjustments to 2010 plans and 2009 and prior plans. These adjustments were primarily related to revised estimates of severance costs.

During 2010, the Company initiated several restructuring plans primarily related to the integration, reorganization and closure or consolidation of certain production and selling facilities in order to better leverage the Company's resources by minimizing costs and obtaining operational efficiencies.

At June 30, 2011, the Company's restructuring accruals were as follows:

| (in thousands) | Severance               |            |            |       |
|----------------|-------------------------|------------|------------|-------|
|                | 2009 and<br>Prior Plans | 2010 Plans | 2011 Plans | Total |

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|                              |          |          |       |          |
|------------------------------|----------|----------|-------|----------|
| Balance at December 31, 2010 | \$ 2,878 | \$ 5,260 | -     | \$ 8,138 |
| Provisions and adjustments   | (156 )   | (646 )   | 1,392 | 590      |
| Amounts applied              | (759 )   | (1,446 ) | -     | (2,205 ) |
| Balance at June 30, 2011     | \$ 1,963 | \$ 3,168 | 1,392 | \$ 6,523 |

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## Lease/Contract Terminations

| (in thousands)               | 2009 and<br>Prior Plans | 2010 Plans | Total  |
|------------------------------|-------------------------|------------|--------|
| Balance at December 31, 2010 | \$ 996                  | -          | \$ 996 |
| Provisions and adjustments   | 1                       | (113 )     | (112 ) |
| Amounts applied              | (261 )                  | 113        | (148 ) |
| Balance at June 30, 2011     | \$ 736                  | -          | \$ 736 |

## Other Restructuring Costs

| (in thousands)               | 2009 and<br>Prior Plans | 2010 Plans | Total  |
|------------------------------|-------------------------|------------|--------|
| Balance at December 31, 2010 | \$ 57                   | \$ -       | \$ 57  |
| Provisions and adjustments   | 154                     | 71         | 225    |
| Amounts applied              | (154 )                  | (71 )      | (225 ) |
| Balance at June 30, 2011     | \$ 57                   | \$ -       | \$ 57  |

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

| (in thousands)   | December 31,<br>2010 | Provisions and<br>Adjustments | Amounts<br>Applied | June 30,<br>2011 |
|--|----------------------|-------------------------------|--------------------|------------------|
| United States, Germany and Certain Other<br>European Regions Consumable Businesses                               | \$ 1,031             | \$ -                          | \$ (261 )          | \$ 770           |
| France, U.K., Italy and Certain Other European<br>Countries, CIS, Middle East, Africa, Pacific Rim<br>Businesses | 193                  | (45 )                         | (152 )             | (4 )             |
| Canada/Latin America/Endodontics/Orthodontics  | 400                  | 1,392                         | (62 )              | 1,730            |
| Dental Laboratory Business/Implants/Non-Dental   | 7,567                | (644 )                        | (2,103 )           | 4,820            |
|  | \$ 9,191             | \$ 703                        | \$ (2,578 )        | \$ 7,316         |

## NOTE 10 – FINANCIAL INSTRUMENTS AND DERIVATIVES

## Derivative Instruments and Hedging Activities

The Company's activities expose it to a variety of market risks, which primarily include the risks related to the effects of changes in foreign currency exchange rates, interest rates and commodity prices. These financial exposures are monitored and managed by the Company as part of its overall risk management program. The objective of this risk management program is to reduce the volatility that these market risks may have on the Company's operating results and equity.

Certain of the Company's inventory purchases are denominated in foreign currencies, which expose the Company to market risk associated with foreign currency exchange rate movements. 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 addition, the Company's investments in foreign subsidiaries are denominated in foreign currencies, which create exposures to changes in foreign currency exchange rates. The Company uses debt and derivatives denominated in the applicable foreign currency as a means of hedging a portion of this risk.

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With the Company's significant level of variable interest rate long-term debt and net investment hedges, changes in the interest rate environment can have a major impact on the Company's earnings, depending upon its interest rate exposure. As a result, the Company manages its interest rate exposure with the use of interest rate swaps, when appropriate, based upon market conditions.

The manufacturing of some of the Company's products requires the use of commodities, which are subject to market fluctuations. In order to limit the unanticipated impact on earnings from such market fluctuations, the Company selectively enters into commodity swaps for certain materials used in the production of its products. Additionally, the Company uses non-derivative methods, such as the precious metal consignment agreements to effectively hedge commodity risks.

#### Derivative instruments not designated as hedging

The Company wrote put options (also referred to as "DIO equity option contracts") to the original sellers of the DIO investment for the remaining DIO common shares held by the seller. The equity options provide the seller the ability to require the Company to purchase their remaining shares on hand at a price based on an agreed-upon formula at specific timeframes in the future. The sellers are also allowed to sell their remaining shares on the open market. Changes in the fair value of the DIO equity option contracts are reported in "Other expense (income), net" on the consolidated statements of operations. This derivative is further discussed in Note 11, Fair Value Measurement.

#### Cash Flow Hedges

The Company uses interest rate swaps to convert a portion of its variable interest rate debt to fixed interest rate debt. At June 30, 2011, the Company has two groups of significant variable interest rate to fixed rate interest rate swaps. One group 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 March 2012. Another swap has a notional amount of 65.0 million Swiss francs, and effectively converts the underlying variable interest rates to a fixed interest rate of 4.2% for a term of seven years, ending in March 2012. On June 24, 2011 the Company entered into a Treasury Rate Lock ("T-Lock") transaction to hedge the base interest rate variability exposure on a planned ten year bond issuance in anticipation of the Astra Tech acquisition. The T-Lock will result in an effective base interest yield of 3.02% plus market spread and fees at issuance on a notional amount of \$500.0 million.

The Company enters into forward exchange contracts to hedge the foreign currency exposure of its anticipated purchases of certain inventory. In addition, forward exchange contracts are used by certain of the Company's subsidiaries to hedge intercompany inventory purchases, which are denominated in non-local currencies. The forward exchange contracts that are used in these programs typically mature in eighteen months or less. For these derivatives which qualify as hedges of future anticipated cash flows, the effective portion of changes in fair value is temporarily deferred in AOCI until the hedged item is recognized in earnings.

The Company selectively enters into commodity swaps to effectively fix certain variable raw material costs. At June 30, 2011, the Company had swaps in place to purchase 675 troy ounces of platinum bullion for use in the production of its impression material products. The average fixed rate of this agreement is \$1,732 per troy ounce. In addition, the Company had swaps in place to purchase 28,128 troy ounces of silver bullion for use in the production of its amalgam products at an average fixed rate of \$34 per troy ounce.

The following tables summarize the notional amounts and fair value of the Company's cash flow hedges and non-designated derivatives at June 30, 2011:



| Foreign Exchange Forward Contracts<br>(in thousands) | Notional Amounts Maturing in the Year |          |         | Fair Value Net<br>Asset (Liability)<br>June 30, 2011 |
|--|---------------------------------------|----------|---------|--|
|  | 2011                                  | 2012     | 2013    |  |
| Forward sale, 7.8 million Australian dollars         | \$3,779                               | \$3,929  | \$227   | \$ (435 )  |
| Forward purchase, 7.1 million British pounds         | (5,743 )                              | (5,478 ) | (201 )  | (284 )   |
| Forward sale, 32.9 million Canadian dollars          | 18,362                                | 13,505   | 1,404   | (1,088 )   |
| Forward sale, 5.2 million Danish krone               | 1,022                                 | -        | -       | 9  |
| Forward purchase, 1.0 million euros                  | (1,436 )                              | -        | -       | 952  |
| Forward sale, 0.9 billion Japanese yen               | 11,251                                | -        | -       | 314  |
| Forward sale, 132.2 million Mexican pesos            | 11,282                                | -        | -       | 52   |
| Forward purchase, 2.6 million Norwegian krone        | (474 )                                | -        | -       | (1 )   |
| Forward sale, 2.3 million Singapore dollars          | 1,846                                 | -        | -       | 45   |
| Forward sale, 5.8 billion South Korean won           | 5,471                                 | -        | -       | 77   |
| Forward purchase, 12.1 million Swiss francs          | (14,356 )                             | -        | -       | 103  |
| Forward purchase, 26.7 million Taiwanese dollars     | (927 )                                | -        | -       | (6 )   |
| Total foreign exchange forward contracts             | \$30,077                              | \$11,956 | \$1,430 | \$ (262 )  |

| Interest Rate Swaps<br>(in thousands) | Notional Amounts Maturing in the Year |            |          |          |                    | Fair Value Net<br>Asset<br>(Liability)<br>June 30,<br>2011 |
|---------------------------------------|---------------------------------------|------------|----------|----------|--------------------|--|
|                                       | 2011                                  | 2012       | 2013     | 2014     | 2015 and<br>Beyond |  |
| Euro                                  | \$ 686                                | \$ 1,371   | \$ 1,371 | \$ 1,048 | \$ 3,408           | \$ (524 )  |
| Japanese yen                          | -                                     | 156,038    | -        | -        | -                  | (1,340 )   |
| Swiss francs                          | -                                     | 77,386     | -        | -        | -                  | (2,027 )   |
| U.S. dollars                          | 500,000                               | -          | -        | -        | -                  | 10,550   |
| Total interest rate swaps             | \$ 500,686                            | \$ 234,795 | \$ 1,371 | \$ 1,048 | \$ 3,408           | \$ 6,659   |

| Commodity Contracts<br>(in thousands) | Notional Amounts Maturing<br>in the Year |        | Fair Value Net<br>Asset<br>(Liability)<br>June 30, 2011 |
|---------------------------------------|--|--------|---|
|                                       | 2011                                     | 2012   |   |
| Silver swap - U.S. dollar             | \$ 690                                   | \$ 297 | \$ 44   |
| Platinum swap - U.S. dollar           | 815                                      | 352    | (2 )  |
| Total commodity contracts             | \$ 1,505                                 | \$ 649 | \$ 42   |

At June 30, 2011, deferred net losses on derivative instruments of \$1.5 million, which were recorded in AOCI, are expected to be reclassified to current earnings during the next twelve months. This reclassification is primarily due to the sale of inventory that includes previously hedged purchases and interest rate swaps. The maximum term over which the Company is hedging exposures to variability of cash flows (for all forecasted transactions, excluding



interest payments on variable interest rate debt) is eighteen months. Overall, the derivatives designated as cash flow hedges are highly effective. Any cash flows associated with these instruments are included in cash from 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.

#### Hedges of Net Investments in Foreign Operations

The Company has numerous investments in foreign subsidiaries. The net assets of these subsidiaries are exposed to volatility in foreign currency exchange rates. Currently, the Company uses 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.

The Company has Swiss franc and euro cross currency interest rate swaps that are designated as net investment hedges of the Swiss franc and euro denominated net assets. The interest rate differential is recognized in income as interest income or interest expense as it is accrued. Foreign currency translation is recorded in AOCI, net of tax.

The fair value of these cross currency interest rate swap agreements is the estimated amount the Company would either pay or receive at the reporting date, taking into consideration the effective interest rates and foreign exchange rates. At June 30, 2011 and December 31, 2010, the estimated net fair values of the swap agreements were negative \$280.5 million and negative \$169.1 million, respectively, which are recorded in AOCI, net of tax, and as “Accrued liabilities” and “Other noncurrent liabilities” in the consolidated balance sheets.

The following tables summarize the notional amounts and fair value of the Company’s cross currency basis swaps that are designated as hedges of net investments in foreign operations at June 30, 2011:

| Cross Currency Basis Swaps<br>(in thousands)   | Notional Amounts Maturing in the Year |           |              | Fair Value Net<br>Asset<br>(Liability)<br>June 30, 2011 |
|--|---------------------------------------|-----------|--------------|---|
|  | 2011                                  | 2012      | 2013         |   |
| Swiss franc 592.5 million @<br>1.17 pay CHF 3 mth. LIBOR<br>receive USD 3 mth. LIBOR | \$ 95,720                             | \$ 67,385 | \$ 542,294   | \$ (197,403 )   |
| Euro 358.0 million @ \$1.22<br>pay EUR 3 mth. EURIBOR<br>receive USD 3 mth. LIBOR    | -                                     | -         | 519,727      | (83,057 )   |
| Total cross currency basis<br>swaps  | \$ 95,720                             | \$ 67,385 | \$ 1,062,021 | \$ (280,460 )   |

At June 30, 2011, 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 euro, Swiss franc and Japanese yen denominated subsidiaries. At June 30, 2011 and December 31, 2010, the accumulated translation gains on investments in foreign subsidiaries, primarily denominated in euro, Swiss franc and Japanese yen, net of these net investment hedges, were \$123.0 million and \$45.4 million, respectively, which are included in AOCI, net of tax.

#### Fair Value Hedges

Effective April 4, 2011, the Company entered into a group of U.S. dollar denominated interest rate swaps with an initial total notional value of \$150.0 million to effectively convert the underlying fixed interest rate of 4.1% on the Company’s \$250.0 million Private Placement Note (“Note”) to variable rate for a term of five years, ending February 2016. The notional value of the swaps will decline proportionately as portions of the Note mature. These interest rate swaps are designated as fair value hedges of the interest rate risk associated with the hedged portion of the fixed rate Note. Accordingly, the Company will carry the portion of the hedged debt at fair value, with the change in debt and swap offsetting each other in the income statement. At June 30, 2011, the estimated net fair value of these interest rate swaps was \$2.8 million.

The following tables summarize the notional amounts and fair value of the Company’s fair value hedges at June 30, 2011:

| Notional Amounts Maturing in the<br>Year | Fair Value<br>Net<br>Asset<br>(Liability) |
|--|---|
|--|---|

| Interest Rate Swaps<br>(in thousands) | 2014      | 2015 and<br>Beyond | June 30, 2011 |
|---------------------------------------|-----------|--------------------|---------------|
| U.S. dollars                          | \$ 45,000 | \$ 105,000         | \$ 2,809      |
| Total interest rate swaps             | \$ 45,000 | \$ 105,000         | \$ 2,809      |

The following tables summarize the fair value and consolidated balance sheet location of the Company's derivatives at June 30, 2011 and December 31, 2010:

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| (in thousands)                     | June 30, 2011   |                                    |                        |                                    |
|------------------------------------|---|------------------------------------|------------------------|------------------------------------|
|                                    | Prepaid<br>Expenses<br>and Other<br>Current<br>Assets | Other<br>Noncurrent<br>Assets, Net | Accrued<br>Liabilities | Other<br>Noncurrent<br>Liabilities |
| Designated as Hedges               |   |                                    |                        |                                    |
| Foreign exchange forward contracts | \$525   | \$12                               | \$1,277                | \$105                              |
| Commodity contracts                | 44  | -                                  | 2                      | -                                  |
| Interest rate swaps                | 6,871   | 9,495                              | 3,367                  | 3,007                              |
| Cross currency basis swaps         | -   | -                                  | 51,983                 | 228,477                            |
| Total                              | \$7,440   | \$9,507                            | \$56,629               | \$231,589                          |

#### Not Designated as Hedges

|                                    |         |     |       |         |
|------------------------------------|---------|-----|-------|---------|
| Foreign exchange forward contracts | \$1,155 | \$- | \$572 | \$-     |
| DIO equity option contracts        | -       | -   | -     | 842     |
| Interest rate swaps                | -       | -   | 89    | 435     |
| Total                              | \$1,155 | \$- | \$661 | \$1,277 |

| (in thousands)                     | December 31, 2010                                     |                                    |                        |                                    |
|------------------------------------|---|------------------------------------|------------------------|------------------------------------|
|                                    | Prepaid<br>Expenses<br>and Other<br>Current<br>Assets | Other<br>Noncurrent<br>Assets, Net | Accrued<br>Liabilities | Other<br>Noncurrent<br>Liabilities |
| Designated as Hedges               |   |                                    |                        |                                    |
| Foreign exchange forward contracts | \$2,455   | \$21                               | \$1,139                | \$135                              |
| Commodity contracts                | 88  | -                                  | -                      | -                                  |
| Interest rate swaps                | -   | -                                  | 4,213                  | 871                                |
| Cross currency basis swaps         | -   | -                                  | 21,516                 | 147,589                            |
| Total                              | \$2,543   | \$21                               | \$26,868               | \$148,595                          |

#### Not Designated as Hedges

|                                    |       |     |       |       |
|------------------------------------|-------|-----|-------|-------|
| Foreign exchange forward contracts | \$821 | \$- | \$600 | \$-   |
| Interest rate swaps                | -     | -   | 104   | 556   |
| Total                              | \$821 | \$- | \$704 | \$556 |

The following table summarizes the consolidated statement of operations impact of the Company's cash flow hedges for the three and six months ended June 30, 2011 and 2010:

#### Three Months Ended June 30, 2011

#### Derivatives in Cash Flow Hedging

| (in thousands)                     | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Effective Portion<br>Reclassified from<br>AOCI into Income |
|------------------------------------|------------------------|-------------------------------------|--|
| Interest rate contracts            | \$ 9,879               | Interest expense                    | \$ (1,318 )  |
| Foreign exchange forward contracts | 238                    | Cost of products sold               | 386  |

|                                    |          |                       |         |   |
|------------------------------------|----------|-----------------------|---------|---|
| Foreign exchange forward contracts | (195     | ) SG&A expenses       | (95     | ) |
| Commodity contracts                | 29       | Cost of products sold | 91      |   |
| Total                              | \$ 9,951 |                       | \$ (936 | ) |

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| Derivatives in Cash Flow Hedging   |                                     | Ineffective portion     |
|------------------------------------|-------------------------------------|-------------------------|
| (in thousands)                     | Classification<br>of Gains (Losses) | Recognized<br>in Income |
| Interest rate contracts            | Other expense, net                  | \$ 65                   |
| Foreign exchange forward contracts | Other expense, net                  | (188 )                  |
| Commodity contracts                | Interest expense                    | 1                       |
| Total                              |                                     | \$ (122 )               |

Three Months Ended June 30, 2010

| Derivatives in Cash Flow Hedging   |                        |                                     | Effective Portion                     |
|------------------------------------|------------------------|-------------------------------------|---------------------------------------|
| (in thousands)                     | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Reclassified from<br>AOCI into Income |
| Interest rate swaps                | \$ (302 )              | Interest expense                    | \$ (1,075 )                           |
| Foreign exchange forward contracts | 3,425                  | Cost of products sold               | (48 )                                 |
| Foreign exchange forward contracts | 679                    | SG&A expenses                       | 124                                   |
| Commodity contracts                | 48                     | Cost of products sold               | 182                                   |
| Total                              | \$ 3,850               |                                     | \$ (817 )                             |

| Derivatives in Cash Flow Hedging   |                                     | Ineffective portion     |
|------------------------------------|-------------------------------------|-------------------------|
| (in thousands)                     | Classification<br>of Gains (Losses) | Recognized<br>in Income |
| Interest rate swaps                | Other expense, net                  | \$ (104 )               |
| Foreign exchange forward contracts | Interest expense                    | (195 )                  |
| Commodity contracts                | Interest expense                    | 2                       |
| Total                              |                                     | \$ (297 )               |

Six Months Ended June 30, 2011

| Derivatives in Cash Flow Hedging   |                        |                                     | Effective Portion                     |
|------------------------------------|------------------------|-------------------------------------|---------------------------------------|
| (in thousands)                     | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Reclassified from<br>AOCI into Income |
| Interest rate contracts            | \$ 9,598               | Interest expense                    | \$ (2,569 )                           |
| Foreign exchange forward contracts | (694 )                 | Cost of products sold               | 854                                   |
| Foreign exchange forward contracts | (462 )                 | SG&A expenses                       | 11                                    |
| Commodity contracts                | 56                     | Cost of products sold               | 196                                   |
| Total                              | \$ 8,498               |                                     | \$ (1,508 )                           |

| Derivatives in Cash Flow Hedging   |                                     | Ineffective portion     |
|------------------------------------|-------------------------------------|-------------------------|
| (in thousands)                     | Classification<br>of Gains (Losses) | Recognized<br>in Income |
| Interest rate contracts            | Other expense, net                  | \$ 167                  |
| Foreign exchange forward contracts | Interest expense                    | (216 )                  |
| Foreign exchange forward contracts | Other expense, net                  | (188 )                  |
| Commodity contracts                | Interest expense                    | (2 )                    |
| Total                              |                                     | \$ (239 )               |



Six Months Ended June 30, 2010

## Derivatives in Cash Flow Hedging

| (in thousands)                     | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Effective Portion<br>Reclassified from<br>AOCI into Income |
|------------------------------------|------------------------|-------------------------------------|--|
| Interest rate contracts            | \$ (879 )              | Interest expense                    | \$ (3,239 )  |
| Foreign exchange forward contracts | 2,903                  | Cost of products sold               | 25   |
| Foreign exchange forward contracts | 697                    | SG&A expenses                       | 218  |
| Commodity contracts                | 171                    | Cost of products sold               | 440  |
| Total                              | \$ 2,892               |                                     | \$ (2,556 )  |

## Derivatives in Cash Flow Hedging

| (in thousands)                     | Classification<br>of Gains (Losses) | Ineffective portion<br>Recognized<br>in Income |
|------------------------------------|-------------------------------------|--|
| Interest rate contracts            | Other expense, net                  | \$ 192   |
| Foreign exchange forward contracts | Interest expense                    | (287 )   |
| Commodity contracts                | Interest expense                    | (6 )   |
| Total                              |                                     | \$ (101 )                                      |

The following tables summarize the consolidated statement of operations impact of the Company's hedges of net investment for the three and six months ended June 30, 2011 and 2010:

Three Months Ended June 30, 2011

## Derivatives in Net Investment Hedging

| (in thousands)                     | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Gain (Loss)<br>Recognized<br>in Income |
|------------------------------------|------------------------|-------------------------------------|--|
| Cross currency interest rate swaps | \$ (58,388 )           | Interest income                     | \$ 170                                 |
|                                    |                        | Interest expense                    | (40 )                                  |
| Cross currency interest rate swaps | (11,635 )              | Interest expense                    | (1,270 )                               |
| Total                              | \$ (70,023 )           |                                     | \$ (1,140 )                            |

Three Months Ended June 30, 2010

## Derivatives in Net Investment Hedging

| (in thousands)                     | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Gain (Loss)<br>Recognized<br>in Income |
|------------------------------------|------------------------|-------------------------------------|--|
| Cross currency interest rate swaps | \$ 13,809              | Interest income                     | \$ 173                                 |
|                                    |                        | Interest expense                    | (22 )                                  |
| Cross currency interest rate swaps | 45,645                 | Interest expense                    | (464 )                                 |
| Total                              | \$ 59,454              |                                     | \$ (313 )                              |



## Six Months Ended June 30, 2011

## Derivatives in Net Investment Hedging

| (in thousands)                     | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Gain (Loss)<br>Recognized<br>in Income |
|------------------------------------|------------------------|-------------------------------------|--|
| Cross currency interest rate swaps | \$ (71,336 )           | Interest income                     | \$ 369                                 |
|                                    |                        | Interest expense                    | (65 )                                  |
| Cross currency interest rate swaps | (41,367 )              | Interest expense                    | (2,226 )                               |
| Total                              | \$ (112,703 )          |                                     | \$ (1,922 )                            |

## Six Months Ended June 30, 2010

## Derivatives in Net Investment Hedging

| (in thousands)                     | Gain (Loss)<br>in AOCI | Classification<br>of Gains (Losses) | Gain (Loss)<br>Recognized<br>in Income |
|------------------------------------|------------------------|-------------------------------------|--|
| Cross currency interest rate swaps | \$ 23,019              | Interest income                     | \$ 220                                 |
|                                    |                        | Interest income                     | (79 )                                  |
| Cross currency interest rate swaps | 74,403                 | Interest expense                    | (1,121 )                               |
| Total                              | \$ 97,422              |                                     | \$ (980 )                              |

The following tables summarize the consolidated statement of operations impact of the Company's fair value hedges for the three and six months ended June 30, 2011:

## Derivatives in Fair Value Hedging

| (in thousands)      | Classification<br>of Gains (Losses) | Three Months Ended<br>June 30, 2011 | Six Months Ended<br>June 30, 2011 |
|---------------------|-------------------------------------|-------------------------------------|-----------------------------------|
| Interest rate swaps | Interest expense                    | \$ 615                              | \$ 615                            |
| Total               |                                     | \$ 615                              | \$ 615                            |

The following tables summarize the consolidated statement of operations impact of the Company's derivatives not designated as hedges for the three and six months ended June 30, 2011 and 2010:

## Derivatives Not Designated as Hedging

| (in thousands)                     | Classification<br>of Gains (Losses) | Three Months Ended<br>June 30, 2011 | Six Months Ended<br>June 30, 2011 |
|------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|
| Foreign exchange forward contracts | Other expense, net                  | \$ (394 )                           | \$ 1,309                          |
| DIO equity option contracts        | Other expense, net                  | 26                                  | 26                                |
| Interest rate swaps                | Interest expense                    | 107                                 | 51                                |
| Total                              |                                     | \$ (261 )                           | \$ 1,386                          |

## Derivatives Not Designated as Hedging

| (in thousands)                     | Classification<br>of Gains (Losses) | Three Months<br>Ended<br>June 30, 2010 | Six Months Ended<br>June 30, 2010 |
|------------------------------------|-------------------------------------|--|-----------------------------------|
| Foreign exchange forward contracts | Other expense, net                  | \$ (8,601 )                            | \$ (10,878 )                      |
| Interest rate swaps                | Interest expense                    | (31 )                                  | (179 )                            |
| Total                              |                                     | \$ (8,632 )                            | \$ (11,057 )                      |

Amounts recorded in AOCI, net of tax, related to cash flow hedging instruments for the three and six months ended June 30, 2011 and 2010:

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| (in thousands, net of tax)                | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2011                           | 2010       | 2011                         | 2010       |
| Beginning balance                         | \$(2,275 )                     | \$(4,387 ) | \$(1,468 )                   | \$(4,799 ) |
| Changes in fair value of derivatives      | 6,137                          | 2,933      | 5,101                        | 2,272      |
| Reclassifications to earnings from equity | 467                            | 510        | 696                          | 1,583      |
| Total activity                            | 6,604                          | 3,443      | 5,797                        | 3,855      |
| Ending balance                            | \$4,329                        | \$(944 )   | \$4,329                      | \$(944 )   |

Amounts recorded in AOCI, net of tax, related to hedges of net investments in foreign operations for the three and six months ended June 30, 2011 and 2010:

| (in thousands, net of tax)              | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | 2011                           | 2010        | 2011                         | 2010        |
| Beginning balance                       | \$106,664                      | \$61,006    | \$45,417                     | \$111,115   |
| Foreign currency translation adjustment | 66,059                         | (127,527 )  | 152,497                      | (201,846 )  |
| Changes in fair value of:               |                                |             |                              |             |
| Foreign currency debt                   | (6,687 )                       | (3,620 )    | (5,673 )                     | (2,722 )    |
| Derivative hedge instruments            | (42,995 )                      | 36,505      | (69,200 )                    | 59,817      |
| Total activity                          | 16,377                         | (94,642 )   | 77,624                       | (144,751 )  |
| Ending balance                          | \$123,041                      | \$(33,636 ) | \$123,041                    | \$(33,636 ) |

#### NOTE 11 – FAIR VALUE MEASUREMENT

The Company records financial instruments at fair value with unrealized gains and losses related to certain financial instruments reflected in AOCI on the consolidated balance sheets. In addition, the Company recognizes certain liabilities at fair value. The Company applies the market approach for recurring fair value measurements. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument. Financial instruments 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 instruments 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 following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2011 and December 31, 2010, which are classified as "Cash and cash equivalents," "Prepaid expenses and other current assets," "Other noncurrent assets, net," "Accrued liabilities," and "Other noncurrent liabilities" on the consolidated balance sheets. Financial assets and liabilities that are recorded at fair value as of the balance sheet date are classified in their entirety based on the lowest level of input that is

significant to the fair value measurement.

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| (in thousands)                            | Total     | June 30, 2011 |           |          |
|---|-----------|---------------|-----------|----------|
|   |           | Level 1       | Level 2   | Level 3  |
| Assets                                    |           |               |           |          |
| Money market funds                        | \$505,560 | \$505,560     | \$-       | \$-      |
| Interest rate swaps                       | 16,366    | -             | 16,366    |          |
| Foreign exchange forward contracts        | 1,692     | -             | 1,692     | -        |
| Corporate convertible bonds               | 67,453    | -             | -         | 67,453   |
| Total assets                              | \$591,071 | \$505,560     | \$18,058  | \$67,453 |
|   |           |               |           |          |
| Liabilities                               |           |               |           |          |
| Interest rate swaps                       | \$6,898   | \$-           | \$6,898   | \$-      |
| Cross currency interest rate swaps        | 280,460   | -             | 280,460   | -        |
| Foreign exchange forward contracts        | 1,954     | -             | 1,954     | -        |
| Long term debt                            | 152,828   | -             | 152,828   | -        |
| Contingent considerations on acquisitions | 15,013    | -             | -         | 15,013   |
| DIO equity option contracts               | 842       | -             | -         | 842      |
| Total liabilities                         | \$457,995 | \$-           | \$442,140 | \$15,855 |

| (in thousands)                            | Total     | December 31, 2010 |           |          |
|---|-----------|-------------------|-----------|----------|
|   |           | Level 1           | Level 2   | Level 3  |
| Assets                                    |           |                   |           |          |
| Money market funds                        | \$380,593 | \$380,593         | \$-       | \$-      |
| Foreign exchange forward contracts        | 3,297     | -                 | 3,297     | -        |
| Corporate convertible bonds               | 66,024    | -                 | -         | 66,024   |
| Total assets                              | \$449,914 | \$380,593         | \$3,297   | \$66,024 |
| Liabilities                               |           |                   |           |          |
| Interest rate swaps                       | \$5,744   | \$-               | \$5,744   | \$-      |
| Cross currency interest rate swaps        | 169,105   | -                 | 169,105   | -        |
| Foreign exchange forward contracts        | 1,874     | -                 | 1,874     | -        |
| Contingent considerations on acquisitions | 5,887     | -                 | -         | 5,887    |
| Total liabilities                         | \$182,610 | \$-               | \$176,723 | \$5,887  |

Derivative valuations are based on observable inputs to the valuation model including interest rates, foreign currency exchange rates, future commodities prices and credit risks.

The commodity contracts, certain interest rate swaps and foreign exchange forward contracts are considered cash flow hedges and cross currency interest rate swaps are considered hedges of net investments in foreign operations as discussed in Note 10, Financial Instruments and Derivatives.

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



The following table presents a reconciliation of the Company's corporate convertible bond measured at fair value on a recurring basis using unobservable inputs (Level 3):

(in thousands)

|  | Level 3   |
|--|-----------|
| Balance at December 31, 2010                   | \$ 66,024 |
| Purchases, gross                               | -         |
| Sales, gross                                   | -         |
| Unrealized losses:                             |           |
| Reported in AOCI - corporate convertible bonds | (3,939 )  |
| Effects of exchange rate changes               | 5,368     |
| Balance at June 30, 2011                       | \$ 67,453 |

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

The following table presents a reconciliation of the Company's DIO equity options contracts measured at fair value on a recurring basis using unobservable inputs (Level 3):

(in thousands)

|   | Level 3 |
|---|---------|
| Balance at December 31, 2010            | \$ -    |
| Additions                               | 786     |
| Unrealized gains (losses):              |         |
| Reported in Other expense (income), net | 26      |
| Effects of exchange rate changes        | 30      |
| Balance at June 30, 2011                | \$ 842  |

Certain purchase agreements for acquisitions completed after January 1, 2009 contain provisions where the seller could receive additional consideration based on upon the future operating performance of the acquired business. In accordance with US GAAP, the Company has recorded the fair value of these additional payments on the acquisition date. The fair value was based on a probability-weighted average payout discounted using a market rate of approximately 5%. The fair value is subject to management's estimates at the time of the acquisition and is based upon level 3 inputs. The fair values of these additional payments are reported in "Other noncurrent liabilities," on the consolidated balance sheets.

The following table presents a reconciliation of the Company's contingent considerations measured at fair value on a recurring basis using unobservable inputs (Level 3):

(in thousands)

|                                  | Level 3   |
|----------------------------------|-----------|
| Balance at December 31, 2010     | \$ 5,887  |
| Additions                        | 10,678    |
| Payments                         | (1,745 )  |
| Effects of exchange rate changes | 193       |
| Balance at June 30, 2011         | \$ 15,013 |





#### NOTE 12 – UNCERTAINTIES IN INCOME TAXES

The Company recognizes in the consolidated 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.

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 \$3.5 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.

#### NOTE 13 - FINANCING ARRANGEMENTS

The Company estimates the fair value and the carrying value of its total long-term debt, including the current portion, was \$659.2 million and \$657.3 million, respectively, at June 30, 2011. At December 31, 2010, the fair value and the carrying value of its total long-term debt, including the current portion, were \$611.2 million and \$606.5 million, respectively. The terms on existing variable rate debt, including commercial paper, approximate current market conditions; therefore, the fair values of these instruments approximates their carrying values.

On April 4, 2011, the Company entered into a group of U.S. dollar denominated interest rate swaps with an initial total notional value of \$150.0 million to effectively convert the underlying fixed interest rate of 4.1% on the Company's \$250.0 million Private Placement Note ("Note") to variable rate based upon three month LIBOR for a term of five years, ending February 2016. The notional value of the swaps will decline proportionately as portions of the Note come due. These interest rate swaps are designated as fair value hedges of the interest rate risk associated with the hedged portion of the fixed rate Note. Accordingly, the Company will carry the portion of the hedged debt at fair value, with the change in debt and swap offsetting each other in the consolidated statements of operations.

On June 24, 2011 the Company entered into a T-Lock which expires September 23, 2011, to hedge the base rate interest variability exposure of the Company's planned ten year bond issuance. The T-Lock will result in an effective base interest yield of 3.02% plus market spread and fees at issuance on a notional amount of \$500.0 million. The derivative is designated as a cash flow hedge of interest rate risk. The T-Lock will be cash settled when the Company issues bonds, with the fair value being recognized as an asset (currently an asset) and an offsetting position in AOCI. As interest is accrued on the bond in the future, the Company will release the pro rata amount in AOCI into interest expense on the consolidated statements of operations.

On July 27, 2011, the Company entered into a new Credit Agreement to replace the 2010 Revolving Credit Agreement dated May 7, 2010, that had provided for a multi-currency revolving credit facility in an aggregate amount of up to \$200.0 million through May 7, 2013. The new Credit Agreement provides for a new five year, \$500.0 million multi-currency revolving credit facility (the "Facility") to provide working capital from time to time for the Company and for other general corporate purposes. The Facility is unsecured and contains certain affirmative and negative covenants relating to the Company's operations and financial condition, including prescribed leverage and interest coverage ratios. The Facility contains customary events of default. Upon the occurrence of an event of default, all outstanding borrowings under the Credit Agreement may be accelerated and become immediately due and payable. In connection with this transaction, the Company paid in full all outstanding revolving loans, together with interest and all other amounts due in connection with such repayment, under the 2010 Revolving Credit Agreement.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

### Litigation

On June 18, 2004, Marvin Weinstat, DDS and Richard Nathan, DDS filed a class action suit in San Francisco County, California alleging that the Company misrepresented that its Cavitron® ultrasonic scalers are suitable for use in oral surgical procedures. The Complaint seeks a recall of the product and refund of its purchase price to dentists who have purchased it for use in oral surgery. The Court certified the case as a class action in June 2006 with respect to the breach of warranty and unfair business practices claims. The class that was certified is defined as California dental professionals who purchased and used one or more Cavitron® ultrasonic scalers for the performance of oral surgical procedures. The Company filed a motion for decertification of the class and this motion was granted. Plaintiffs appealed the decertification of the class to the California Court of Appeals and the Court of Appeals reversed the decertification decision of the trial Court. The case has been remanded to and is pending in the San Francisco County Court and the plaintiffs have filed a Motion to redefine the class to include non-surgical periodontal use. The Company has not yet responded to this Motion.

On December 12, 2006, a Complaint was filed by Carole Hildebrand, DDS and Robert Jaffin, DDS in the Eastern District of Pennsylvania (the Plaintiffs subsequently added Dr. Mitchell Goldman as a named class representative). The case was filed by the same law firm that filed the Weinstat case in California. The Complaint asserts putative class action claims on behalf of dentists located in New Jersey and Pennsylvania. The Complaint seeks damages and asserts that the Company's Cavitron® ultrasonic scaler was negligently designed and sold in breach of contract and warranty arising from misrepresentations about the potential uses of the product because it cannot assure the delivery of potable or sterile water. Plaintiffs have filed their motion for class certification to which the Company has filed its response. The Company also filed other motions, including a motion to dismiss the claims of Drs. Hildebrand and Jaffin for lack of standing. The Court granted this motion for lack of standing of the individuals and did not allow the plaintiffs to amend the complaint to substitute their corporate practices, leaving Dr. Goldman as a putative class representative in Pennsylvania, raising a question of jurisdiction of the U.S. District Court. The plaintiffs have now filed another complaint in which they named the corporate practices of Drs. Hildebrand and Jaffin as class representatives. The Company has moved to dismiss this complaint.

On November 21, 2008, Guidance Endodontics LLC filed a complaint in the U.S. District Court of New Mexico asserting claims against DENTSPLY arising principally out of a breach of a manufacturing and supply contract between the parties. Prior to trial, Guidance had claimed its damages were \$1.2 million. The case went to trial in late September and early October 2009. On October 9, 2009, a jury returned a verdict against DENTSPLY, in the amount of approximately \$4.0 million for past and future compensatory damages and \$40.0 million in punitive damages. In April 2010, the District Court Judge formally entered the verdict that was reached in October 2009. The Company believes that this decision is not supported by the facts in the case or the applicable law and is pursuing available options to challenge it. The Company filed a number of separate post-trial motions with the District Court to overturn various aspects of the verdict, including the punitive and future damages, or in the alternative to be granted a new trial, because of the inappropriateness of such verdicts. The Court has denied the Company's post-trial motions on which it has ruled other than the Company's Motion for Remittitur of Punitive Damages or a New Trial.

On May 9, 2011, the Court largely granted the Company's Remittitur Motion. In the ruling, the Judge reduced the total punitive damages award to \$4.08 million, a Remittitur of approximately \$36.0 million. After the ruling on Remittitur, Guidance filed a Motion asking the Judge to make the remitted award unconditional in order to be able to immediately appeal the Judge's Remittitur ruling. The Company has opposed this Motion by Guidance. If the Court denies Guidance's Motion, then under the Court's Order on the Remittitur, Guidance would be required to choose either to accept the remitted award or take a new trial on all issues. At this time, it is uncertain whether there will be a new trial. Also, the Company retains its rights to challenge aspects of the verdict on appeal to the 10th Circuit Court of

Appeals.

As of June 30, 2011, a reasonable estimate of a possible range of losses related to the above litigation cannot be made. DENTSPLY does not believe the outcome of any of these matters will have a material adverse effect on its financial position. In the event that one or more of these matters is unfavorably resolved, it is possible the Company's results from operations could be materially impacted.

#### Purchase Commitments

From time to time, the Company enters into long-term inventory purchase commitments with minimum purchase requirements for raw materials and finished goods to ensure the availability of products for production and distribution. These commitments may have a significant impact on levels of inventory maintained by the Company.

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DENTSPLY International Inc. and Subsidiaries

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

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

Investors are cautioned that forward-looking statements should be read in conjunction with the risk factors and uncertainties discussed within Item 1A, Part I of the Company's Form 10-K for the year ended December 31, 2010. Investors are further cautioned that the risk factors in Item 1A, Part I of the Company's Form 10-K may not be exhaustive and that many of these factors are beyond the Company's ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty and has no obligation to update forward-looking statements.

OVERVIEW

Quarter Highlights

- **Record Revenues** – The Company achieved record net sales and net sales excluding precious metal content despite significant headwinds from reduced Orthodontic product sales. Favorably impacting the sales were positive internal growth excluding the orthodontic businesses, beneficial foreign exchange rates due to a weaker U.S. dollar and recent acquisitions.
- **Astra Tech AB Acquisition Announcement** – The Company announced it has entered into a definitive agreement to purchase Astra Tech AB ("Astra Tech"), a subsidiary of AstraZeneca, for approximately \$1.8 billion. Astra Tech is a leading developer, manufacturer and marketer of dental implants, customized implant abutments and consumable medical devices in the urology and surgery market segments. Astra Tech recorded approximately \$535 million in worldwide revenue in 2010. The Company expects the acquisition to close by December 31, 2011.
- **Orthodontic/Japan Update** – Late in the quarter, the Company began receiving limited orthodontic products from the Japanese supplier impacted by the natural disaster in March 2011. However, the quarter was significantly impacted by the lack of product and, as a result, orthodontic sales were substantially curtailed. The Company expects the supply disruption to continue into the next two quarters. While the Company expects limited shipments of certain orthodontic products from the Japanese supplier during the rest of 2011, a full return to manufacturing capacity is not expected until 2012 and the impact of the supply disruption is expected to increase in the coming two quarters as the Company has depleted its existing stocks of these products.

Company Profile

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 Products

The Company has three main product categories: 1) Dental Consumable Products; 2) Dental Laboratory Products; and 3) Dental Specialty Products.

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

Dental laboratory products are used in the preparation of dental appliances by dental laboratories. DENTSPLY's products within this category include dental prosthetics, artificial teeth, precious metal dental alloys, dental ceramics, and crown and bridge materials. This category also includes fabricated dental appliances, computer aided design software and centralized manufacturing of frameworks. Equipment in this category includes computer aided machining ceramic systems and porcelain furnaces.

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

#### 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 controlling expenses; (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 for the remainder of 2011 primarily due to the impact of the natural disaster in Japan and the slower growth in the global economy. 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 Company's cost base. 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.

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.

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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 the Natural Disaster in Japan

On March 11, 2011, the country of Japan experienced an unprecedented natural disaster. The Company's employees are safe and its facilities and offices located throughout Japan experienced only minor physical damage. However, logistics, energy availability, and other physical and emotional factors are impacting many areas in Japan even outside of the evacuation zone.

The Company's net sales in Japan represent approximately 4% of the Company's consolidated 2010 net sales, excluding precious metal content, and are reported as part of the "France, United Kingdom, Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses" operating segment. The near-term economic conditions in Japan have been negatively impacted by the physical and economic complications of the disaster. These factors are resulting in lower demand for dental products and we expect this impact will continue over the next few quarters, especially for aesthetic or deferrable dental treatments.

With the exception of one key supplier noted below, the Company's product suppliers within Japan, who were damaged or were otherwise impacted by the disaster, are not expected to have a significant negative impact on the Company's sales or operations as most have instituted alternative production and supply plans. One of the Company's key suppliers, which is the source of certain orthodontic products comprising approximately 9% of the Company's consolidated annual net sales, excluding precious metal content, was located within the evacuation zone in Japan and is in the process of relocating its operations to a location outside of the evacuation zone. While the supplier has resumed delivery of a very limited selection of products in small quantities, the Company does not expect them to return to normal supply levels until the first half 2012. Also during the second quarter of 2011, to help mitigate the supply disruption, the Company has made temporary arrangements for alternative supply of certain products and has initiated certain restructuring plans to manage the cost structure of the orthodontic business. The Company expects that these restructuring plans, along with alternative supply arrangements, will help mitigate some of the expected negative impacts from the shortage of supply; however, there can be no assurance as to the extent of such mitigation.

The orthodontic products impacted by this situation are primarily sold and reported as part of the "Canada/Latin America/Endodontics/Orthodontics" operating segment. Given that the Company does not manufacture these products, generally, the operating margins are lower than the Company's overall operating margins.

The natural disaster had a minimal impact on the Company's operating results for the first quarter of 2011, due in part to the timing of the event late in the quarter. During the second quarter the Company experienced a substantial sell-out of available product from the Japanese supplier. The impact on the Company's operating results for the second quarter of 2011 was approximately \$0.03 per share and is expected to be roughly double that amount in each quarter of the back half of 2011 as inventory levels and product availability diminishes. The Company's estimate of the potential negative impact is based on assumptions regarding the timing and sourcing of alternative supply, the timing and success of the key supplier's resumption of operations at an alternative site, the ability to successfully reduce the cost structure of the business during the supply disruption, customer acceptance of alternatively supplied products, and the Company's ability to achieve success in its sales and marketing strategies once supply resumes.

Based on current estimates and the results of the Company's annual goodwill impairment testing, the Company does not believe that an impairment of goodwill or intangible assets has occurred. The Company will continue to closely monitor this situation. Every effort will be made to respond with a focus on minimizing the loss of customers and



operating margins, and positioning the Company for continued leadership within the orthodontic market.

#### 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 year's data in order to conform to current year presentation.

## RESULTS OF OPERATIONS, QUARTER ENDED JUNE 30, 2011 COMPARED TO QUARTER ENDED JUNE 30, 2010

## Net Sales

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.

The presentation of net sales, excluding precious metal content, is considered a measure not calculated in accordance with the generally accepted accounting principles in the United States ("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)                               | Three Months Ended<br>June 30, |         | \$ Change | % Change |    |
|---|--------------------------------|---------|-----------|----------|----|
|   | 2011                           | 2010    |           |          |    |
| Net sales                                   | \$609.4                        | \$565.1 | \$44.3    | 7.8      | %  |
| Less: precious metal content of sales       | 45.4                           | 46.3    | (0.9)     | (1.9)    | )% |
| Net sales, excluding precious metal content | \$564.0                        | \$518.8 | \$45.2    | 8.7      | %  |

Net sales, excluding precious metal content, for the three months ended June 30, 2011 was \$564.0 million, an increase of 8.7% over the second quarter of 2010. The change in net sales, excluding precious metal content, was primarily a result of the impact of currency translation of 7.8%, and positively impacted by constant currency growth of 0.9%. Internal growth was flat and was negatively impacted by the Japan natural disaster as previously discussed. Excluding the Japanese market and Orthodontic businesses, internal growth was 3.4%.

## Constant Currency and Internal Sales Growth

The following table includes growth rates for net sales, excluding precious metal content for the three months ended June 30, 2011 compared with the three months ended June 30, 2010.

| Three Months Ended June 30, 2011 |        |                   |           |
|----------------------------------|--------|-------------------|-----------|
| United States                    | Europe | All Other Regions | Worldwide |

|                                    |      |    |      |    |     |   |     |   |
|------------------------------------|------|----|------|----|-----|---|-----|---|
| Internal sales growth              | (0.9 | )% | (0.3 | )% | 2.3 | % | 0.1 | % |
| Acquisition sales growth           | 0.3  | %  | 0.8  | %  | 2.0 | % | 0.8 | % |
| Constant currency sales growth     | (0.6 | )% | 0.5  | %  | 4.3 | % | 0.9 | % |
| Adjusted internal sales growth (a) | 2.2  | %  | 1.8  | %  | 9.2 | % | 3.4 | % |

(a) Excludes Japanese market and Orthodontic business.

## United States

Net sales, excluding precious metal content, decreased by 0.6% for the second quarter of 2011 compared to the second quarter of 2010 on a constant currency basis, including 0.3% of acquisition growth. The negative 0.9% internal growth rate was primarily due to reduced sales in the orthodontic business as discussed in the Overview. Excluding the orthodontic business, the internal growth rate in the U.S. was a positive 2.2%. This adjusted internal growth rate was a result of growth in the dental consumable, dental specialty and non-dental products, partially offset by lower sales in the dental laboratory products.

## Europe

Net sales, excluding precious metal content, increased by 0.5% in the second quarter of 2011 on a constant currency basis, including 0.8% of acquisition growth. Excluding the orthodontic business, the internal growth was a positive 1.8% and was the result of increased specialty product sales and growth in non-dental products. Partially offsetting these growth areas was lower volumes in precious metal alloy products as a result of record high gold prices.

## All Other Regions

Net sales, excluding precious metal content, in the other regions of the world increased by 4.3% on a constant currency basis, which includes 2.3% of internal growth. Excluding the Japanese market and orthodontic business, the resulting internal growth was a positive 9.2%. This adjusted internal growth was led by growth in dental specialty products, due to recent product launches, as well as growth in the dental consumable products, partially offset by decreased sales in the dental laboratory and non-dental products.

## Gross Profit

|   | Three Months Ended |        |      |        |                    |
|---|--------------------|--------|------|--------|--------------------|
|   | June 30,           |        |      |        |                    |
| (in millions)   | 2011               |        | 2010 |        |                    |
|   |                    |        |      |        | \$ Change % Change |
| Gross profit  | \$                 | 314.9  | \$   | 287.6  | \$ 27.3 9.5 %      |
| Gross profit as a percentage of net sales, including precious metal content |                    | 51.7 % |      | 50.9 % |                    |
| Gross profit as a percentage of net sales, excluding precious metal content |                    | 55.8 % |      | 55.4 % |                    |

Gross profit as a percentage of net sales, excluding precious metal content, increased by 0.4 percentage points for the three months ended June 30, 2011 compared to the same period in 2010. The increase was primarily the result of product price increases, favorable foreign currency movements, and the reduction in excess and obsolete inventory reserves due to the improved management of inventory, partially offset by unfavorable product mix and manufacturing cost increases.

## Operating Expenses

| (in millions)   | Three Months Ended<br>June 30, |         | \$ Change | % Change |
|---|--------------------------------|---------|-----------|----------|
|   | 2011                           | 2010    |           |          |
| Selling, general and administrative expenses ("SG&A")               | \$211.0                        | \$182.4 | \$28.6    | 15.7 %   |
| Restructuring and other costs                                       | \$6.9                          | \$0.2   | \$6.7     | NM       |
| SG&A as a percentage of net sales, including precious metal content | 34.6 %                         | 32.3 %  |           |          |
| SG&A as a percentage of net sales, excluding precious metal content | 37.4 %                         | 35.2 %  |           |          |
| NM – Not meaningful   |                                |         |           |          |

## SG&amp;A Expenses

SG&A expenses as a percentage of net sales, excluding precious metal content, increased in the second quarter of 2011 by 2.2 percentage points when compared to the second quarter of 2010. Increased expenses as a percent of net sales, excluding precious metal content, over the prior year is primarily the result of higher expenses due to costs associated with supporting the Company's Orthodontic business during this period of lower sales activity (also referred to hereafter as "Orthodontic business continuity costs"), increased costs supporting new product launches, increased employee costs to support growth initiatives and costs related to the biennial U.S. implant symposium.

## Restructuring and Other Costs

During the three months ended June 30, 2011, the Company recorded restructuring and other costs of \$6.9 million. These costs were related to expenses associated with the acquisition of Astra Tech for \$6.0 million and restructuring costs primarily related to the orthodontic business. In the same period of 2010, the Company incurred costs of \$0.2 million. (See also Note 9, Restructuring and Other Costs, of the Notes to Unaudited Interim Consolidated Financial Statements).

## Other Income and Expenses

| (in millions)                  | Three Months Ended<br>June 30, |        | Change    |
|--------------------------------|--------------------------------|--------|-----------|
|                                | 2011                           | 2010   |           |
| Net interest expense           | \$ 3.1                         | \$ 5.9 | \$ (2.8 ) |
| Other expense (income), net    | 1.4                            | 0.7    | 0.7       |
| Net interest and other expense | \$ 4.5                         | \$ 6.6 | \$ (2.1 ) |

## Net Interest Expense

Net interest expense for the three months ended June 30, 2011 was \$2.8 million lower compared to the three months ended June 30, 2010. The reduction is primarily related to a \$2.5 million reduction to interest expense due to the year over year change in the fair value credit risk adjustment on derivatives. In addition, interest expense increased by \$1.3 million primarily resulting from a higher average negative interest differential spread on the Company's cross currency swaps. Interest income increased \$1.6 million as the Company had higher average investment balances, and earned higher average interest rates in 2011 compared with 2010.

Other Expense (Income), Net

Other expense (income), net in the three months ended June 30, 2011 was \$1.4 million, including \$0.8 million of currency transaction losses and \$0.6 million of non-operating expenses. Other expense (income), net for the same period of 2010 included \$1.3 million of currency transaction losses and \$0.6 million of other non-operating income.

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## Income Taxes and Net Income

| (in millions, except per share data)                    | Three Months Ended |   |         |           |
|---|--------------------|---|---------|-----------|
|   | June 30,           |   |         |           |
|   | 2011               |   | 2010    | \$ Change |
| Effective income tax rates                              | 19.4               | % | 25.5    | %         |
| Equity in net loss of unconsolidated affiliated company | \$ 0.9             |   | \$ -    | \$ 0.9    |
| Net income attributable to noncontrolling interests     | \$ 1.2             |   | \$ 1.0  | \$ 0.2    |
| Net income attributable to DENTSPLY International       | \$ 74.2            |   | \$ 72.4 | \$ 1.8    |
| Earnings per common share - diluted                     | \$ 0.52            |   | \$ 0.49 |           |

## Provision for Income Taxes

The Company's effective income tax rates for the second quarter of 2011 and 2010 were 19.4% and 25.5%, respectively. The effective tax rate for the second quarter of 2011 was favorably impacted by the Company's change in assumptions surrounding the repatriation of foreign earnings into the United States, and reflects a reduction of repatriated earnings in anticipation of the Astra Tech acquisition, as well as an improvement from the mix of consolidated earnings.

The Company's effective income tax rate for 2011 included the impact of acquisition related activity, restructuring and other costs, income related to a credit risk adjustment on outstanding derivatives and various income tax adjustments, which impacted income before income taxes and the provision for income taxes by \$6.7 million and \$1.7 million, respectively. In 2010, 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 \$1.4 million and \$0.1 million, respectively.

## Equity in net income of unconsolidated affiliated company

The Company's 16% ownership investment of DIO Corporation resulted in income of \$0.9 million on an after-tax basis for the three months ended June 30, 2011. The net income of DIO includes the result of a positive fair value adjustment related to the convertible bonds issued by DIO to DENTSPLY, offset partially by the expensing of inventory step-up related to the purchase price adjustment at acquisition. The fair value adjustments related to the convertible bonds reported by DIO are primarily impacted by changes in the DIO share price. The impact of changes in the DIO share price on the fair value adjustment and the Company's portion of DIO's net income for the three months ended June 30, 2011 is income of approximately \$1.2 million. The impact from expensing the inventory step-up was approximately \$0.4 million to DENTSPLY's portion of DIO's net income for the period.

## 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) acquisition related costs and the expensing of purchase price adjustments at an unconsolidated affiliated company, (2) restructuring and other costs, (3) Orthodontic business continuity costs, (4) certain fair value adjustment at an unconsolidated affiliated company, (5) income related to credit risk adjustments,

and (6) income tax related 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.

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| (in thousands)   | Three Months Ended<br>June 30, 2011 |                                |
|--|-------------------------------------|--------------------------------|
|  | Income<br>(Expense)                 | Per Diluted<br>Common<br>Share |
| Net income attributable to DENTSPLY International                      | \$ 74,236                           | \$ 0.52                        |
| Acquisition related activities, net of tax                             | 6,164                               | 0.04                           |
| Restructuring and other costs, net of tax                              | 591                                 | 0.01                           |
| Orthodontics business continuity costs, net of tax                     | 442                                 | 0.01                           |
| Gain on fair value adjustments at an unconsolidated affiliated company | (1,181 )                            | (0.01 )                        |
| Credit risk adjustment to outstanding derivatives, net of tax          | (783 )                              | (0.01 )                        |
| Income tax related adjustments   | (977 )                              | (0.01 )                        |
| Adjusted non-US GAAP earnings  | \$ 78,492                           | \$ 0.55                        |

| (in thousands)   | Three Months Ended<br>June 30, 2010 |                                |
|--|-------------------------------------|--------------------------------|
|  | Income<br>(Expense)                 | Per Diluted<br>Common<br>Share |
| Net income attributable to DENTSPLY International                      | \$ 72,386                           | \$ 0.49                        |
| Credit risk adjustment to outstanding derivatives, net of tax          | 732                                 | -                              |
| Restructuring and other costs, net of tax and noncontrolling interests | 219                                 | -                              |
| Income tax related adjustments   | 571                                 | -                              |
| Rounding   | -                                   | 0.01                           |
| Adjusted non-US GAAP earnings  | \$ 73,908                           | \$ 0.50                        |

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.

#### Operating Segment Results

##### Third Party Net Sales, Excluding Precious Metal Content

| (in millions)  | Three Months Ended<br>June 30, |          | \$ Change | % Change |
|--|--------------------------------|----------|-----------|----------|
|  | 2011                           | 2010     |           |          |
| U.S., Germany and Certain Other European Regions Consumable Businesses                                     | \$ 151.5                       | \$ 137.2 | \$ 14.3   | 10.4 %   |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | \$ 129.4                       | \$ 112.0 | \$ 17.4   | 15.5 %   |

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|  |         |         |       |     |   |
|--|---------|---------|-------|-----|---|
| Canada/Latin America/Endodontics/Orthodontics  | \$175.7 | \$170.0 | \$5.7 | 3.4 | % |
| Dental Laboratory Business/Implants/Non-Dental | \$109.0 | \$100.3 | \$8.7 | 8.7 | % |

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## Segment Operating Income

| (in millions)  | Three Months Ended<br>June 30, |         | \$ Change | % Change |
|--|--------------------------------|---------|-----------|----------|
|  | 2011                           | 2010    |           |          |
| U.S., Germany and Certain Other European Regions Consumable Businesses                                     | \$ 53.7                        | \$ 49.7 | \$ 4.0    | 8.1 %    |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | \$ 3.9                         | \$ 5.5  | \$ (1.6 ) | (29.1 )% |
| Canada/Latin America/Endodontics/Orthodontics  | \$ 50.1                        | \$ 49.1 | \$ 1.0    | 2.0 %    |
| Dental Laboratory Business/Implants/Non-Dental   | \$ 21.9                        | \$ 22.5 | \$ (0.6 ) | (2.7 )%  |

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

Net sales, excluding precious metal content, increased \$14.3 million, or 10.4%, during the three months ended June 30, 2011 compared to 2010. On a constant currency basis, net sales, excluding precious metal content, increased 6.1% which was the result of increased demand in all geographies.

Operating income increased \$4.0 million during the three months ended June 30, 2011 compared to 2010. The increase was primarily attributable to an increase in gross profit of \$7.2 million, which was the result of increased sales and favorable foreign currency translation. This was partially offset by an increase in the selling, general and administrative expenses within the segment of \$3.2 million, primarily due to foreign currency translation.

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

Net sales, excluding precious metal content, increased \$17.4 million, or 15.5%, during the three months ended June 30, 2011 compared to 2010. On a constant currency basis, net sales, excluding precious metal content, increased 3.3% when compared to the same period in 2010. The majority of this growth was in the Pacific Rim businesses, excluding Japan, as well as CIS, Middle East, Africa, and Italy. Excluding the Japanese market, the segment's constant currency growth was 5.3%.

Operating income decreased \$1.6 million during the three months ended June 30, 2011 compared to 2010, primarily related to a \$7.3 million increase in SG&A expenses, which included new product launch costs, unfavorable foreign currency translation and higher employee costs to support growth initiatives, partially offset by a \$5.7 million increase in gross profit due to favorable foreign currency translation and higher sales.

## Canada/Latin America/Endodontics/Orthodontics

Net sales, excluding precious metal content, increased \$5.7 million, or 3.4%, during the three months ended June 30, 2011 compared to 2010. On a constant currency basis, net sales, excluding precious metal content, decreased 3.7% when compared to the same period in 2010. Net sales, excluding precious metal content, were negatively impacted by

the Orthodontic business's sales reduction as discussed in the Overview. Excluding the Orthodontic business, the segment's constant currency growth rate was 4.6%. This adjusted growth rate was primarily the result of growth in the Endodontic business as well as Latin America.

Operating income increased \$1.0 million during the three months ended June 30, 2011 compared to 2010. Gross profit for the segment increased \$7.1 million due to favorable impacts from foreign currency translation partially offset by reduced profits due to lower sales in the Orthodontic business. SG&A expenses increased by \$6.1 million due to unfavorable impacts from foreign currency translation, costs incurred to support new product launches and the Company's Orthodontic business continuity costs during this period of lower sales activity.

## Dental Laboratory Business/Implants/Non-Dental

Net sales, excluding precious metal content, increased \$8.7 million, or 8.7%, during the three months ended June 30, 2011 compared to 2010. On a constant currency basis, net sales, excluding precious metal content, were flat. Growth in the segment's Implants and Non-dental businesses were offset by reduced sales in the Dental Laboratory business.

Operating income for the three months ended June 30, 2011 decreased \$0.6 million compared to 2010 primarily attributable to reduced sales and unfavorable product mix in the Dental Laboratory business.

## RESULTS OF OPERATIONS, SIX MONTHS ENDED JUNE 30, 2011 COMPARED TO SIX MONTHS ENDED JUNE 30, 2010

## Net Sales

The following is a reconciliation of net sales to net sales, excluding precious metal content.

| (in millions)                               | Six Months Ended<br>June 30, |            | \$ Change | % Change |
|---|------------------------------|------------|-----------|----------|
|   | 2011                         | 2010       |           |          |
| Net sales                                   | \$ 1,179.9                   | \$ 1,111.0 | \$ 68.9   | 6.2 %    |
| Less: precious metal content of sales       | 88.9                         | 94.8       | (5.9 )    | (6.2 )%  |
| Net sales, excluding precious metal content | \$ 1,091.0                   | \$ 1,016.2 | \$ 74.8   | 7.4 %    |

Net sales, excluding precious metal content, for the six months ended June 30, 2011 was \$1,091.0 million, an increase of 7.4% over the same period of 2010. The change in net sales, excluding precious metal content, was the result of currency translation of 4.7% and constant currency growth of 2.7%. The constant currency sales growth included internal growth of 1.9%. Excluding the Japanese market and the Orthodontic business, the internal growth rate was 4.0%.

## Constant Currency and Internal Sales Growth

The following table includes growth rates for net sales, excluding precious metal content for the six months ended June 30, 2011 compared with the six months ended June 30, 2010.

|  | Six Months Ended June 30, 2011 |   |        |   |                   |   |           |   |
|--|--------------------------------|---|--------|---|-------------------|---|-----------|---|
|  | United States                  |   | Europe |   | All Other Regions |   | Worldwide |   |
| Internal sales growth                                  | -                              |   | 1.9    | % | 5.1               | % | 2.0       | % |
| Acquisition sales growth                               | 0.2                            | % | 0.9    | % | 1.9               | % | 0.7       | % |
| Constant currency sales growth                         | 0.2                            | % | 2.8    | % | 7.0               | % | 2.7       | % |
| Adjusted internal sales growth (a)                     | 2.1                            | % | 2.9    | % | 10.5              | % | 4.0       | % |
| (a) Excludes Japanese market and Orthodontic business. |                                |   |        |   |                   |   |           |   |

## United States

Net sales, excluding precious metal content, increased by 0.2% for the six months ended June 30, 2011 compared to the same period of 2010 on a constant currency basis, including flat internal growth. Excluding the Orthodontic business, the internal growth rate was 2.1%, due primarily to increases in dental consumable, dental specialty, and non-dental product sales, offset partially by decreased dental laboratory product sales.

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## Europe

Net sales, excluding precious metal content, increased by 2.8% for the six months ended June 30, 2011 on a constant currency basis, including 1.9% of internal growth. Excluding the Orthodontic business, the internal growth rate was 2.9% and was primarily driven by growth in the dental specialty, along with growth in the dental consumable and non-dental products and growth in the CIS markets. The increases in sales were partially offset by lower volumes in precious metal alloy products as a result of record high gold prices.

## All Other Regions

Net sales, excluding precious metal content, in the other regions of the world increased by 7.0% on a constant currency basis, which includes 5.1% of internal growth. Excluding the Japanese market and Orthodontic business, internal growth was 10.5%, driven primarily by growth in dental specialty and dental consumable products, partially offset by lower sales in dental laboratory products.

## Gross Profit

|   | Six Months Ended |   |       |      |     |
|---|------------------|---|-------|------|-----|
|   | June 30,         |   |       |      |     |
| (in millions)   | 2011             |   | 2010  |      |     |
|   |                  |   |       |      |     |
|   | \$               |   | \$    | \$   | %   |
| Gross profit  | 614.8            |   | 569.6 | 45.2 | 7.9 |
| Gross profit as a percentage of net sales, including precious metal content | 52.1             | % | 51.3  | %    |     |
| Gross profit as a percentage of net sales, excluding precious metal content | 56.4             | % | 56.1  | %    |     |

Gross profit as a percentage of net sales, excluding precious metal content, increased by 0.3 percentage points for the six months ended June 30, 2011 compared to the same period in 2010. The increase was primarily the result of product price increases and the reduction in excess and obsolete inventory reserves due to the improved management of inventory, partially offset by unfavorable product mix and manufacturing cost increases.

## Operating Expenses

|   | Six Months Ended |         |           |          |    |
|---|------------------|---------|-----------|----------|----|
|   | June 30,         |         |           |          |    |
| (in millions)   | 2011             | 2010    | \$ Change | % Change |    |
| Selling, general and administrative expenses ("SG&A")               | \$411.8          | \$370.4 | \$41.4    | 11.2     | %  |
| Restructuring and other costs, net                                  | \$7.5            | \$4.9   | \$2.6     |          | NM |
|   |                  |         |           |          |    |
| SG&A as a percentage of net sales, including precious metal content | 34.9             | %       | 33.3      | %        |    |
| SG&A as a percentage of net sales, excluding precious metal content | 37.7             | %       | 36.5      | %        |    |

NM – Not meaningful

## SG&amp;A Expenses

SG&A expenses as a percentage of net sales, excluding precious metal content, increased for the six months ended June 30, 2011 by 1.2 percentage points when compared to the same period of 2010. Increased expenses over prior year were the result of the Company's Orthodontic business continuity costs, costs supporting new product launches,

employee costs to support growth initiatives and biennial dental trade shows.

#### Restructuring and Other Costs

During the six months ended June 30, 2011, the Company recorded restructuring and other costs of \$7.5 million. These costs were related to expenses associated with the acquisition of Astra Tech for \$6.0 million and restructuring costs primarily related to the orthodontic business. In the same period of 2010, the Company incurred costs of \$4.9 million primarily related to legal matters, new and ongoing restructuring plans to reduce operational costs through consolidation of facilities and business re-organizations. (See also Note 9, Restructuring and Other Costs, of the Notes to Unaudited Interim Consolidated Financial Statements).

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## Other Income and Expenses

| (in millions)                  | Six Months Ended<br>June 30, |         |           |
|--------------------------------|------------------------------|---------|-----------|
|                                | 2011                         | 2010    | Change    |
| Net interest expense           | \$ 7.7                       | \$ 10.8 | \$ (3.1 ) |
| Other expense, net             | 1.5                          | 1.7     | (0.2 )    |
| Net interest and other expense | \$ 9.2                       | \$ 12.5 | \$ (3.3 ) |

## Net Interest Expense

Net interest expense for the six months ended June 30, 2011 was \$3.1 million lower compared to the six months ended June 30, 2010. The reduction includes a \$2.5 million reduction to interest expense due to the year over year change in the fair value credit risk adjustment on derivatives. In addition, interest expense increased by \$1.0 million due to higher average debt balances, offset by lower average interest rates. Higher average negative interest differential spread on the Company's cross currency swaps contributed \$0.9 million in additional interest expense versus the prior year. Interest income increased \$2.5 million as the Company had higher average investment balances, and earned higher average interest rates in 2011 compared to 2010.

## Other Expense (Income), Net

Other expense (income), net in the six months ended June 30, 2011 was \$1.5 million, including \$0.8 million of currency transaction losses and \$0.7 million of non-operating expenses. Other expense (income), net for the same period of 2010 included \$1.9 million of currency transaction losses and \$0.2 million of other non-operating income.

## Income Taxes and Net Income

| (in millions, except per share data)                    | Six Months Ended<br>June 30, |   |          |           |
|---|------------------------------|---|----------|-----------|
|   | 2011                         |   | 2010     | \$ Change |
| Effective income tax rates                              | 22.4                         | % | 25.5     | %         |
| Equity in net loss of unconsolidated affiliated company | \$ 0.1                       |   | \$ -     | \$ 0.1    |
| Net income attributable to noncontrolling interests     | \$ 1.5                       |   | \$ 1.3   | \$ 0.2    |
| Net income attributable to DENTSPLY International       | \$ 143.3                     |   | \$ 134.2 | \$ 9.1    |
| Earnings per common share - diluted                     | \$ 1.00                      |   | \$ 0.91  |           |

## Provision for Income Taxes

The Company's effective income tax rates for the first six months of 2011 and 2010 were 22.4% and 25.5%, respectively. The effective tax rate for 2011 is favorably impacted by the Company's change in assumptions surrounding the repatriation of foreign earnings into the United States, resulting from a reduction of repatriated earnings in anticipation of the Astra Tech acquisition, as well as an improvement from the mix of consolidated earnings.

The Company's effective income tax rate for 2011 included the impact of acquisition related activity, restructuring and other costs, income related to a credit risk adjustment on outstanding derivatives and various income tax adjustments, which impacted income before income taxes and the provision for income taxes by \$7.3 million and \$1.7 million, respectively. In 2010, 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 \$6.6 million and \$1.4 million, respectively.

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## Equity in net income of unconsolidated affiliated company

The Company's 16% ownership investment of DIO Corporation resulted in income of \$0.1 million on an after-tax basis for the six months ended June 30, 2011. The net income of DIO includes the result of a positive fair value adjustment related to the convertible bonds issued by DIO to DENTSPLY, offset partially by the expensing of inventory step-up related to the purchase price adjustment at acquisition. The fair value adjustments related to the convertible bonds reported by DIO are primarily impacted by the changing DIO share price. The impact of the changing DIO share price on the fair value adjustment and the Company's portion of DIO's net income for the six months ended June 30, 2011 is income of approximately \$0.3 million. The impact from expensing the inventory step-up was approximately \$0.4 million to DENTSPLY's portion of DIO's net income for the period.

## 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) acquisition related costs and expensing of purchase price adjustments at an unconsolidated affiliated company, (2) restructuring and other costs, (3) Orthodontic business continuity costs, (4) certain fair value adjustment at an unconsolidated affiliated company, (5) income related to credit risk adjustments, and (6) income tax related 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.

| (in thousands)   | Six Months Ended<br>June 30, 2011 |                             |
|--|-----------------------------------|-----------------------------|
|  | Income<br>(Expense)               | Per Diluted<br>Common Share |
| Net income attributable to DENTSPLY International                      | \$ 143,320                        | \$ 1.00                     |
| Acquisition related activities, net of tax                             | 6,241                             | 0.05                        |
| Restructuring and other costs, net of tax                              | 874                               | 0.01                        |
| Orthodontics business continuity costs, net of tax                     | 442                               | -                           |
| Gain on fair value adjustments at an unconsolidated affiliated company | (260 )                            | -                           |
| Credit risk adjustment to outstanding derivatives, net of tax          | (783 )                            | (0.01 )                     |
| Income tax related adjustments   | (781 )                            | (0.01 )                     |
| Adjusted non-US GAAP earnings  | \$ 149,053                        | \$ 1.04                     |

| (in thousands)  | Six Months Ended<br>June 30, 2010 |                             |
|---|-----------------------------------|-----------------------------|
|   | Income<br>(Expense)               | Per Diluted<br>Common Share |
| Net income attributable to DENTSPLY International                       | \$ 134,229                        | \$ 0.91                     |
| Restructuring and other costs, net of tax and noncontrolling interests  | 3,010                             | 0.02                        |
| Credit risk adjustment to outstanding derivatives, net of tax           | 732                               | -                           |
| Acquisition related activities, net of tax and noncontrolling interests | 388                               | -                           |
| Income tax related adjustments  | 1,007                             | 0.01                        |
| Adjusted non-US GAAP earnings   | \$ 139,366                        | \$ 0.94                     |



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.

### Operating Segment Results

#### Third Party Net Sales, Excluding Precious Metal Content

| (in millions)  | Six Months Ended<br>June 30, |         | \$ Change | % Change |   |
|--|------------------------------|---------|-----------|----------|---|
|  | 2011                         | 2010    |           |          |   |
| U.S., Germany, and Certain Other European Regions Consumable Businesses                                    | \$292.6                      | \$272.2 | \$20.4    | 7.5      | % |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | \$244.0                      | \$214.1 | \$29.9    | 14.0     | % |
| Canada/Latin America/Endodontics/Orthodontics  | \$341.8                      | \$326.0 | \$15.8    | 4.8      | % |
| Dental Laboratory Business/Implants/Non-Dental   | \$215.3                      | \$205.6 | \$9.7     | 4.7      | % |

#### Segment Operating Income

| (in millions)  | Six Months Ended<br>June 30, |        | \$ Change | % Change |    |
|--|------------------------------|--------|-----------|----------|----|
|  | 2011                         | 2010   |           |          |    |
| U.S., Germany, and Certain Other European Regions Consumable Businesses                                    | \$100.0                      | \$94.5 | \$5.5     | 5.8      | %  |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | \$3.3                        | \$5.4  | \$(2.1)   | (38.9)   | )% |
| Canada/Latin America/Endodontics/Orthodontics  | \$99.9                       | \$97.2 | \$2.7     | 2.8      | %  |
| Dental Laboratory Business/Implants/Non-Dental   | \$45.8                       | \$45.0 | \$0.8     | 1.8      | %  |

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

Net sales, excluding precious metal content, increased \$20.4 million, or 7.5%, during the six months ended June 30, 2011 compared to 2010. On a constant currency basis, net sales, excluding precious metal content, increased 5.4% which was primarily driven by increased demand in most geographies.

Operating income increased \$5.5 million during the six months ended June 30, 2011 compared to 2010. The increase was primarily attributable to an increase in gross profit of \$9.9 million, which was the result of increased sales and favorable foreign currency translation. This was partially offset by an increase in the selling, general and

administrative expenses within the segment of \$4.4 million, primarily due to increased selling expenses and unfavorable foreign currency translation.

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

Net sales, excluding precious metal content, increased \$29.9 million, or 14.0%, during the six months ended June 30, 2011 compared to 2010. On a constant currency basis, net sales, excluding precious metal content, increased 6.1% when compared to the same period in 2010. The majority of this growth was in the CIS, Middle East, Africa, and Asia. Excluding the Japanese market, constant currency growth for the segment was 7.8%.

Operating income decreased \$2.1 million during the six months ended June 30, 2011 compared to 2010, primarily related to a \$10.1 million increase in SG&A expenses, which included unfavorable foreign currency translation and higher employee costs to support growth initiatives, partially offset by a \$8.0 million increase in gross profit due to favorable foreign currency translation and higher sales.

Canada/Latin America/Endodontics/Orthodontics

Net sales, excluding precious metal content, increased \$15.8 million, or 4.8%, during the six months ended June 30, 2011 compared to 2010. On a constant currency basis, net sales, excluding precious metal content, decreased 0.1% when compared to the same period in 2010. Excluding the Orthodontic business, the constant currency growth rate was 4.5% and was positively impacted by growth in Latin America and non-dental product sales, as well as endodontic product launches.

Operating income increased \$2.7 million during the six months ended June 30, 2011 compared to 2010. The increase was attributable to an increase in gross profit of \$14.2 million, which was primarily the result of net favorable currency impacts, partially offset by lower sales of orthodontic products. Partially offsetting the gross profit increase were increased expenses of \$11.4 million, which included the Company's Orthodontic business continuity costs, costs related to product launches and the biennial U. S. dental implant symposium.

Dental Laboratory Business/Implants/Non-Dental

Net sales, excluding precious metal content, increased \$9.7 million, or 4.7%, during the six months ended June 30, 2011 compared to 2010. On a constant currency basis, net sales, excluding precious metal content, increased 0.5% when compared to the same period in 2010 due to increased demand in dental implant and non-dental products and \$4.0 million contributed by acquisitions, partially offset by a decrease in dental laboratory products.

Operating income for the six months ended June 30, 2011 increased \$0.8 million compared to 2010 attributable to \$9.0 million increase in gross profit, primarily due to increased sales in the dental implant business as well as favorable foreign currency translation. Partially offsetting this increase in gross profit was an increase in expenses of \$8.2 million in 2011 primarily due to higher selling expenses and a reduction in bad debt expense in the prior year due to favorable collection efforts.

CRITICAL ACCOUNTING POLICIES

Except as updated below, there have been no other significant material changes to the critical accounting policies as disclosed in the Company's Form 10-K for the year ended December 31, 2010.

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 based on historical averages of aged receivable balances and the Company's experience in collecting those balances, customer specific circumstances, as well as changes in the economical and political environments. 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.

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## Litigation

The Company and its subsidiaries are from time to time parties to lawsuits arising out of their respective operations. The Company records liabilities when a loss is probable and can be reasonably estimated. These estimates are typically in the form of ranges, and the Company records the liabilities at the low point of the ranges, when no other point within the ranges are a better estimate of the probable loss. The ranges established by management are based on analysis made by internal and external legal counsel who considers information known at the time. If the Company determines a liability to be only reasonably possible, it considers the same information to estimate the possible exposure and 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.

## LIQUIDITY AND CAPITAL RESOURCES

### Six months ended June 30, 2011

Cash flow from operating activities during the six months ended June 30, 2011 was \$165.0 million compared to \$150.5 million during the six months ended June 30, 2010. Net income increased by \$9.3 million to \$144.9 million. Working capital improvements were offset by an increase in non-cash items resulting in an additional year-over-year improvement in cash from operations of \$5.2 million. On a constant currency basis, increases in accrued taxes and accounts payable and a slightly lower inventory level were offset by higher accounts receivable. On a constant currency basis, as of June 30, 2011, reported days for inventory increased by 4 days to 104 days and accounts receivable increased by 5 days to 59 days, respectively, as compared to December 31, 2010.

Investing activities during the first six months of 2011 include capital expenditures of \$25.3 million. The Company expects that capital expenditures will be approximately \$70.0 million for the full year 2011. The acquisition related activity for the six months ended June 30, 2011 of \$38.3 million was related to five acquisitions and two earn-out payments made on acquisitions that were completed prior to 2011.

At June 30, 2011, the Company had authorization to maintain up to 34.0 million shares of treasury stock under the stock repurchase program as approved by the Board of Directors. Under this program, the Company purchased 2.2 million shares for \$79.5 million during the first six months of 2011 at an average price of \$36.35. As of June 30, 2011, the Company held 21.5 million shares of treasury stock. The Company also received proceeds of \$34.0 million as a result of the exercise of 1.5 million of stock options during the six months ended June 30, 2011. The Company's first priority for the use of its strong balance sheet is acquisitions; however, it may also from time to time repurchase its own shares in the open market.

The Company's long-term borrowings increased by a net of \$50.9 million during the six months ended June 30, 2011. This change included net borrowings of \$35.9 million during the first six months and an increase of \$9.3 million due to exchange rate fluctuations on debt denominated in foreign currencies. At June 30, 2011, the Company's ratio of long-term debt to total capitalization decreased to 24.0% compared to 24.1% at December 31, 2010. Also in that same period, the Company's cash and cash equivalents have increased from \$540.0 million to \$671.7 million.

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 the operations and financial condition of the Company. The most restrictive of these covenants pertain to asset dispositions and prescribed ratios of indebtedness to total capital and operating income plus depreciation and

amortization to interest expense. At June 30, 2011, the Company was in compliance with these covenants. The Company also has available an aggregate \$200.0 million under a U.S. dollar commercial paper facility. The multi-currency revolving credit facility serves as a back-up to the commercial paper facility, thus the total available credit under the commercial paper facility and the multi-currency revolving credit facility in the aggregate is \$200.0 million. At June 30, 2011 outstanding borrowings were \$161.9 million under the multi-currency revolving facility.

On July 27, 2011, the Company entered into a new Credit Agreement to replace the 2010 Revolving Credit Agreement dated May 7, 2010, that had provided for a multi-currency revolving credit facility in an aggregate amount of up to \$200.0 million through May 7, 2013. The new Credit Agreement provides for a new five year, \$500.0 million multi-currency revolving credit facility (the "Facility") to provide working capital from time to time for the Company and for other general corporate purposes. The Facility is unsecured and contains certain affirmative and negative covenants relating to the Company's operations and financial condition, including prescribed leverage and interest coverage ratios. The Facility contains customary events of default. Upon the occurrence of an event of default, all outstanding borrowings under the Credit Agreement may be accelerated and become immediately due and payable. In connection with this transaction, the Company paid in full all outstanding revolving loans, together with interest and all other amounts due in connection with such repayment, under the 2010 Revolving Credit Agreement.

In addition to the Facility noted above, the Company received firm commitments from a syndication of lenders to finance the Astra Tech acquisition through (i) a \$1.0 billion bridge loan facility and (ii) a 364 day \$ 250.0 million U.S. dollar revolving credit facility. The bridge loan facility is a temporary funding commitment and is anticipated to be replaced with publicly issued bonds totaling \$1.0 billion prior to the closing of the Astra Tech acquisition. The \$250.0 million U.S. dollar revolver will back stop additional commercial paper issuance. As a consequence of these increased financing facilities, the Company anticipates increasing its U.S. Dollar Commercial Paper facility to \$500.0 million during the third quarter of 2011.

The Company also has access to \$72.9 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 June 30, 2011, the Company had \$6.0 million outstanding under these short-term lines of credit. At June 30, 2011, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of \$104.9 million.

Effective April 4, 2011, the Company entered into a group of U.S. dollar denominated interest rate swaps with an initial total notional value of \$150.0 million to effectively convert the underlying fixed interest rate of 4.1% associated with the Company's U.S. dollar denominated Note to variable rate based upon three month LIBOR for a term of five years, ending February 2016. The notional value of the swaps will decline proportionately as portions of the Note come due. These interest rate swaps are designated as fair value hedges of the interest rate risk associated with the hedged portion of the fixed rate Note. Accordingly, the Company carries the portion of the hedged debt at fair value, with the change in debt and swap offsetting each other in the income statement.

On June 24, 2011 the Company entered into a Treasury Rate Lock ("T-Lock") transaction to hedge the base interest rate variability exposure on a planned ten year bond issuance in anticipation of the Astra Tech acquisition. The T-Lock will result in an effective base interest yield of 3.02% plus market spread and fees at issuance on a notional amount of \$500 million.

At June 30, 2011, the Company held \$128.4 million of precious metals on consignment from several financial institutions. The 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.

Except for the Facility, interest rate swaps and T-Lock discussed above and in Note 10, Financial Instruments and Derivatives, of the Notes to Unaudited Interim Consolidated Financial Statements, there have been no other material changes to the Company's scheduled contractual cash obligations disclosed in its Form 10-K for the year ended December 31, 2010.

As of June 30, 2011, the majority of the Company's cash and cash equivalents were held outside of the United States. Most of these balances could be repatriated to the United States, however, under current law, would potentially be subject to U. S. federal income tax, less applicable foreign tax credits. Historically, the Company has generated more than sufficient operating cash flows in the United States to fund domestic operations. Further, the Company expects on an ongoing basis, to be able to finance domestic and international cash requirements, including capital expenditures, stock repurchases, debt service, operating leases and potential future acquisitions, from the funds generated from operations and amounts available under its existing credit facilities.

#### NEW ACCOUNTING PRONOUNCEMENTS

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

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### Item 3 - Quantitative and Qualitative Disclosures about Market Risk

There have been no significant material changes to the market risks as disclosed in the Company's Form 10-K for the year ended December 31, 2010.

### Item 4 - Controls and Procedures

#### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that it is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the most recent quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1 - Legal Proceedings

Reference to Part I, Item 1, Note 14, Commitments and Contingencies, to the Unaudited Interim Consolidated Financial Statements.

### Item 1A – Risk Factors

Except as noted below, there have been no other significant material changes to the risk factors as disclosed in the Company's Form 10-K for the year ended December 31, 2010.

The Company may lose customers of its Orthodontics operating segment due to the disruption in its ability to source certain orthodontic products from its key supplier located in Japan's evacuation area.

One of the Company's key suppliers, which is the source of certain orthodontic products comprising approximately 9% of the Company's consolidated net sales, excluding precious metal content, is located in the evacuation zone in Japan. While there appears to be only minor damage to the supplier's facility, the Company is unable to ascertain when a resumption of normal supply will occur. Although the Company is actively seeking alternative sources of supply there is no assurance that the Company's customers will convert to such alternate products or sources; nor is there any assurance that customers who turn to other sources of products during the Company's period of product shortages will return to the Company's products once the Company's key supplier has resumed production and/or the Company has secured an acceptable alternative source of supply.



## Item 2 - Unregistered Sales of Securities and Use of Proceeds

At June 30, 2011, the Company had authorization to maintain up to 34.0 million shares of treasury stock under the stock repurchase program as approved by the Board of Directors. During the quarter ended June 30, 2011, the Company had the following activity with respect to this repurchase program:

(in thousands, except per share amounts)

| Period              | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid Per<br>Share | Total Cost<br>of Shares<br>Purchased | Number of<br>Shares that<br>May be Purchased<br>Under the Share<br>Repurchase<br>Program |
|---------------------|--|------------------------------------|--------------------------------------|--|
| April 1-30,<br>2011 | 157.8                                  | \$ 36.89                           | \$ 5,821.3                           | 12,109.4   |
| May 1-31,<br>2011   | -                                      | -                                  | -                                    | 12,469.1   |
| June 1-30,<br>2011  | -                                      | -                                  | -                                    | 12,491.7   |
|                     | 157.8                                  | \$ 36.89                           | \$ 5,821.3                           |  |

## Item 4 - Submission of Matters to Vote of Security Holders

Reserved.

## Item 5(a) – Other Information

Entry into a material definitive agreement and creation of a direct financial obligation or an obligation under an off-balance sheet arrangement of the registrant

On July 27, 2011, the Company announced that it has entered into a Credit Agreement, dated July 27, 2011 (the “Credit Agreement”), by and among the Company, the subsidiary borrowers party thereto (the “Subsidiary Borrowers”, and collectively with the Company, the “Borrowers”), the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Morgan Stanley Senior Funding, Inc., as syndication agent, Citigroup Global Markets Inc., the Bank of Tokyo-Mitsubishi UFJ, Ltd. and Wells Fargo Bank, N.A., as co-documentation agents, and Morgan Stanley Senior Funding, Inc. and J.P. Morgan Securities LLC, as joint bookrunners and joint lead arrangers.

The Credit Agreement provides for a new five-year, \$500.0 million multi-currency revolving credit facility (the “Facility”) to provide working capital from time to time for the Borrowers and for other general corporate purposes. The Facility is unsecured and contains certain affirmative and negative covenants relating to the Company’s operations and financial condition, including prescribed leverage and interest coverage ratios.

The Credit Agreement contains customary events of default. Upon the occurrence of an event of default, all outstanding borrowings under the Credit Agreement may be accelerated and become immediately due and payable.

The Credit Agreement contains representations and warranties by the Company. These representations and warranties were made solely for the benefit of the other parties to the Credit Agreement and (i) were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate, (ii) may have been qualified in the Credit Agreement by disclosures that were made to the other

parties in connection with the negotiation of the Credit Agreement, (iii) may apply contract standards of “materiality” that are different from “materiality” under the applicable securities laws, and (iv) were made only as of the date of the Credit Agreement or such other date or dates as may be specified in the Credit Agreement.

Certain of the parties to under the Credit Agreement and their affiliates have performed and/or may in the future perform various commercial banking, investment banking and other financial advisory services for the Company and its affiliates for which they have received and/or will receive customary fees and expenses.

A copy of the Credit Agreement is filed as Exhibit 4.6 to this Form 10-Q and is incorporated by reference herein. This description of the material terms of the Credit Agreement is qualified in its entirety by reference to such exhibit.

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#### Termination of a material definitive agreement

In connection with the transaction described above, on July 27, 2011, the Company paid in full all outstanding revolving loans, together with interest and all other amounts due in connection with such repayment, under the Revolving Credit Agreement, dated May 7, 2010 (the “2010 Credit Agreement”), by and among the Company, the subsidiary borrowers named therein, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, N.A., as syndication agent, Citibank, N.A., Bank of Tokyo-Mitsubishi UFJ Trust Company and Commerzbank AG, New York and Grand Cayman branches, as co-documentation agents, and J.P. Morgan Securities Inc. and Wells Fargo Securities, LLC, as joint bookrunners and joint lead arrangers. The 2010 Credit Agreement provided for a multi-currency revolving credit facility in an aggregate amount of up to \$200.0 million through May 7, 2013.

Certain of the parties to the 2010 Credit Agreement and their affiliates have performed various commercial banking, investment banking and other financial advisory services for the Company and its affiliates for which they have received customary fees and expenses.

A copy of the 2010 Credit Agreement is filed as Exhibit 4.3 to our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 18, 2011, and is incorporated by reference herein. This description of the material terms of the 2010 Credit Agreement is qualified in its entirety by reference to such exhibit.

#### Item 5(b) Submission of Matters to a Vote of Security Holders.

In the proxy statement that DENTSPLY International Inc. (the “Company”) provided to shareholders in connection with the Company’s 2011 annual shareholder’s meeting (the “Annual Meeting”), the Company’s Board of Directors recommended a non-binding advisory vote for every three years as the frequency for voting on the compensation of the Company’s Named Executive Officers. Say-on-pay votes are disclosed in the Company’s proxy statements, and are required under Section 14A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

At the Annual Meeting on May 25, 2011, approximately 76% of the shares voting on the matter voted in favor of an annual frequency for say-on-pay votes. On July 27, 2011, the Company’s Board of Directors approved an annual frequency for future say-on-pay votes. As a result, the Company expects that a say-on-pay vote will be held each year through 2017, when the next shareholder vote on the frequency of say-on-pay votes is required under the Exchange Act.

The results of the shareholder votes at the Annual meeting were disclosed by the Company on a Current Report on Form 8-K filed on May 27, 2011 (the “Original Report”). This Item 5(b) on Form 10-Q updates the Original Report solely for the purpose of disclosing the Company’s decision on the frequency of future say-on-pay votes.

#### Item 6 - Exhibits

| Exhibit Number | Description   |
|----------------|---|
| 4.6            | Credit Agreement, dated as of July 27, 2011, by and among DENTSPLY International Inc., the subsidiary borrowers party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Morgan Stanley Senior Funding, Inc., as syndication agent, Citigroup Global Markets Inc., Bank of Tokyo-Mitsubishi UFJ, Ltd. and Wells Fargo Bank, N.A., as co-documentation agents, and Morgan Stanley Senior Funding, Inc. and J.P. Morgan Securities LLC, as joint bookrunners and joint lead arrangers. |
| 31             | 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 |

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DENTSPLY International Inc.

|     |                           |               |
|-----|---------------------------|---------------|
| /s/ | Bret W. Wise              | July 28, 2011 |
|     | Bret W. Wise              | Date          |
|     | Chairman of the Board and |               |
|     | Chief Executive Officer   |               |

|     |                           |               |
|-----|---------------------------|---------------|
| /s/ | William R. Jellison       | July 28, 2011 |
|     | William R. Jellison       | Date          |
|     | Senior Vice President and |               |
|     | Chief Financial Officer   |               |

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