

DENTSPLY INTERNATIONAL INC /DE/
Form 10-Q
October 28, 2010

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 September 30, 2010

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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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 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 October 25, 2010, DENTSPLY International Inc. had 142,099,209 shares of Common Stock outstanding, with a par value of \$.01 per share.

DENTSPLY International Inc.

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$ 541,815 | \$ 531,203 | \$ 1,652,845 | \$ 1,590,984 |
| Cost of products sold | 269,001 | 259,473 | 810,399 | 767,854 |
| Gross profit | 272,814 | 271,730 | 842,446 | 823,130 |
| Selling, general and administrative expenses ("SG&A") | 182,057 | 177,579 | 552,474 | 539,383 |
| Restructuring and other costs | 338 | 1,210 | 5,261 | 5,905 |
| Operating income | 90,419 | 92,941 | 284,711 | 277,842 |
| Other income and expenses: | | | | |
| Interest expense | 5,999 | 5,456 | 18,406 | 16,877 |
| Interest income | (1,268) | (858) | (2,883) | (4,326) |
| Other expense (income), net | 585 | 491 | 2,252 | 1,359 |
| Income before income taxes | 85,103 | 87,852 | 266,936 | 263,932 |
| Provision for income taxes | 21,288 | 19,999 | 67,585 | 65,570 |
| Net income | 63,815 | 67,853 | 199,351 | 198,362 |
| Less: Net income (loss) attributable to the noncontrolling interests | 162 | 370 | 1,470 | (1,062) |
| Net income attributable to DENTSPLY International | \$ 63,653 | \$ 67,483 | \$ 197,881 | \$ 199,424 |
| Earnings per common share: | | | | |
| Basic | \$ 0.45 | \$ 0.45 | \$ 1.37 | \$ 1.34 |
| Diluted | \$ 0.44 | \$ 0.45 | \$ 1.35 | \$ 1.33 |
| Cash dividends declared per common share | \$ 0.05 | \$ 0.05 | \$ 0.15 | \$ 0.15 |
| Weighted average common shares outstanding: | | | | |
| Basic | 142,501 | 148,547 | 144,670 | 148,546 |
| Diluted | 144,063 | 150,638 | 146,679 | 150,077 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)

(unaudited)

| | September 30, 2010 | December 31, 2009 |
|---|-----------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 534,243 | \$ 450,348 |
| Accounts and notes receivables-trade, net | 366,789 | 348,684 |
| Inventories, net | 318,071 | 291,640 |
| Prepaid expenses and other current assets | 112,454 | 127,124 |
| Total Current Assets | 1,331,557 | 1,217,796 |
| Property, plant and equipment, net | 423,802 | 439,619 |
| Identifiable intangible assets, net | 79,701 | 89,086 |
| Goodwill, net | 1,304,938 | 1,312,596 |
| Other noncurrent assets, net | 55,158 | 28,835 |
| Total Assets | \$ 3,195,156 | \$ 3,087,932 |
| Liabilities and Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 100,663 | \$ 100,847 |
| Accrued liabilities | 224,624 | 249,169 |
| Income taxes payable | 19,335 | 12,366 |
| Notes payable and current portion of long-term debt | 7,290 | 82,174 |
| Total Current Liabilities | 351,912 | 444,556 |
| Long-term debt | 592,376 | 387,151 |
| Deferred income taxes | 74,238 | 72,524 |
| Other noncurrent liabilities | 300,074 | 276,743 |
| Total Liabilities | 1,318,600 | 1,180,974 |
| Commitments and contingencies | | |
| Equity: | | |
| Preferred stock, \$.01 par value; .25 million shares authorized; no shares issued | - | - |
| Common stock, \$.01 par value; 200.0 million shares authorized; 162.8 million shares issued at September 30, 2010 and December 31, 2009 | 1,628 | 1,628 |
| Capital in excess of par value | 202,482 | 195,495 |
| Retained earnings | 2,258,531 | 2,083,459 |
| Accumulated other comprehensive income (loss) | 41,820 | 83,542 |
| Treasury stock, at cost, 20.7 million shares at September 30, 2010 and 15.8 million shares at December 31, 2009 | (700,980) | (532,019) |

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| | | |
|-------------------------------------|--------------|--------------|
| Total DENTSPLY International Equity | 1,803,481 | 1,832,105 |
| Noncontrolling interests | 73,075 | 74,853 |
| Total Equity | 1,876,556 | 1,906,958 |
| Total Liabilities and Equity | \$ 3,195,156 | \$ 3,087,932 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(unaudited)

Nine Months Ended
September 30,
2010 2009

Cash flows from operating activities:

| | | |
|---|------------|------------|
| Net income | \$ 199,351 | \$ 198,362 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 43,022 | 40,118 |
| Amortization | 7,097 | 9,227 |
| Deferred income taxes | 2,672 | 9,655 |
| Share-based compensation expense | 14,769 | 14,778 |
| Restructuring and other costs - noncash | 363 | 328 |
| Excess tax benefits from share-based compensation | (4,784) | (2,921) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts and notes receivable-trade, net | (16,768) | (23,166) |
| Inventories, net | (20,799) | 10,670 |
| Prepaid expenses and other current assets | (6,305) | 248 |
| Accounts payable | (2,390) | (9,699) |
| Accrued liabilities | 13,710 | 1,621 |
| Income taxes payable | 10,395 | (546) |
| Other, net | 8,557 | (3,311) |
| Net cash provided by operating activities | 248,890 | 245,364 |

Cash flows from investing activities:

| | | |
|--|----------|----------|
| Capital expenditures | (29,566) | (43,282) |
| Cash paid for acquisitions of businesses, net of cash acquired | (21,997) | (2,986) |
| Liquidation of short-term investments | - | 219 |
| Expenditures for identifiable intangible assets | (291) | (128) |
| Proceeds from sale of property, plant and equipment, net | 509 | 2,143 |
| Net cash used in investing activities | (51,345) | (44,034) |

Cash flows from financing activities:

| | | |
|---|-----------|----------|
| Net change in short-term borrowings | (10,367) | (1,482) |
| Cash paid for treasury stock | (208,535) | (21,253) |
| Cash dividends paid | (23,052) | (22,383) |
| Proceeds from long-term borrowings | 363,700 | - |
| Payments on long-term borrowings | (240,385) | (57,150) |
| Proceeds from exercise of stock options | 26,932 | 9,451 |
| Excess tax benefits from share-based compensation | 4,784 | 2,921 |

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| | | |
|--|------------|------------|
| Net cash used in financing activities | (86,923) | (89,896) |
| Effect of exchange rate changes on cash and cash equivalents | (26,727) | 17,943 |
| Net increase in cash and cash equivalents | 83,895 | 129,377 |
| Cash and cash equivalents at beginning of period | 450,348 | 203,991 |
| Cash and cash equivalents at end of period | \$ 534,243 | \$ 333,368 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

(In thousands)

(unaudited)

| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total DENTSPLY International Equity | Noncontrolling Interests | Total Equity |
|--|-----------------|--------------------------------------|----------------------|--|-------------------|---|-----------------------------|-----------------|
| Balance at December 31, 2008 | \$ 1,628 | \$ 187,154 | \$ 1,838,958 | \$ 39,612 | \$ (479,630) | \$ 1,587,722 | \$ 71,691 | \$ 1,659,413 |
| Comprehensive Income: | | | | | | | | |
| Net income | - | - | 199,424 | - | - | 199,424 | (1,062) | 198,362 |
| Other comprehensive income (loss), net of tax: | | | | | | | | |
| Foreign currency translation adjustments | - | - | - | 76,518 | - | 76,518 | 4,567 | 81,085 |
| Net loss on derivative financial instruments | - | - | - | (21,422) | - | (21,422) | - | (21,422) |
| Unrecognized losses and prior service pension cost, net | - | - | - | 431 | - | 431 | - | 431 |
| Comprehensive Income | | | | | | 254,951 | 3,505 | 258,456 |
| Exercise of stock options | - | (8,724) | - | - | 18,175 | 9,451 | - | 9,451 |
| Tax benefit from stock options exercised | - | 2,921 | - | - | - | 2,921 | - | 2,921 |
| Share based compensation expense | - | 14,778 | - | - | - | 14,778 | - | 14,778 |
| Funding of Employee Stock Option Plan | - | (61) | - | - | 1,408 | 1,347 | - | 1,347 |
| Adjustment from acquisitions | - | (388) | - | - | - | (388) | - | (388) |

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| | | | | | | | | |
|-----------------------------------|----------|------------|--------------|-----------|--------------|--------------|-----------|--------------|
| Treasury shares purchased | - | - | - | - | (21,253) | (21,253) | - | (21,253) |
| RSU dividends | - | 101 | (101) | - | - | - | - | - |
| Cash dividends (\$0.15 per share) | - | - | (22,274) | - | - | (22,274) | - | (22,274) |
| Balance at September 30, 2009 | \$ 1,628 | \$ 195,781 | \$ 2,016,007 | \$ 95,139 | \$ (481,300) | \$ 1,827,255 | \$ 75,196 | \$ 1,902,451 |

| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total DENTSPLY International Equity | Noncontrolling Interests | Total Equity |
|---|--------------|--------------------------------|-------------------|---|----------------|-------------------------------------|--------------------------|--------------|
| Balance at December 31, 2009 | \$ 1,628 | \$ 195,495 | \$ 2,083,459 | \$ 83,542 | \$ (532,019) | \$ 1,832,105 | \$ 74,853 | \$ 1,906,958 |
| Comprehensive Income: | | | | | | | | |
| Net income | - | - | 197,881 | - | - | 197,881 | 1,470 | 199,351 |
| Other comprehensive income (loss), net of tax: | | | | | | | | |
| Foreign currency translation adjustments | - | - | - | (41,699) | - | (41,699) | (3,248) | (44,947) |
| Net loss on derivative financial instruments | - | - | - | (322) | - | (322) | - | (322) |
| Unrecognized losses and prior service pension cost, net | - | - | - | 299 | - | 299 | - | 299 |
| Comprehensive Income | | | | | | 156,159 | (1,778) | 154,381 |
| Exercise of stock options | - | (8,577) | - | - | 35,509 | 26,932 | - | 26,932 |
| Tax benefit from stock options exercised | - | 4,784 | - | - | - | 4,784 | - | 4,784 |
| Share based compensation expense | - | 14,769 | - | - | - | 14,769 | - | 14,769 |
| Funding of Employee Stock Option Plan | - | 209 | - | - | 1,132 | 1,341 | - | 1,341 |
| | - | - | - | - | (208,535) | (208,535) | - | (208,535) |

| | | | | | | | | |
|-----------------------------------|----------|------------|--------------|-----------|--------------|--------------|-----------|--------------|
| Treasury shares purchased | | | | | | | | |
| RSU distributions | - | (4,313) | - | - | 2,933 | (1,380) | - | (1,380) |
| RSU dividends | - | 115 | (115) | - | - | - | - | - |
| Cash dividends (\$0.15 per share) | - | - | (22,694) | - | - | (22,694) | - | (22,694) |
| Balance at September 30, 2010 | \$ 1,628 | \$ 202,482 | \$ 2,258,531 | \$ 41,820 | \$ (700,980) | \$ 1,803,481 | \$ 73,075 | \$ 1,876,556 |

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 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, 2009.

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, 2009, except as may be indicated below:

Accounts and Notes Receivable-Trade

Accounts and notes receivables – trade, net are stated net of allowances for doubtful accounts and trade discounts, which were \$11.5 million and \$13.3 million at September 30, 2010 and December 31, 2009, respectively. The decrease in the allowance for doubtful accounts reflects positive collections experience in North America and Europe, reflecting improved global liquidity for our customers.

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (“FASB”) issued accounting guidance for variable interest entities (“VIE”). The guidance includes: (1) the elimination of the exemption from consolidation for qualifying special purpose entities, (2) a new approach for determining the primary beneficiary of a VIE, which requires that the primary beneficiary have both (i) the power to control the most significant activities of the VIE and (ii) either the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, and (3) the requirement to continually reassess who should consolidate a VIE. The Company adopted this guidance on January 1, 2010, and the adoption did not have a material impact on the Company’s financial position and results of operations.

The Company consolidates all VIE where the Company has determined that it has the power to direct the activities that most significantly impact the VIE’s economic performance and shares in either the significant risks or rewards of the VIE. The Company continually reassesses VIE to determine if consolidation is appropriate.

Revisions in Classification

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

NOTE 2 – STOCK COMPENSATION

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

Stock options generally expire ten years after the date of grant under these plans and grants become exercisable, subject to a service condition, over a period of three years after the date of grant at the rate of one-third per year, except when they become immediately exercisable upon death, disability or qualified retirement. RSU vest 100% on the third anniversary of the date of grant and are subject to a service condition, which requires grantees to remain employed by the Company during the three year period following the date of grant. In addition to the service condition, certain key executives are subject to performance requirements. Similar to stock options, RSU become immediately exercisable upon death, disability or qualified retirement. It is the Company's practice to issue shares from treasury stock when options are exercised.

At the date of grant, the Company uses the Black-Scholes option-pricing model to estimate the fair value of the non-qualified stock options. The assumptions used to calculate the fair value of the awards granted are evaluated and revised, as necessary, to reflect market conditions and the Company's experience.

The following table represents total stock based compensation expense and the tax related benefit for the three and nine months ended September 30, 2010 and 2009:

| (in millions) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------|-------------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Stock option expense | \$ 2.4 | \$ 3.1 | \$ 8.2 | \$ 9.0 |
| RSU expense | 1.8 | 1.6 | 5.6 | 4.8 |
| Total stock based compensation expense | \$ 4.2 | \$ 4.7 | \$ 13.8 | \$ 13.8 |
| Total related tax benefit | \$ 1.2 | \$ 1.4 | \$ 2.7 | \$ 4.0 |

The remaining unamortized compensation cost related to non-qualified stock options is \$11.0 million, which will be expensed over the weighted average remaining vesting period of the options, or 1.3 years. The unamortized compensation cost related to RSU is \$8.5 million, which will be expensed over the remaining restricted period of the RSU, or 1.4 years.

The following table reflects the non-qualified stock option transactions from December 31, 2009 through September 30, 2010:

| (in thousands, except per share data) | Shares | Outstanding | | Exercisable | | |
|---------------------------------------|---------|---------------------------------|---------------------------|---------------------------------|---------------------------|-----------|
| | | Weighted Average Exercise Price | Aggregate Intrinsic Value | Weighted Average Exercise Price | Aggregate Intrinsic Value | |
| December 31, 2009 | 12,038 | \$ 28.34 | \$ 94,148 | 8,682 | \$ 26.78 | \$ 80,839 |
| Granted | 145 | 34.65 | | | | |
| Exercised | (1,183) | 22.76 | | | | |
| Forfeited | (162) | 33.93 | | | | |
| September 30, 2010 | 10,838 | \$ 28.95 | \$ 51,226 | 7,611 | \$ 27.47 | \$ 44,527 |

The weighted average remaining contractual term of all outstanding options is 6.0 years and the weighted average remaining contractual term of exercisable options is 4.7 years.

The following table summarizes the unvested restricted stock units and RSU dividend transactions from December 31, 2009 through September 30, 2010:

| (in thousands, except per share data) | Unvested Restricted Stock and Stock Dividend Units | |
|---------------------------------------|--|--|
| | Shares | Weighted Average Grant Date Fair Value |
| Unvested at December 31, 2009 | 662 | \$ 31.94 |
| Granted | 252 | 32.92 |
| Vested | (207) | 31.42 |
| Forfeited | (25) | 32.87 |
| Unvested at September 30, 2010 | 682 | \$ 32.43 |

NOTE 3 – COMPREHENSIVE INCOME

The changes to balances included in accumulated other comprehensive income (“AOCI”), net of tax, in the consolidated balance sheets for the three and nine months ended September 30, 2010 and 2009 are as follows:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | \$ 63,815 | \$ 67,853 | \$ 199,351 | \$ 198,362 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments | 170,086 | 69,933 | (44,947) | 81,085 |
| Net loss on derivative financial instruments | (63,994) | (29,053) | (322) | (21,422) |
| Amortization of unrecognized losses and prior year service pension cost | (1,377) | (697) | 299 | 431 |
| Total other comprehensive income (loss) | 104,715 | 40,183 | (44,970) | 60,094 |
| Total comprehensive income | 168,530 | 108,036 | 154,381 | 258,456 |
| Comprehensive income (loss) attributable to the noncontrolling interests | 7,379 | 3,692 | (1,778) | 3,505 |
| Comprehensive income attributable to DENTSPLY International | \$ 161,151 | \$ 104,344 | \$ 156,159 | \$ 254,951 |

During the quarter ended September 30, 2010, foreign currency translation adjustments included currency translation gains of \$175.9 million and losses of \$5.8 million on the Company’s loans designated as hedges of net investments. During the quarter ended September 30, 2009, foreign currency translation adjustments included currency translation gains of \$77.6 million partially offset by losses of \$7.7 million on the Company’s loans designated as hedges of net investments. During the nine months ended September 30, 2010, foreign currency translation adjustments included currency translation losses of \$36.4 million and losses of \$8.5 million on the Company’s loans designated as hedges of net investments. During the nine months ended September 30, 2009, foreign currency translation adjustments included currency translation gains of \$83.4 million offset by losses of \$2.3 million on the Company’s loans designated as hedges of net investments. 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) | September 30, December 31, | |
|---|----------------------------|------------|
| | 2010 | 2009 |
| Foreign currency translation adjustments | \$ 178,417 | \$ 220,116 |
| Net loss on derivative financial instruments | (114,122) | (113,800) |
| Unrecognized losses and prior year service pension cost | (22,475) | (22,774) |
| | \$ 41,820 | \$ 83,542 |

The cumulative foreign currency translation adjustments included translation gains of \$297.8 million and \$327.8 million as of September 30, 2010 and December 31, 2009, respectively, partially offset by losses of \$119.4 million and \$107.7 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 nine months ended September 30, 2010 and 2009:

| Basic Earnings Per Common Share Computation (in thousands, except per share amounts) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income attributable to DENTSPLY International | \$ 63,653 | \$ 67,483 | \$ 197,881 | \$ 199,424 |
| Common shares outstanding | 142,501 | 148,547 | 144,670 | 148,546 |
| Earnings per common share - basic | \$ 0.45 | \$ 0.45 | \$ 1.37 | \$ 1.34 |
| Diluted Earnings Per Common Share Computation (in thousands, except per share amounts) | | | | |
| Net income attributable to DENTSPLY International | \$ 63,653 | \$ 67,483 | \$ 197,881 | \$ 199,424 |
| Common shares outstanding | 142,501 | 148,547 | 144,670 | 148,546 |
| Incremental shares from assumed exercise of dilutive options | 1,562 | 2,091 | 2,009 | 1,531 |
| Total shares | 144,063 | 150,638 | 146,679 | 150,077 |
| Earnings per common share - diluted | \$ 0.44 | \$ 0.45 | \$ 1.35 | \$ 1.33 |

Options to purchase 4.3 million and 3.3 million shares of common stock that were outstanding during the three and nine months ended September 30, 2010, respectively, were not included in the computation of diluted earnings per share since the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. There were 1.5 million and 4.5 million antidilutive shares of common stock outstanding during the three and nine months ended September 30, 2009, respectively.

NOTE 5 – BUSINESS ACQUISITIONS

The acquisition related activity for the nine months ended September 30, 2010 of \$22.0 million, net of cash acquired, was related to several acquisitions in 2010 and earn-out payments on prior acquisitions. The purchase agreements for two of the acquisitions provide for additional payments to be made based upon the operating performance of the respective businesses; however, the Company does not expect the additional payments to be material to the financial statements. The results of operations for these businesses have been included in the accompanying financial statements since the effective date of the respective transactions. The purchase prices have been allocated on the basis of preliminary estimates of the fair values of assets acquired and liabilities assumed. As of September 30, 2010, the Company has recorded a total of \$14.3 million in goodwill related to the unallocated portions of the respective purchase prices, and most of this goodwill is associated with the Canada/Latin America/Endodontics/Orthodontics segment with the remaining portion being included in the Dental Laboratory Business/Implants/Non-Dental segment.

As discussed in Note 1, Significant Accounting Policies, the Company adopted the accounting guidance for VIE. The adoption has not changed the Company's prior conclusion that all current VIE should be consolidated. Under the new accounting guidance for VIE, the Company believes it is the primary beneficiary for all the VIE since the Company directs the activities that most significantly impacts the economic performance of the VIE and has the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE. The consolidation of the VIE net assets is immaterial to the Company's financial position with most of the net assets recorded in goodwill and identifiable intangible assets.

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 periods ended September 30, 2010 and 2009.

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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 and the sales and distribution of implants in Brazil. This business group is also responsible for the manufacture and sale of certain products in the Company's non-dental business.

Dental Laboratory Business/Implants/Non-Dental

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

business.

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

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The following tables set forth information about the Company's operating groups for the three and nine months ended September 30, 2010 and 2009:

Third Party Net Sales

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| U.S., Germany and Certain Other European Regions Consumable Businesses | \$ 139,137 | \$ 142,983 | \$ 411,356 | \$ 407,495 |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | 114,338 | 112,196 | 346,224 | 336,184 |
| Canada/Latin America/Endodontics/Orthodontics | 159,238 | 149,907 | 486,573 | 451,893 |
| Dental Laboratory Business/Implants/Non-Dental | 129,809 | 126,759 | 411,185 | 397,610 |
| All Other (a) | (707) | (642) | (2,493) | (2,198) |
| Total | \$ 541,815 | \$ 531,203 | \$ 1,652,845 | \$ 1,590,984 |

Third Party Net Sales, Excluding Precious Metal Content

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| U.S., Germany and Certain Other European Regions Consumable Businesses | \$ 139,137 | \$ 142,983 | \$ 411,356 | \$ 407,495 |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | 106,499 | 104,008 | 320,606 | 311,098 |
| Canada/Latin America/Endodontics/Orthodontics | 158,682 | 149,219 | 484,723 | 449,815 |
| Dental Laboratory Business/Implants/Non-Dental | 90,735 | 98,250 | 296,309 | 304,784 |
| All Other (a) | (707) | (642) | (2,493) | (2,198) |
| Total excluding precious metal content | 494,346 | 493,818 | 1,510,501 | 1,470,994 |
| Precious metal content | 47,469 | 37,385 | 142,344 | 119,990 |
| Total including precious metal content | \$ 541,815 | \$ 531,203 | \$ 1,652,845 | \$ 1,590,984 |

Inter-segment Net Sales

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| U.S., Germany and Certain Other European Regions Consumable Businesses | \$ 30,940 | \$ 27,759 | \$ 88,003 | \$ 74,488 |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | 3,396 | 2,590 | 12,052 | 9,037 |
| | 31,187 | 24,424 | 85,864 | 77,241 |

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Canada/Latin America/Endodontics/ Orthodontics | | | | |
| Dental Laboratory Business/ Implants/Non-Dental | 25,355 | 27,823 | 82,950 | 82,972 |
| All Other (b) | 43,218 | 42,914 | 132,302 | 124,261 |
| Eliminations | (134,096) | (125,510) | (401,171) | (367,999) |
| Total | \$ - | \$ - | \$ - | \$ - |

(a) Includes amounts recorded at Corporate headquarters.

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

Segment Operating Income

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| U.S., Germany and Certain Other European Regions | | | | |
| Consumable Businesses | \$ 53,164 | \$ 49,034 | \$ 147,679 | \$ 125,780 |
| France, U.K., Italy and Certain Other European Countries, | | | | |
| CIS, Middle East, Africa, Pacific Rim Businesses | 3,892 | 3,743 | 9,299 | 11,268 |
| Canada/Latin America/Endodontics/ Orthodontics | 44,910 | 39,543 | 142,073 | 135,068 |
| Dental Laboratory Business/ Implants/Non-Dental | 14,691 | 19,032 | 59,648 | 65,222 |
| All Other (a) | (25,900) | (17,201) | (68,727) | (53,591) |
| Segment operating income | 90,757 | 94,151 | 289,972 | 283,747 |
| Reconciling Items: | | | | |
| Restructuring and other costs | (338) | (1,210) | (5,261) | (5,905) |
| Interest expense | (5,999) | (5,456) | (18,406) | (16,877) |
| Interest income | 1,268 | 858 | 2,883 | 4,326 |
| Other expense (income), net | (585) | (491) | (2,252) | (1,359) |
| Income before income taxes | \$ 85,103 | \$ 87,852 | \$ 266,936 | \$ 263,932 |

Assets

| (in thousands) | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| U.S., Germany and Certain Other European | | |
| Regions Consumable Businesses | \$ 604,496 | \$ 602,272 |
| France, U.K., Italy and Certain Other European | | |
| Countries, CIS, Middle East, Africa, | | |
| Pacific Rim Businesses | 395,587 | 388,831 |
| Canada/Latin America/Endodontics/ | | |
| Orthodontics | 890,657 | 809,924 |
| Dental Laboratory Business/ | | |
| Implants/Non-Dental | 933,908 | 973,764 |
| All Other (b) | 370,508 | 313,141 |
| Total | \$ 3,195,156 | \$ 3,087,932 |

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

(b) 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 September 30, 2010 and December 31, 2009, the cost of \$8.3 million, or 2.6%, and \$7.8 million, or 2.7%, respectively, of inventories was determined by the last-in, first-out (“LIFO”) method. The cost of other inventories was determined by the first-in, first-out (“FIFO”) or average cost methods. The Company establishes reserves for inventory in order to present the net realizable value. The inventory valuation reserves were \$36.9 million and \$31.9 million as of September 30, 2010 and December 31, 2009, respectively.

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 September 30, 2010 and December 31, 2009 by \$4.3 million and \$4.0 million, respectively.

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

| (in thousands) | September 30, December 31, | |
|----------------------------|----------------------------|------------|
| | 2010 | 2009 |
| Finished goods | \$ 194,285 | \$ 178,721 |
| Work-in-process | 54,976 | 53,056 |
| Raw materials and supplies | 68,810 | 59,863 |
| | \$ 318,071 | \$ 291,640 |

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 nine months ended September 30, 2010 and 2009, respectively:

| Defined Benefit Plans (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|----------|-------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Service cost | \$ 2,017 | \$ 2,144 | \$ 5,950 | \$ 6,211 |
| Interest cost | 2,094 | 2,059 | 6,251 | 5,957 |
| Expected return on plan assets | (1,179) | (1,012) | (3,447) | (2,951) |
| Amortization of transition obligation | 32 | 61 | 91 | 177 |
| Amortization of prior service cost | 19 | 34 | 63 | 103 |
| Amortization of net loss | 247 | 423 | 722 | 1,241 |
| Net periodic benefit cost | \$ 3,230 | \$ 3,709 | \$ 9,630 | \$ 10,738 |

| Other Postretirement Plans (in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------|-------------------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| Service cost | \$ 14 | \$ 13 | \$ 43 | \$ 40 |
| Interest cost | 152 | 156 | 458 | 467 |
| Amortization of net loss | 69 | 50 | 206 | 151 |
| Net periodic benefit cost | \$ 235 | \$ 219 | \$ 707 | \$ 658 |

The following sets forth the information related to the funding of the Company's benefit plans for 2010:

| (in thousands) | Pension Benefits | Other Postretirement Benefits |
|---|---------------------|-------------------------------------|
| Actual at September 30, 2010 | \$ 5,677 | \$ 68 |
| Projected for the remainder of the year | 3,049 | 1,039 |
| Total for year | \$ 8,726 | \$ 1,107 |

NOTE 9 – RESTRUCTURING AND OTHER COSTS

Other Costs

There were no other costs during the three months ended September 30, 2010, and \$1.2 million of other costs recorded by the Company during the three months ended September 30, 2009. During the nine months ended September 30, 2010 and 2009, the Company recorded other costs of \$4.1 million and \$1.6 million, respectively. Other costs for the three and nine months ended September 30, 2010 and 2009 are primarily related to several legal matters. These other costs are reflected in “Restructuring and other costs” in the consolidated statements of operations.

Restructuring Costs

During the three and nine months ended September 30, 2010, the Company recorded restructuring costs of \$0.3 million and \$1.2 million, respectively. During the three months ended September 30, 2009 the Company had no restructuring costs and for the nine months ended September 30, 2009, the Company recorded restructuring costs of \$4.3 million. These costs are recorded in “Restructuring and other costs” in the consolidated statements of operations and the associated liabilities are recorded in accrued liabilities in the consolidated balance sheets. These costs primarily consist of employee severance costs.

During 2010 and 2009, 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.

As of September 30, 2010, the Company’s restructuring accruals were as follows:

| (in thousands) | Severance 2008 and Prior Plans | 2009 Plans | 2010 Plans | Total |
|-------------------------------|--------------------------------------|------------|------------|----------|
| Balance at December 31, 2009 | \$ 5,301 | \$ 3,240 | \$ - | \$ 8,541 |
| Provisions and adjustments | (127) | - | 1,037 | 910 |
| Amounts applied | (2,288) | (1,655) | (1,014) | (4,957) |
| Balance at September 30, 2010 | \$ 2,886 | \$ 1,585 | \$ 23 | \$ 4,494 |

| (in thousands) | Lease/Contract Terminations 2008 and Prior Plans | Total |
|-------------------------------|--|----------|
| Balance at December 31, 2009 | \$ 1,093 | \$ 1,093 |
| Provisions and adjustments | - | - |
| Amounts applied | (65) | (65) |
| Balance at September 30, 2010 | \$ 1,028 | \$ 1,028 |

| (in thousands) | 2008 and Prior Plans | 2009 Plans | 2010 Plans | Total |
|------------------------------|-------------------------|------------|------------|--------|
| Balance at December 31, 2009 | \$ 112 | \$ 16 | \$ - | \$ 128 |

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| | | | | |
|-------------------------------|-------|-------|------|-------|
| Provisions and adjustments | 45 | 172 | 82 | 299 |
| Amounts applied | (67) | (188) | (82) | (337) |
| Balance at September 30, 2010 | \$ 90 | \$ - | \$ - | \$ 90 |

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

| (in thousands) | December 31, 2009 | Provisions and Adjustments | Amounts Applied | September 30, 2010 |
|--|----------------------|-------------------------------|--------------------|-----------------------|
| United States, Germany and Certain Other European Regions Consumable Businesses | \$ 1,245 | \$ 472 | \$ (529) | \$ 1,188 |
| France, U.K., Italy and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | 84 | 212 | (212) | 84 |
| Canada/Latin America/ Endodontics/Orthodontics | 639 | - | (639) | - |
| Dental Laboratory Business/ Implants/Non-Dental | 7,794 | 525 | (3,979) | 4,340 |
| | \$ 9,762 | \$ 1,209 | \$ (5,359) | \$ 5,612 |

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.

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.

Cash Flow Hedges

The Company uses interest rate swaps to convert a portion of its variable interest rate debt to fixed interest rate debt. As of September 30, 2010, the Company has two groups of significant variable interest rate to fixed interest rate swaps. One of the groups of swaps has notional amounts totaling 12.6 billion Japanese yen, and effectively converts the underlying variable interest rates to an average fixed interest rate of 1.6% for a term of ten years, ending in 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. The Company enters into interest rate swap contracts infrequently as they are only used to manage interest rate risk on long-term debt instruments and not for speculative purposes.

The Company enters into forward exchange contracts to hedge the foreign currency exposure of its anticipated purchases of certain inventory. In addition, 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 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 September 30, 2010, the Company had swaps in place to purchase 33 troy ounces of platinum bullion for use in the production of its impression material products. The average fixed rate of this agreement is \$1,303 per troy ounce. In

addition, the Company had swaps in place to purchase 17,208 troy ounces of silver bullion for use in the production of its amalgam products at an average fixed rate of \$17 per troy ounce.

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The following tables summarize the fair value of the Company's cash flow hedges at September 30, 2010:

| Foreign Exchange Forward Contracts (in thousands) | Notional Amounts Maturing in the Year | | | Fair Value Net Asset (Liability) September 30, 2010 |
|--|---------------------------------------|------------------|-----------------|--|
| | 2010 | 2011 | 2012 | |
| Forward sale, 11.7 million Australian dollars | \$ 4,951 | \$ 5,528 | \$ 786 | \$ (532) |
| Forward purchase, 5.5 million British pounds | (3,250) | (5,364) | - | 72 |
| Forward sale, 23.7 million Canadian dollars | 5,499 | 15,887 | 1,665 | 131 |
| Forward sale, 5.1 million Danish kroner | 935 | - | - | 9 |
| Forward purchase, 0.9 million euros | (1,189) | - | - | 640 |
| Forward sale, 9.7 million euros | - | 13,154 | - | 897 |
| Forward sale, 439.9 million Japanese yen | 5,271 | - | - | 409 |
| Forward purchase, 313.4 million Japanese yen | - | (3,756) | - | 401 |
| Forward sale, 115.1 million Mexican pesos | 9,135 | - | - | 97 |
| Forward purchase, 1.0 million Norwegian kroner | (173) | - | - | (2) |
| Forward sale, 2.0 million Singapore dollars | 1,534 | - | - | 55 |
| Forward sale, 1.2 billion South Korean won | 1,024 | - | - | 48 |
| Forward purchase, 42.0 million Swiss francs | (42,805) | - | - | 301 |
| Total foreign exchange forward contracts | \$ (19,068) | \$ 25,449 | \$ 2,451 | \$ 2,526 |

| Interest Rate Swaps (in thousands) | Notional Amounts Maturing in the Year | | | | | Fair Value Net Asset (Liability) September 30, 2010 |
|---------------------------------------|---------------------------------------|-----------------|-------------------|-----------------|--------------------|--|
| | 2010 | 2011 | 2012 | 2013 | 2014 and Beyond | |
| Euro | \$ 322 | \$ 1,286 | \$ 1,286 | \$ 1,286 | \$ 4,180 | \$ (817) |
| Japanese yen | - | - | 150,410 | - | - | (2,400) |
| Swiss francs | - | - | 66,266 | - | - | (3,521) |
| Total interest rate swaps | \$ 322 | \$ 1,286 | \$ 217,962 | \$ 1,286 | \$ 4,180 | \$ (6,738) |

Notional Amounts Maturing in the Year Fair Value Net Asset (Liability)

| Commodity Contracts (in thousands) | 2010 | 2011 | September |
|---------------------------------------|----------|----------|-------------|
| | | | 30, 2010 |
| Silver swap - U.S. dollar | \$ (254) | \$ (127) | \$ 94 |
| Platinum swap - U.S. dollar | (55) | - | 12 |
| Total commodity contracts | \$ (309) | \$ (127) | \$ 106 |

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.

During the first quarter of 2010, the Company entered into new cross currency basis swaps of Swiss francs 100.0 million and Swiss francs 55.5 million (collectively the "Swiss Swaps"). The Swiss Swaps mature on February 2013, and the Company pays three month Swiss franc London Inter-Bank Offered Rate ("LIBOR") and receives three month U.S. dollar LIBOR. The new contracts were entered into to replace maturing contracts. The Swiss franc and euro cross currency basis swaps are designated as net investment hedges of the Swiss and euro denominated net assets. The interest rate differential is recognized in the earnings as interest income or interest expense as it is accrued and the foreign currency revaluation is recorded in AOCI, net of tax effects.

The fair value of all the cross currency basis swap agreements is the estimated amount the Company would (pay) or receive at the reporting date, taking into account the effective interest rates and foreign exchange rates. As of September 30, 2010 and December 31, 2009, the estimated net fair values of the swap agreements were negative \$164.6 million and negative \$176.6 million, respectively, which were recorded as other noncurrent liabilities, other noncurrent assets and in AOCI, net of tax effects.

At September 30, 2010, the Company had Swiss franc-denominated and Japanese yen-denominated debt and cross currency basis swaps denominated in euro and Swiss franc to hedge the currency exposure related to a designated portion of the net assets of its European, Swiss and Japanese subsidiaries. The accumulated translation impact on investments in foreign subsidiaries, primarily denominated in euro, Swiss francs and Japanese yen, net of these net investment hedges, was a gain of \$66.1 million as of September 30, 2010 and a gain of \$111.1 million as of December 31, 2009, which are included in AOCI, net of tax effects.

The following tables summarize the fair value of the Company's cross currency basis swaps that are designated as hedges of net investments in foreign operations at September 30, 2010:

| Cross Currency Basis Swaps (in thousands) | Notional Amounts Maturing in the Year | | | | Fair Value Net Asset (Liability) September 30, 2010 |
|---|---------------------------------------|------------------|------------------|-------------------|---|
| | 2010 | 2011 | 2012 | 2013 | |
| Swiss franc 592.5 million @ 1.17 pay CHF three month LIBOR rec. USD three month LIBOR | \$ - | \$ 81,966 | \$ 57,702 | \$ 464,369 | \$ (97,057) |
| Euros 358.0 million @ \$1.17 pay EUR three month LIBOR rec. USD three month LIBOR | 147,069 | - | - | 340,438 | (67,578) |
| Total cross currency basis swaps | \$ 147,069 | \$ 81,966 | \$ 57,702 | \$ 804,807 | \$ (164,635) |

As of September 30, 2010, 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.

The following tables summarize the fair value and consolidated balance sheet location of the Company's derivatives at September 30, 2010 and December 31, 2009:

| (in thousands) | September 30, 2010 | | | |
|------------------------------------|---|------------------------------|---------------------|------------------------------|
| | Prepaid Expenses and Other Current Assets | Other Noncurrent Assets, Net | Accrued Liabilities | Other Noncurrent Liabilities |
| Designated as Hedges | | | | |
| Foreign exchange forward contracts | \$ 1,824 | \$ 248 | \$ 199 | \$ 51 |

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| | | | | |
|----------------------------|----------|--------|-----------|------------|
| Commodity contracts | 106 | - | - | - |
| Interest rate swaps | - | 172 | 5,419 | 674 |
| Cross currency basis swaps | - | - | 20,348 | 144,287 |
| Total | \$ 1,930 | \$ 420 | \$ 25,966 | \$ 145,012 |

Not Designated as Hedges

| | | | | |
|------------------------------------|----------|------|--------|--------|
| Foreign exchange forward contracts | \$ 1,138 | \$ - | \$ 434 | \$ - |
| Interest rate swaps | - | - | 123 | 694 |
| Total | \$ 1,138 | \$ - | \$ 557 | \$ 694 |

| | | December 31, 2009 | | | |
|------------------------------------|----------------------|---|------------------------------|---------------------|------------------------------|
| (in thousands) | Designated as Hedges | Prepaid Expenses and Other Current Assets | Other Noncurrent Assets, Net | Accrued Liabilities | Other Noncurrent Liabilities |
| Foreign exchange forward contracts | | \$ 598 | \$ 5 | \$ 1,010 | \$ 16 |
| Commodity contracts | | 293 | - | - | - |
| Interest rate swaps | | - | - | 6,130 | 2,775 |
| Cross currency basis swaps | | - | - | 52,411 | 124,210 |
| Total | | \$ 891 | \$ 5 | \$ 59,551 | \$ 127,001 |
| Not Designated as Hedges | | | | | |
| Foreign exchange forward contracts | | \$ 556 | \$ - | \$ 409 | \$ - |
| Interest rate swaps | | - | - | - | 882 |
| Total | | \$ 556 | \$ - | \$ 409 | \$ 882 |

The following table summarizes the consolidated statement of operations impact of the Company's cash flow hedges for the three and nine months ended September 30, 2010 and 2009:

Three Months Ended September 30, 2010

| Derivatives in Cash Flow Hedging (in thousands) | Gain (Loss) in AOCI | Classification of Gains (Losses) | Effective Portion Reclassified from AOCI into Income |
|--|------------------------|-------------------------------------|--|
| Interest rate contracts | \$ (636) | Interest expense | \$ (1,175) |
| Foreign exchange forward contracts | (597) | Cost of products sold | 189 |
| Foreign exchange forward contracts | (336) | SG&A expenses | 312 |
| Commodity contracts | 61 | Cost of products sold | 140 |
| Total | \$ (1,508) | | \$ (534) |

Three Months Ended September 30, 2010

| Derivatives in Cash Flow Hedging (in thousands) | Classification of Gains (Losses) | Ineffective portion Recognized in Income |
|--|-------------------------------------|--|
| Interest rate contracts | Other expense, net | \$ (43) |
| Foreign exchange forward contracts | Interest expense | (120) |
| Foreign exchange forward contracts | Interest expense | 7 |
| Commodity contracts | Interest expense | (5) |
| Total | | \$ (161) |

Three Months Ended September 30, 2009

| Derivatives in Cash Flow Hedging (in thousands) | Gain (Loss) in AOCI | Classification of Gains (Losses) | Effective Portion Reclassified from AOCI into Income |
|--|------------------------|-------------------------------------|--|
| Interest rate contracts | \$ (2,051) | Interest expense | \$ (2,252) |
| Foreign exchange forward contracts | (243) | Cost of products sold | (302) |
| Foreign exchange forward contracts | (449) | SG&A expenses | 240 |
| Commodity contracts | 343 | Cost of products sold | (190) |
| Total | \$ (2,400) | | \$ (2,504) |

Three Months Ended September 30, 2009

| Derivatives in Cash Flow Hedging (in thousands) | Classification of Gains (Losses) | Ineffective portion Recognized in Income |
|--|-------------------------------------|--|
| Interest rate contracts | Other expense, net | \$ (54) |
| Foreign exchange forward contracts | Interest expense | (54) |
| Foreign exchange forward contracts | Interest expense | 13 |
| Commodity contracts | Interest expense | (9) |
| Total | | \$ (104) |

Nine Months Ended September 30, 2010

| Derivatives in Cash Flow Hedging (in thousands) | Gain (Loss) in AOCI | Classification of Gains (Losses) | Effective Portion Reclassified from AOCI into Income |
|--|------------------------|-------------------------------------|--|
| Interest rate contracts | \$ (1,515) | Interest expense | \$ (4,414) |
| Foreign exchange forward contracts | 2,306 | Cost of products sold | 214 |
| Foreign exchange forward contracts | 361 | SG&A expenses | 530 |
| Commodity contracts | 232 | Cost of products sold | 580 |
| Total | \$ 1,384 | | \$ (3,090) |

Nine Months Ended September 30, 2010

| Derivatives in Cash Flow Hedging (in thousands) | Classification of Gains (Losses) | Ineffective portion Recognized in Income |
|--|-------------------------------------|--|
| Interest rate contracts | Other expense, net | \$ 149 |
| Foreign exchange forward contracts | Interest expense | (405) |
| Foreign exchange forward contracts | Interest expense | 4 |
| Commodity contracts | Interest expense | (11) |
| Total | | \$ (263) |

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Nine Months Ended September 30, 2009

| Derivatives in Cash Flow Hedging (in thousands) | Gain (Loss) in AOCI | Classification of Gains (Losses) | Effective Portion Reclassified from AOCI into Income |
|--|------------------------|-------------------------------------|--|
| Interest rate contracts | \$ (3,425) | Interest expense | \$ (5,594) |
| Foreign exchange forward contracts | (501) | Cost of products sold | 1,106 |
| Foreign exchange forward contracts | 431 | SG&A expenses | 434 |
| Commodity contracts | 1,465 | Cost of products sold | (1,095) |
| Total | \$ (2,030) | | \$ (5,149) |

Nine Months Ended September 30, 2009

| Derivatives in Cash Flow Hedging (in thousands) | Classification of Gains (Losses) | Ineffective portion Recognized in Income |
|--|-------------------------------------|--|
| Interest rate contracts | Other expense, net | \$ (155) |
| Foreign exchange forward contracts | Interest expense | (235) |
| Foreign exchange forward contracts | Interest expense | (35) |
| Commodity contracts | Interest expense | (38) |
| Total | | \$ (463) |

The following tables summarize the consolidated statement of operations impact of the Company's hedges of net investment for the three and nine months ended September 30, 2010 and 2009:

Three Months Ended September 30, 2010

| Derivatives in Net Investment Hedging (in thousands) | Gain (Loss) in AOCI | Classification of Gains (Losses) | Gain (Loss) Recognized in Income |
|---|------------------------|-------------------------------------|--|
| Cross currency interest rate swaps | \$ (54,204) | Interest income | \$ 423 |
| | | Interest expense | (6) |
| Cross currency interest rate swaps | (48,688) | Interest expense | (542) |
| Total | \$ (102,892) | | \$ (125) |

Three Months Ended September 30, 2009

| Derivatives in Net Investment Hedging (in thousands) | Gain (Loss) in AOCI | Classification of Gains (Losses) | Gain (Loss) Recognized in Income |
|---|------------------------|-------------------------------------|--|
| Cross currency interest rate swaps | \$ (25,826) | Interest income | \$ 190 |
| Cross currency interest rate swaps | (21,525) | Interest expense | (896) |
| Total | \$ (47,351) | | \$ (706) |

Nine Months Ended September 30, 2010

| Derivatives in Net Investment Hedging (in thousands) | Gain (Loss) in AOCI | Classification of Gains (Losses) | Gain (Loss) Recognized in Income |
|---|------------------------|-------------------------------------|--|
| Cross currency interest rate swaps | \$ (31,186) | Interest income | \$ 643 |
| | | Interest expense | (85) |
| Cross currency interest rate swaps | 25,715 | Interest expense | (1,663) |
| Total | \$ (5,471) | | \$ (1,105) |

Nine Months Ended September 30, 2009

| Derivatives in Net Investment Hedging (in thousands) | Gain (Loss) in AOCI | Classification of Gains (Losses) | Gain (Loss) Recognized in Income |
|---|------------------------|-------------------------------------|--|
| Cross currency interest rate swaps | \$ (12,911) | Interest income | \$ 1,402 |
| Cross currency interest rate swaps | (25,054) | Interest expense | (3,340) |
| Total | \$ (37,965) | | \$ (1,938) |

The following tables summarize the consolidated statement of operations impact of the Company's derivatives not designated as hedges for the three and nine months ended September 30, 2010 and 2009:

Derivatives Not Designated as Hedging

| (in thousands) | Classification of Gains (Losses) | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
|------------------------------------|-------------------------------------|--|---|
| Foreign exchange forward contracts | Other expense, net | \$ 12,173 | \$ 1,296 |
| Interest rate contracts | Interest expense | (41) | (220) |
| Total | | \$ 12,132 | \$ 1,076 |

Derivatives Not Designated as Hedging

| (in thousands) | Classification of Gains (Losses) | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2009 |
|------------------------------------|-------------------------------------|--|---|
| Foreign exchange forward contracts | Other expense, net | \$ 2,485 | \$ (13,428) |
| Interest rate contracts | Other expense, net | - | (2) |
| Interest rate contracts | Interest expense | (124) | (390) |
| Total | | \$ 2,361 | \$ (13,820) |

Amounts recorded in AOCI, net of tax, related to cash flow hedging instruments for the three and nine months ended September 30, 2010 and 2009:

| (in thousands, net of tax) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Beginning balance | \$ (944) | \$ (6,005) | \$ (4,799) | \$ (7,874) |
| Changes in fair value of derivatives | (1,051) | (1,506) | 1,221 | (1,152) |
| Reclassifications to earnings from equity | 233 | 1,526 | 1,816 | 3,041 |
| Total activity | (818) | 20 | 3,037 | 1,889 |
| Ending balance | \$ (1,762) | \$ (5,985) | \$ (1,762) | \$ (5,985) |

Amounts recorded in AOCI, net of tax, related to hedges of net investments in foreign operations for the three and nine months ended September 30, 2010 and 2009:

| (in thousands, net of tax) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Beginning balance | \$ (33,636) | \$ 93,272 | \$ 111,115 | \$ 77,585 |
| Foreign currency translation adjustment | 171,847 | 74,264 | (29,999) | 78,776 |
| Changes in fair value of: | | | | |
| Foreign currency debt | (8,978) | (7,673) | (11,700) | (2,260) |
| Derivative hedge instruments | (63,176) | (29,073) | (3,359) | (23,311) |
| Total activity | 99,693 | 37,518 | (45,058) | 53,205 |
| Ending balance | \$ 66,057 | \$ 130,790 | \$ 66,057 | \$ 130,790 |

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 primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

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 as of September 30, 2010 and December 31, 2009, which are classified as "Cash and cash equivalents," "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 | September 30, 2010 | | |
|------------------------------------|------------|--------------------|------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Money market funds | \$ 424,445 | \$ 424,445 | \$ - | \$ - |
| Commodity contracts | 106 | - | 106 | - |
| Interest rate swaps | 172 | - | 172 | - |
| Foreign exchange forward contracts | 3,210 | - | 3,210 | - |
| Total assets | \$ 427,933 | \$ 424,445 | \$ 3,488 | \$ - |
| Liabilities | | | | |
| Interest rate swaps | \$ 6,910 | \$ - | \$ 6,910 | \$ - |
| Cross currency basis swaps | 164,635 | - | 164,635 | - |
| Foreign exchange forward contracts | 684 | - | 684 | - |
| Total liabilities | \$ 172,229 | \$ - | \$ 172,229 | \$ - |
| December 31, 2009 | | | | |
| (in thousands) | Total | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Money market funds | \$ 364,765 | \$ 364,765 | \$ - | \$ - |
| Commodity contracts | 293 | - | 293 | - |
| Foreign exchange forward contracts | 1,159 | - | 1,159 | - |
| Total assets | \$ 366,217 | \$ 364,765 | \$ 1,452 | \$ - |
| Liabilities | | | | |
| Interest rate swaps | \$ 9,787 | \$ - | \$ 9,787 | \$ - |
| Cross currency basis swaps | 176,621 | - | 176,621 | - |
| Foreign exchange forward contracts | 1,435 | - | 1,435 | - |
| Total liabilities | \$ 187,843 | \$ - | \$ 187,843 | \$ - |

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, 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.

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 \$1.0 million. In addition, expiration of statutes of limitation in various jurisdictions during the next twelve months could include unrecognized tax benefits of approximately \$1.2 million.

NOTE 13 - FINANCING ARRANGEMENTS

On February 19, 2010, the Company received the proceeds of a \$250.0 million Private Placement Note at a fixed rate of 4.1% for an average term of five years and a final maturity of six years. On March 1, 2010 the Company entered into a term loan facility with PNC Bank for Swiss francs 65.0 million at a variable rate based upon three month Swiss franc LIBOR, which matures in March 2012. The Company's notes payable and current portion of long-term debt, as classified on the consolidated balance sheets, amounted to \$7.3 million and \$82.2 million at September 30, 2010 and December 31, 2009, respectively.

On May 7, 2010 the Company entered into a \$200.0 million multi-currency revolving credit agreement with eight lenders for a period of three years maturing May 7, 2013. The multi-currency revolving credit agreement replaced the \$500.0 million multi-currency revolving credit agreement which matured May 9, 2010. As a consequence of the smaller multi-currency revolving credit agreement, the Company also reduced its U.S. dollar Commercial Paper facility to \$200.0 million in May 2010.

The Company estimates the fair value of its total debt as compared to its carrying value as \$612.3 million and \$599.7 million, respectively, as of September 30, 2010. As of December 31, 2009, the fair value approximated the carrying value, which was \$469.3 million. The interest rate on the Company's \$250.0 million Private Placement Note is a fixed rate of 4.1%, and the fair value is based on the interest rates as of September 30, 2010. The interest rates on term loan debt and commercial paper are variable, and therefore the fair value of these instruments approximates their carrying values.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

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

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 intends to vigorously pursue all available options to challenge it. The Company has filed a number of separate motions 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 four of the Company's post-trial Motions. The Company has two remaining Motions pending which the Court has not yet ruled on.

As of September 30, 2010, a reasonable estimate of a possible range of loss related to the above litigation cannot be made except as reflected in the preceding paragraph. 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, 2009. 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

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

Principal Products

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

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, 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.

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

Management believes that an average internal growth rate of 4% to 6% is a long-term targeted rate for the Company. The internal growth rate may vary outside of this range based on weaker or stronger economic conditions. Management expects the Company to operate below this range in the near future due to the current economic conditions; however, history shows that growth in the dental industry typically performs better than the overall economy. There can be no assurance that the Company’s assumptions concerning the growth rates in its markets or the dental market generally will continue in the future. If such rates are less than expected, the Company’s projected growth rates and results of operations may be adversely affected.

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 its focus on minimizing costs and achieving operational efficiencies. Management continues to evaluate the consolidation of operations or functions to reduce the cost of those operations and functions. 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 this technological development, including collaborations with various research institutions and dental schools. In addition, the Company licenses and purchases technologies developed by third parties. Although the Company believes these activities will lead to new innovative dental products, they involve new technologies and there can be no assurance that commercialized products will be developed.

Although the professional dental market in which the Company operates has experienced consolidation, it is still a fragmented industry. The Company continues to focus on opportunities to expand the Company’s product offerings through acquisitions. Management believes that there will continue to be adequate opportunities to participate as a consolidator in the industry for the foreseeable future.

Impact of Foreign Currencies

Due to the international nature of DENTSPLY’s business, movements in foreign exchange rates may impact the consolidated statements of operations. With over 60% of the Company’s sales located in regions outside the U.S., the Company’s 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.

RESULTS OF OPERATIONS, QUARTER ENDED SEPTEMBER 30, 2010 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2009

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 U.S. (“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 | | \$ Change | % Change |
|---|--------------------|-----------------------|-----------|----------|
| | 2010 | September 30, 2009 | | |
| Net sales | \$ 541.8 | \$ 531.2 | \$ 10.6 | 2.0% |
| Less: precious metal content of sales | 47.5 | 37.4 | 10.1 | 27.0% |
| Net sales, excluding precious metal content | \$ 494.3 | \$ 493.8 | \$ 0.5 | 0.1% |

Net sales, excluding precious metal content, for the three months ended September 30, 2010 was \$494.3 million, an increase of 0.1% over the third quarter of 2009. The change in net sales, excluding precious metal content, was driven by constant currency growth of 2.4%, substantially offset by currency translation of 2.3%. The constant currency sales growth included internal growth of 2.0%.

Constant Currency and Internal Sales Growth

United States

Net sales, excluding precious metal content, decreased 0.8% for the third quarter of 2010 compared to the third quarter of 2009 on both a constant currency and internal sales growth rate basis. Growth in dental consumable sundry products and dental specialty products, along with strong non-dental sales growth were offset by lower sales in dental laboratory and dental consumable small equipment products.

Europe

Net sales, excluding precious metal content, in Europe increased 5.5% in the third quarter of 2010 on a constant currency basis, including 4.5% of internal growth. Internal growth was primarily driven by growth in the dental specialty products, dental consumable and non-dental products and a business recovery in the CIS markets, which experienced customer liquidity constraints during 2009. These gains were partially offset by lower sales in the dental laboratory products.

All Other Regions

Net sales, excluding precious metal content, in the other regions of the world increased by 3.0% on a constant currency basis, which includes 2.7% of internal growth. Internal growth was driven primarily by growth in dental specialty products, partially offset by lower sales in dental consumable products.

Gross Profit

Three Months Ended
September 30,

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| (in millions) | 2010 | 2009 | \$ Change | % Change |
|---|----------|----------|-----------|----------|
| Gross profit | \$ 272.8 | \$ 271.7 | \$ 1.1 | 0.4% |
| Gross profit as a percentage of net sales, including precious metal content | 50.4% | 51.2% | | |