

DENTSPLY INTERNATIONAL INC /DE/
Form 10-Q
October 29, 2009
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, 2009

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

39-1434669

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(State or other jurisdiction of
incorporation or organization)

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

221 West Philadelphia Street, York, PA

17405-0872

(Address of principal executive offices)

(Zip Code)

(717) 845-7511

(Registrant's telephone number, including area code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Large accelerated filer 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 28, 2009, DENTSPLY International Inc. (the "Company") had 148,503,212 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
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | \$ 531,032 | \$ 529,953 | \$ 1,591,197 | \$ 1,685,582 |
| Cost of products sold | 258,051 | 249,770 | 764,276 | 804,670 |
| Gross profit | 272,981 | 280,183 | 826,921 | 880,912 |
| Selling, general and administrative expenses | 178,841 | 180,729 | 543,207 | 565,599 |
| Restructuring, impairments and other costs (Note 9) | 1,210 | 18,539 | 5,905 | 20,202 |
| Operating income | 92,930 | 80,915 | 277,809 | 295,111 |
| Other income and expenses: | | | | |
| Interest expense | 5,456 | 9,284 | 16,877 | 25,437 |
| Interest income | (858) | (4,669) | (4,326) | (14,564) |
| Other expense, net | 480 | 1,030 | 1,326 | 4,100 |
| Income before income taxes | 87,852 | 75,270 | 263,932 | 280,138 |
| Provision for income taxes | 19,999 | 9,204 | 65,570 | 67,219 |
| Net income | 67,853 | 66,066 | 198,362 | 212,919 |
| Less: Net gain (loss) attributable to the noncontrolling interests | 370 | 19 | (1,062) | 45 |
| Net income attributable to DENTSPLY International | \$ 67,483 | \$ 66,047 | \$ 199,424 | \$ 212,874 |
| Earnings per common share (Note 4): | | | | |
| -Basic | \$ 0.45 | \$ 0.44 | \$ 1.34 | \$ 1.43 |
| -Diluted | \$ 0.45 | \$ 0.44 | \$ 1.33 | \$ 1.40 |
| Cash dividends declared per common share | \$ 0.050 | \$ 0.045 | \$ 0.150 | \$ 0.135 |

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Weighted average common shares outstanding (Note 4):

| | | | | |
|----------|---------|---------|---------|---------|
| -Basic | 148,547 | 148,775 | 148,546 | 149,186 |
| -Diluted | 150,638 | 151,697 | 150,077 | 152,137 |

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(unaudited)

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 333,368 | \$ 203,991 |
| Short-term investments | 37 | 258 |
| Accounts and notes receivables-trade, net (Note 1) | 356,976 | 319,260 |
| Inventories, net (Note 7) | 311,666 | 306,125 |
| Prepaid expenses and other current assets | 125,056 | 120,228 |
| Total Current Assets | 1,127,103 | 949,862 |
| Property, plant and equipment, net | 445,365 | 432,276 |
| Identifiable intangible assets, net | 119,344 | 103,718 |
| Goodwill | 1,308,824 | 1,277,026 |
| Other noncurrent assets, net | 66,473 | 67,518 |
| Total Assets | \$ 3,067,109 | \$ 2,830,400 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 98,125 | \$ 104,329 |
| Accrued liabilities | 230,265 | 193,660 |
| Income taxes payable | 34,896 | 36,178 |
| Notes payable and current portion of long-term debt (Note 13) | 240,366 | 25,795 |
| Total Current Liabilities | 603,652 | 359,962 |
| Long-term debt (Note 13) | 154,842 | 423,679 |
| Deferred income taxes | 77,838 | 69,049 |
| Other noncurrent liabilities | 328,326 | 318,297 |
| Total Liabilities | 1,164,658 | 1,170,987 |
| Commitments and contingencies (Note 14) | | |
| Stockholders' Equity: | | |
| Preferred stock, \$.01 par value; .25 million shares authorized; no shares issued | - | - |
| Common stock, \$.01 par value; 200 million shares authorized; 162.8 million shares issued at September 30, 2009 and December 31, 2008 | 1,628 | 1,628 |
| Capital in excess of par value | 195,781 | 187,154 |
| Retained earnings | 2,016,007 | 1,838,958 |
| Accumulated other comprehensive income (Note 3) | 95,139 | 39,612 |
| Treasury stock, at cost, 14.3 million shares at September 30, 2009 and 14.2 million shares at December 31, 2008 | (481,300) | (479,630) |
| Total DENTSPLY International Stockholders' Equity | 1,827,255 | 1,587,722 |

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| | | |
|--|--------------|--------------|
| Noncontrolling interests | 75,196 | 71,691 |
| Total Stockholders' Equity | 1,902,451 | 1,659,413 |
| Total Liabilities and Stockholders' Equity | \$ 3,067,109 | \$ 2,830,400 |

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

| | Nine Months Ended | |
|---|-------------------|------------|
| | September 30, | |
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 198,362 | \$ 212,919 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 40,118 | 36,697 |
| Amortization | 9,227 | 6,703 |
| Deferred income taxes | 9,655 | 25,245 |
| Share-based compensation expense | 14,778 | 12,748 |
| Restructuring, impairments and other costs | 5,905 | 20,202 |
| Stock option income tax benefit | (2,921) | (3,575) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts and notes receivable-trade, net | (23,166) | (45,344) |
| Inventories, net | 10,670 | (25,918) |
| Prepaid expenses and other current assets | 248 | (2,176) |
| Accounts payable | (9,699) | 6,838 |
| Accrued liabilities | (4,325) | 9,026 |
| Income tax payable | (546) | (5,636) |
| Other, net | (2,942) | (10,886) |
| Net cash provided by operating activities | 245,364 | 236,843 |
| Cash flows from investing activities: | | |
| Capital expenditures | (43,282) | (55,286) |
| Cash paid for acquisitions of businesses, net of cash acquired | (2,986) | (43,937) |
| Purchases of short-term investments | - | (154,568) |
| Liquidation of short-term investments | 219 | 102,091 |
| Expenditures for identifiable intangible assets | (128) | (2,201) |
| Proceeds from sale of property, plant and equipment, net | 2,143 | 702 |
| Net cash used in investing activities | (44,034) | (153,199) |
| Cash flows from financing activities: | | |
| Net change in short-term borrowings | (1,482) | 1,033 |
| Cash paid for treasury stock | (21,253) | (99,771) |
| Cash dividends paid | (22,383) | (20,231) |
| Proceeds from long-term borrowings | - | 117,900 |
| Payments on long-term borrowings | (57,150) | (205,613) |
| Proceeds from exercise of stock options | 9,451 | 11,990 |
| Excess tax benefits from share-based compensation | 2,921 | 3,575 |
| Net cash used in financing activities | (89,896) | (191,117) |
| Effect of exchange rate changes on cash and cash equivalents | 17,943 | (7,706) |
| Net increase (decrease) in cash and cash equivalents | 129,377 | (115,179) |
| Cash and cash equivalents at beginning of period | 203,991 | 169,384 |
| Cash and cash equivalents at end of period | \$ 333,368 | \$ 54,205 |

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity

(In thousands)

| (unaudited) | Capital in | | Accumulated | Total DENTSPLY | | Non-controlling | Total |
|---------------------------------------|------------|---------------------|-------------------|-----------------------------|----------------------|----------------------|------------------------|
| | Common | Excess of Par Value | Other | International | Stockholders' Equity | | |
| | Stock | Par Value | Retained Earnings | Comprehensive Income (Loss) | Treasury Stock | Stockholders' Equity | Stockholders' Equity |
| Balance at December 31, 2007 | \$ 1,628 | \$ 173,084 | \$ 1,582,683 | \$ 145,819 | \$(387,108) | \$ 1,516,106 | \$ 296 \$ 1,516,402 |
| Purchase of subsidiary shares from | | | | | | | |
| noncontrolling interest | - | - | - | - | - | - | 71,931 71,931 |
| Comprehensive Income: | | | | | | | |
| Net income | - | - | 283,869 | - | - | 283,869 | (599) 283,270 |
| Other comprehensive income (loss), | | | | | | | |
| net of tax: | | | | | | | |
| Foreign currency translation | | | | | | | |
| adjustment | - | - | - | (71,521) | - | (71,521) | 63 (71,458) |
| Net loss on derivative | | | | | | | |
| financial instruments | - | - | - | (13,986) | - | (13,986) | - (13,986) |
| Unrecognized losses and prior | | | | | | | |
| service cost, net | - | - | - | (20,700) | - | (20,700) | - (20,700) |
| Comprehensive Income | | | | | | 177,662 | (536) 177,126 |
| Exercise of stock options | - | (7,268) | - | - | 19,994 | 12,726 | - 12,726 |
| Tax benefit from stock options | | | | | | | |
| exercised | - | 3,910 | - | - | - | 3,910 | - 3,910 |
| Share based compensation expense | - | 17,290 | - | - | - | 17,290 | - 17,290 |
| Funding of Employee Stock Option Plan | - | 62 | - | - | 118 | 180 | - 180 |
| Treasury shares purchased | - | - | - | - | (112,634) | (112,634) | - (112,634) |
| RSU dividends | - | 76 | (76) | - | - | - | - - |
| Cash dividends (\$0.185 per share) | - | - | (27,518) | - | - | (27,518) | - (27,518) |
| Balance at December 31, 2008 | \$ 1,628 | \$ 187,154 | \$ 1,838,958 | \$ 39,612 | \$(479,630) | \$ 1,587,722 | \$ 71,691 \$ 1,659,413 |
| Comprehensive Income: | | | | | | | |
| Net income | - | - | 199,424 | - | - | 199,424 | (1,062) 198,362 |
| Other comprehensive income (loss), | | | | | | | |
| net of tax: | | | | | | | |
| Foreign currency translation | | | | | | | |
| adjustment | - | - | - | 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 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 | - | 2,921 | - | - | - | 2,921 | - 2,921 |

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exercised

| | | | | | | | | |
|---------------------------------------|----------|-----------|--------------|-----------|-------------|--------------|-----------|--------------|
| Share based compensation expense | - | 14,778 | - | - | - | 14,778 | - | 14,778 |
| Funding of Employee Stock Option Plan | - | (61) | - | - | 1,408 | 1,347 | - | 1,347 |
| Adjustments from acquisitions | - | (388) | - | - | - | (388) | - | (388) |
| 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 |

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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DENTSPLY International Inc. and Subsidiaries

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Unaudited Interim Condensed 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 condensed 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 (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 Annual Report on Form 10-K/A for the year ended December 31, 2008.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Company, as applied in the interim condensed consolidated financial statements presented herein are substantially the same as presented in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2008, except as 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 \$21.8 million and \$19.4 million at September 30, 2009 and December 31, 2008, respectively.

Business Acquisitions

During the first quarter of 2009, the Company adopted the new accounting guidance for business combinations. The new guidance establishes principles and requirements for transactions that represent business combinations to be accounted for under the acquisition method. It provides guidance regarding the recognition and measurement of assets acquired, liabilities assumed, goodwill, noncontrolling interest in the acquiree and financial statement disclosure requirements. Additionally, it provides guidance for identifying a business combination, measuring the acquisition date and defining the measurement period for adjusting provisional amounts recorded. The implementation of this standard did not impact the Company's net income attributable to DENTSPLY International.

Noncontrolling Interests

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On January 1, 2009, the Company adopted the new accounting guidance for reporting noncontrolling interest (“NCI”) in a subsidiary. As a result, the Company reported NCI as a separate component of Stockholders’ Equity in the Condensed Consolidated Balance Sheet. Additionally, the Company reported the portion of net income and comprehensive income (loss) attributed to the Company and NCI separately in the Condensed Consolidated Statement of Operations. The Company also included a separate column for NCI in the Consolidated Statement of Changes in Equity. All related disclosures have been adjusted accordingly. Prior year amounts associated with NCI in the financial statements and accompanied footnotes have been retrospectively adjusted to conform to the adoption. The implementation of this new standard did not impact the Company’s net income attributable to DENTSPLY International in the current or prior period.

Fair Value Measurement

During the first quarter of 2009, the Company adopted the new guidance for fair value measurement. The new guidance changed the effective date for recognizing and disclosing the fair value for non-financial assets and liabilities except for items recognized or disclosed in the financial statements on a recurring basis. The implementation of this new guidance did not impact the Company’s financial statements in the current or prior periods. The new guidance also required additional disclosure about the fair value of financial instruments for interim reporting periods in addition to annual financial statements. The Company has disclosed the required information in Note 13, Financing Arrangements.

FASB Accounting Standards Codification

In June 2009, the FASB issued The FASB Accounting Standards Codification™ (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States. All guidance contained in the Codification carries an equal level of authority. On the effective date, the Codification

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will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has updated all of its disclosures to be consistent with the Codification and has determined that the implementation of the Codification did not have a significant impact on its financial results.

Subsequent Events

In May 2009, a new accounting guidance was issued for disclosures about subsequent events. The new guidance requires the Company to disclose the date through which it has evaluated subsequent events and whether the date represents the date the financial statements were issued or were available to be issued. The Company has evaluated subsequent events through October 29, 2009, which is the date the financial statements have been filed with the SEC.

Recent Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board ("FASB") issued new guidance for disclosures about postretirement benefit plans ("the Plans"). The objective of this new guidance is to provide financial statement users additional information concerning the Plans' investment policies and strategies and how allocation decisions are made. Additionally, disclosures are to be made concerning categories of the Plans' assets, the valuation technique used in regard to the fair value measurement of the Plans' assets and concentrations of risk within the Plans' assets. The new guidance is effective for fiscal years ending after December 15, 2009 with early application permitted. The revised disclosures are not required to be applied to earlier periods that are presented for comparative periods. The Company is currently evaluating the impact of adopting this standard on its disclosures.

In June 2009, the FASB issued new accounting guidance for the transfer of financial assets and the effects of a transfer on its financial position, financial performance and cash flows. The new guidance eliminates the use of qualified special purpose entities, clarifies the derecognition criteria for a transfer accounted for as a sale, and expands the disclosure requirements among other things. The new guidance is effective for fiscal years beginning after November 15, 2009 and must be applied prospectively to new transfers of financial assets. The Company believes this new guidance will not have a material impact on its financial statements.

In June 2009, the FASB issued new accounting guidance for variable interest entities. The new 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 variable interest entity ("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 new guidance is effective for annual reporting periods that begin after November 15, 2009 and applies to all existing and new VIEs. The Company is currently evaluating the impact of adopting this new guidance.

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 2002 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 authorizes grants of 14,000,000 shares of common stock, plus any unexercised portion of cancelled or terminated stock options granted under the DENTSPLY International Inc. 1993, 1998, and 2002 Plans, subject to adjustment as follows: each January, if 7% of the total outstanding common shares of the Company exceed 14,000,000, the excess becomes available for grant under the Plan. No more than 2,000,000 shares may be awarded as restricted stock and restricted stock units, and no key employee may be granted restricted stock units in excess of 150,000 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. Restricted stock units 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. It is the Company’s practice to issue shares from treasury stock when options are exercised.

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The Company continues to use 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, 2009 and 2008:

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|---------|
| | 2009 | 2008 | 2009 | 2008 |
| Stock option expense | \$ 3.1 | \$ 2.9 | \$ 9.0 | \$ 8.6 |
| RSU expense | 1.6 | 1.1 | 4.8 | 3.2 |
| Total stock based compensation expense | \$ 4.7 | \$ 4.0 | \$ 13.8 | \$ 11.8 |
| Total related tax benefit | \$ 1.4 | \$ 1.1 | \$ 4.0 | \$ 2.9 |

The remaining unamortized compensation cost related to non-qualified stock options is \$16.3 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 RSUs is \$10.5 million, which will be expensed over the remaining restricted period of the RSUs, or 1.5 years.

The following table reflects the non-qualified stock option transactions from December 31, 2008 through September 30, 2009:

| (in thousands, except per share data) | Outstanding | | | Exercisable | | |
|--|-------------|--|---------------------------------|-------------|--|---------------------------------|
| | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| December 31, 2008 | 11,285 | \$ 26.75 | \$ 41,428 | 8,185 | \$ 24.71 | \$ 37,796 |
| Granted | 169 | 28.04 | | | | |
| Exercised | (599) | 15.77 | | | | |
| Forfeited | (172) | 32.24 | | | | |
| September 30, 2009 | 10,683 | \$ 27.30 | \$ 88,845 | 7,652 | \$ 25.50 | \$ 72,450 |

The weighted average remaining contractual term of all outstanding options is 6.1 years and the weighted average remaining contractual term of exercisable options is 4.6 years.

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The following table summarizes the unvested restricted stock unit and restricted stock unit dividend transactions from December 31, 2008 through September 30, 2009:

| (in thousands, except per share data) | Unvested Restricted Stock and Stock Dividend Units | |
|---------------------------------------|--|--------------------------|
| | Shares | Weighted Average |
| | | Grant Date Fair Value |
| Unvested at December 31, 2008 | 400 | \$ 36.11 |
| Granted | 298 | 26.39 |
| Vested | (2) | 26.23 |
| Forfeited | (20) | 32.88 |
| Unvested at September 30, 2009 | 676 | \$ 31.96 |

NOTE 3 – COMPREHENSIVE INCOME

The changes to balances included in accumulated other comprehensive income (“AOCI”) in the consolidated balance sheets are as follows:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Net income | \$ 67,853 | \$ 66,066 | \$ 198,362 | \$ 212,919 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments, | | | | |
| net of tax | 69,933 | (160,667) | 81,085 | (62,846) |
| Amortization of unrecognized (gains) losses and prior year service cost, net of tax | (697) | (871) | 431 | (990) |
| Pension liability adjustments | - | (395) | - | 3,318 |
| Net (loss) gain on derivative | | | | |
| financial instruments, net of tax | (29,053) | 69,126 | (21,422) | 6,481 |
| Total other comprehensive income (loss), | | | | |
| net of tax | 40,183 | (92,807) | 60,094 | (54,037) |
| Total Comprehensive income | 108,036 | (26,741) | 258,456 | 158,882 |
| Less: Comprehensive income attributable | | | | |
| to the noncontrolling interests | 3,692 | 19 | 3,505 | 45 |
| Comprehensive income attributable | | | | |
| to DENTSPLY International | \$ 104,344 | \$ (26,760) | \$ 254,951 | \$ 158,837 |

During the quarter ended September 30, 2009, foreign currency translation adjustments included currency translation gains of \$81.3 million partially offset by losses of \$7.7 million on the Company’s loans designated as hedges of net investments. During the quarter ended September 30, 2008, foreign currency translation adjustments included currency translation losses of \$166.4 million partially offset by gains of \$5.8 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 \$86.9 million offset by losses of \$2.3 million on the Company’s loans designated as hedges of net investments. During the nine months ended September 30, 2008, foreign currency translation adjustments included currency translation losses of \$58.3 million and losses of \$4.5 million on the Company’s loans designated as hedges of net investments. These foreign currency translation adjustments were offset by net gains on derivatives financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

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

| (in thousands) | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| Foreign currency translation adjustments | \$ 246,068 | \$ 169,550 |
| Unrecognized losses and prior service cost, net | (29,667) | (30,098) |
| Net loss on derivative financial instruments | (121,262) | (99,840) |
| | \$ 95,139 | \$ 39,612 |

The cumulative foreign currency translation adjustments included translation gains of \$356.9 million and \$278.1 million as of September 30, 2009 and December 31, 2008, respectively, offset by losses of \$110.8 million and \$108.5 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:

| Basic Earnings Per Common Share Computation (in thousands, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income attributable to DENTSPLY | | | | |
| International | \$ 67,483 | \$ 66,047 | \$ 199,424 | \$ 212,874 |
| Common shares outstanding | 148,547 | 148,775 | 148,546 | 149,186 |
| Earnings per common share - basic | \$ 0.45 | \$ 0.44 | \$ 1.34 | \$ 1.43 |
| Diluted Earnings Per Common Share Computation (in thousands, except per share amounts) | | | | |
| Net income attributable to DENTSPLY | | | | |
| International | \$ 67,483 | \$ 66,047 | \$ 199,424 | \$ 212,874 |
| Common shares outstanding | 148,547 | 148,775 | 148,546 | 149,186 |
| Incremental shares from assumed | | | | |
| exercise of dilutive options | 2,091 | 2,922 | 1,531 | 2,951 |
| Total shares | 150,638 | 151,697 | 150,077 | 152,137 |
| Earnings per common share - diluted | \$ 0.45 | \$ 0.44 | \$ 1.33 | \$ 1.40 |

Options to purchase 1.5 million and 4.5 million shares of common stock that were outstanding during the three and nine months ended September 30, 2009, 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. Antidilutive shares during the three and nine months ended September 30, 2008, were 1.3 million and 1.4 million, respectively.

NOTE 5 - BUSINESS ACQUISITIONS

During the first nine months of 2009, the Company paid \$3.0 million, net of cash acquired, primarily related to a payment for an additional purchase price related to an acquisition completed in 2007. The payment was related to provisions in the purchase agreement that allow for additional payments based on the post closing performance of the individual business.

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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, 2009 and 2008.

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 Annual Report on Form 10-K/A in the summary of significant accounting policies. The Company measures segment income for reporting purposes as net operating income before restructuring, impairments and other cost, interest expense, interest income, other (income) expense and taxes.

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

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

This business group includes responsibility for the design, manufacturing, sales and distribution for 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 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 for 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 for Endodontic products in the United States, Switzerland and Germany and is responsible for the sales and distribution of the

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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 for 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 for 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; Italy, Austria, and certain other Eastern European countries; Asia; 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.

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Generally, the Company evaluates performance of the operating groups based on the groups' operating income, excluding restructuring, impairments 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 nine months ended September 30, 2009 and 2008:

Third Party Net Sales

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| U.S., Germany, and Certain Other European Regions Consumable | | | | |
| Businesses | \$ 142,983 | \$ 126,525 | \$ 407,495 | \$ 371,589 |
| France, U.K., Italy, and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim | | | | |
| Businesses | 108,493 | 106,724 | 323,810 | 349,311 |
| Canada/Latin America/Endodontics/ Orthodontics | 149,907 | 155,634 | 451,893 | 477,983 |
| Dental Laboratory Business/ Implants/Non-Dental | 130,462 | 141,715 | 409,983 | 489,507 |
| All Other (a) | (813) | (645) | (1,984) | (2,808) |
| Total | \$ 531,032 | \$ 529,953 | \$ 1,591,197 | \$ 1,685,582 |

Third Party Net sales, excluding precious metal content

The presentation of net sales, excluding precious metal content, is considered a measure not calculated in accordance with US GAAP, and is therefore considered a non-US GAAP measure. This non-US GAAP measure is discussed further in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and a reconciliation of net sales, excluding precious metal content, to net sales is provided below.

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| U.S., Germany, and Certain Other | | | | |
| European Regions Consumable | | | | |
| Businesses | \$ 142,983 | \$ 126,525 | \$ 407,495 | \$ 371,589 |
| France, U.K., Italy, and Certain Other | | | | |
| European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | 100,304 | 99,541 | 298,724 | 325,441 |
| Canada/Latin America/Endodontics/ | | | | |

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| | | | | |
|--|------------|------------|--------------|--------------|
| Orthodontics | 149,219 | 154,868 | 449,815 | 475,310 |
| Dental Laboratory Business/ Implants/Non-Dental | 101,954 | 107,797 | 317,158 | 357,075 |
| All Other (a) | (813) | (645) | (1,984) | (2,808) |
| Total excluding precious metal content | 493,647 | 488,086 | 1,471,208 | 1,526,607 |
| Precious metal content | 37,385 | 41,867 | 119,989 | 158,975 |
| Total including precious metal content | \$ 531,032 | \$ 529,953 | \$ 1,591,197 | \$ 1,685,582 |

(a) Includes: amounts recorded at Corporate headquarters.

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Inter-segment Net Sales

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| U.S., Germany, and Certain Other | 2009 | 2008 | 2009 | 2008 |
| European Regions Consumable Businesses | \$ 27,759 | \$ 34,310 | \$ 74,488 | \$ 99,025 |
| France, U.K., Italy, and Certain Other | | | | |
| European Countries, CIS, Middle East, Africa, Pacific Rim | | | | |
| Businesses | 2,590 | 3,740 | 9,037 | 12,556 |
| Canada/Latin America/Endodontics/ Orthodontics | 24,424 | 26,205 | 77,241 | 81,033 |
| Dental Laboratory Business/ Implants/Non-Dental | 25,477 | 26,502 | 75,403 | 83,449 |
| All Other (a) | 42,914 | 40,879 | 124,261 | 136,553 |
| Eliminations | (123,164) | (131,636) | (360,430) | (412,616) |
| Total | \$ - | \$ - | \$ - | \$ - |

Segment Operating Income

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|------------|
| U.S., Germany, and Certain Other | 2009 | 2008 | 2009 | 2008 |
| European Regions Consumable Businesses | \$ 49,034 | \$ 50,455 | \$ 125,780 | \$ 138,403 |
| France, U.K., Italy, and Certain Other | | | | |
| European Countries, CIS, Middle East, Africa, Pacific Rim | | | | |
| Businesses | 3,637 | 1,873 | 10,531 | 9,432 |
| Canada/Latin America/Endodontics/ Orthodontics | 39,543 | 46,841 | 135,068 | 153,181 |
| Dental Laboratory Business/ Implants/Non-Dental | 19,138 | 25,608 | 65,959 | 92,410 |
| All Other (b) | (17,212) | (25,323) | (53,624) | (78,113) |
| Segment Operating Income | 94,140 | 99,454 | 283,714 | 315,313 |
| Reconciling Items: | | | | |
| Restructuring, impairments and other costs | (1,210) | (18,539) | (5,905) | (20,202) |
| Interest expense | (5,456) | (9,284) | (16,877) | (25,437) |
| Interest income | 858 | 4,669 | 4,326 | 14,564 |
| Other expense, net | (480) | (1,030) | (1,326) | (4,100) |
| Income before income taxes | \$ 87,852 | \$ 75,270 | \$ 263,932 | \$ 280,138 |

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

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

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Assets

| (in thousands) | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| U.S., Germany, and Certain Other European Regions Consumable Businesses | \$ 576,034 | \$ 556,125 |
| France, U.K., Italy, and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | 390,737 | 385,050 |
| Canada/Latin America/Endodontics/Orthodontics | 779,231 | 763,479 |
| Dental Laboratory Business/Implants/Non-Dental | 994,660 | 942,504 |
| All Other (a) | 326,447 | 183,242 |
| Total | \$ 3,067,109 | \$ 2,830,400 |

(a) Includes: 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, 2009 and December 31, 2008, the cost of \$9.3 million, or 3.0%, and \$9.6 million, or 3.1%, respectively, of inventories was determined by the last-in, first-out (“LIFO”) method. The cost of other inventories was determined by the first-in, first-out (“FIFO”) or average cost methods. The Company establishes reserves for inventory estimated to be obsolete or unmarketable equal to the difference between the cost of inventory and estimated market value based upon assumptions about future demand and market conditions. The inventory valuation reserves were \$32.7 million and \$28.4 million as of September 30, 2009 and December 31, 2008, 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, 2009 and December 31, 2008 by \$3.7 million and \$3.5 million, respectively.

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

| (in thousands) | September 30, 2009 | December 31, 2008 |
|----------------------------|-----------------------|----------------------|
| Finished goods | \$ 191,501 | \$ 184,226 |
| Work-in-process | 55,345 | 58,123 |
| Raw materials and supplies | 64,820 | 63,776 |
| | \$ 311,666 | \$ 306,125 |

NOTE 8 - BENEFIT PLANS

The following sets forth the components of net periodic benefit cost of the Company's benefit plans and for the Company's other postretirement employee benefit plans for the three and nine months ended September 30, 2009 and September 30, 2008, respectively:

Defined Benefit Plans

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---------------------------------------|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ 2,144 | \$ 1,920 | \$ 6,211 | \$ 5,336 |
| Interest cost | 2,059 | 1,638 | 5,957 | 6,073 |
| Expected return on plan assets | (1,012) | (1,022) | (2,951) | (3,387) |
| Amortization of transition obligation | 61 | 59 | 177 | 183 |
| Amortization of prior service cost | 34 | 85 | 103 | 174 |
| Amortization of net loss (gain) | 423 | (12) | 1,241 | 50 |
| Settlement gain | - | (2,313) | - | (2,313) |
| Net periodic benefit cost | \$ 3,709 | \$ 355 | \$ 10,738 | \$ 6,116 |

Other Postretirement Plans

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---------------------------|--------------------|--------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ 13 | \$ 12 | \$ 40 | \$ 37 |
| Interest cost | 156 | 163 | 467 | 476 |
| Amortization of net loss | 50 | 52 | 151 | 126 |
| Net periodic benefit cost | \$ 219 | \$ 227 | \$ 658 | \$ 639 |

The following sets forth the information related to the funding of the Company's benefit plans for 2009:

| (in thousands) | Pension | Other |
|----------------|----------|----------------------------|
| | Benefits | Postretirement Benefits |

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| | | |
|---|-----------|----------|
| Actual, September 30, 2009 | \$ 7,845 | \$ 489 |
| Projected for the remainder of the year | 2,337 | 596 |
| Total for year | \$ 10,182 | \$ 1,085 |

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NOTE 9 – RESTRUCTURING, IMPAIRMENT AND OTHER COSTS**Restructuring Costs**

During the three months ended September 30, 2009 and September 30, 2008, the Company recorded net restructuring costs of \$0.0 million and \$0.9 million, respectively. During the nine months ended September 30, 2009 and September 30, 2008, the Company recorded restructuring costs of \$4.3 million and \$1.7 million, respectively. These costs are recorded in “Restructuring, impairments and other costs” in the statement of operations and the associated liabilities are recorded in accrued liabilities in the condensed consolidated balance sheet. These costs consist of employee severance benefits, payments due to contracts terminations and other restructuring costs.

During 2009 and 2008, 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 2009, the Company’s restructuring accruals were as follows:

| (in thousands) | Severance 2007 and Prior Plans | | | |
|-----------------------------|--|------------|------------|----------|
| | 2007 and Prior Plans | 2008 Plans | 2009 Plans | Total |
| Balance, December 31, 2008 | \$ 664 | \$ 2,806 | \$ - | \$ 3,470 |
| Provisions and adjustments | (183) | 2,454 | 1,698 | 3,969 |
| Amounts applied | (77) | (203) | (954) | (1,234) |
| Balance, September 30, 2009 | \$ 404 | \$ 5,057 | \$ 744 | \$ 6,205 |
| (in thousands) | Lease/Contract Terminations 2007 and Prior Plans | | Total | |
| Balance, December 31, 2008 | \$ 1,271 | \$ 1,271 | | |
| Provisions and adjustments | (339) | (339) | | |
| Amounts applied | (38) | (38) | | |
| Balance, September 30, 2009 | \$ 894 | \$ 894 | | |
| (in thousands) | Other Restructuring Costs 2007 and Prior Plans | | | |
| | 2007 and Prior Plans | 2008 Plans | 2009 Plans | Total |
| Balance, December 31, 2008 | \$ 108 | \$ 56 | \$ - | \$ 164 |
| Provisions and adjustments | 112 | 545 | 6 | 663 |
| Amounts applied | (150) | (592) | (6) | (748) |
| Balance, September 30, 2009 | \$ 70 | \$ 9 | \$ - | \$ 79 |

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

| (in thousands) | December 31, 2008 | Provisions and Adjustments | Amounts Applied | September 30, 2009 |
|--|----------------------|-------------------------------|--------------------|-----------------------|
| United States, Germany, and Certain Other European Regions Consumable Businesses | \$ 1,286 | \$ (118) | \$ (289) | \$ 879 |
| France, U.K., Italy, and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses Canada/Latin America/ Endodontics/Orthodontics | 190 | 225 | (314) | 101 |
| Dental Laboratory Business/ Implants/Non-Dental | 178 | 314 | (448) | 44 |
| All Other (a) | 3,251 | 3,633 | (731) | 6,153 |
| | - | 239 | (238) | 1 |
| | \$ 4,905 | \$ 4,293 | \$ (2,020) | \$ 7,178 |

Impairments and Other Costs

During the three months ended September 30, 2009 and September 30, 2008, the Company recorded other costs of \$1.2 million and \$17.6 million, respectively. During the nine months ended September 30, 2009 and September 30, 2008 the Company recorded other costs of \$1.6 million and \$18.5 million, respectively. Other costs for the three months ended September 30, 2009 and September 30, 2008 included costs primarily related to legal matters discussed in Note 14, Commitments and Contingencies. These other costs are reflected in "Restructuring, impairments and other costs" in the statement of operations.

NOTE 10 – FINANCIAL INSTRUMENTS AND DERIVATIVES

On January 1, 2009, the Company adopted the new accounting guidance for expanded disclosures about derivative instruments and hedging activities. As a result the Company has expanded its disclosures about its strategies, objectives and risks for using derivative instruments. In addition, the Company has disclosed the fair value of derivative instruments and their gains and losses in tabular format as required. The adoption of this new guidance did not have a material impact on the Company's financial statements.

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 exchange rate movements. The Company's policy generally is to hedge major foreign currency transaction exposures through foreign exchange

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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 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, 2009, the Company has three groups of significant variable interest rate to fixed rate interest rate swaps. One of the groups of swaps has notional amounts totaling 12.6 billion Japanese yen, and effectively converts the underlying variable interest rates to an average fixed interest rate of 1.6% for a term of ten years, ending in September 2012. Another swap has a notional amount of 65.0 million Swiss francs, and effectively converts the underlying variable interest rates to a fixed interest rate of 4.2% for a term of seven years, ending in September 2012. A third group of swaps has a notional amount of \$150.0 million, and effectively converts the underlying variable interest rates to a fixed interest rate of 3.9% for a term of two years, ending March 2010. 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 selectively enters into commodity swaps to effectively fix certain variable raw material costs. At September 30, 2009, the Company had swaps in place to purchase 948 troy ounces of platinum bullion for use in the production of its impression material products. The average fixed rate of this agreement is \$1,240 per troy ounce. In addition, the Company had swaps in place to purchase 85,428 troy ounces of silver bullion for use in the production of its amalgam products at an average fixed rate of \$14 per troy ounce.

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 twelve 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 and then recognized in earnings when the hedged item affects earnings.

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 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.

In the first quarter of 2005, the Company entered into cross currency interest rate swaps with a notional principal value of Swiss francs 457.5 million paying three month Swiss franc London Inter-Bank Offered Rate ("LIBOR") and receiving three month U.S. dollar LIBOR on \$384.4 million. In the first quarter of 2006, the Company entered into additional cross currency interest rate swaps with a notional principal value of Swiss francs 55.5 million paying three month Swiss franc LIBOR and receiving three month U.S. dollar LIBOR on \$42.0 million. In the fourth quarter of 2006, the Company entered into additional cross currency interest rate swaps with a notional principal value of Swiss francs 80.4 million paying three month Swiss franc LIBOR and receiving three month U.S. dollar LIBOR on \$64.4 million. In the first quarter of 2007, the Company entered into additional cross currency interest rate swaps with a notional principal value of Swiss francs 56.6 million paying three month Swiss franc LIBOR and receiving three month U.S. dollar LIBOR on \$46.3 million. Additionally, in the fourth quarter of 2005, the Company entered into cross currency interest rate swaps with a notional principal value of Euro 358.0 million paying three month Euro LIBOR and receiving three month U.S. dollar LIBOR on \$419.7 million. In the first quarter of 2009, the Company terminated Swiss francs 57.5 million cross currency swap at a fair value of zero. In the second and third quarters of 2009, the Company amended certain of its Swiss franc and Euro cross currency interest rate swaps to extend their maturity dates for an additional three years. Specifically, a total of Swiss francs 300 million have been extended to March and April of 2013 and a total of Euro 250 million have been extended to December 2013. The Swiss franc and Euro cross currency interest rate swaps are designated as net investment hedges of the Swiss and Euro denominated net assets. The interest rate

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differential is recognized in the earnings as interest income or interest expense as it is accrued, the foreign currency revaluation is recorded in AOCI, net of tax effects.

The fair value of these cross currency interest rate swap agreements is the estimated amount the Company would (pay)/ receive at the reporting date, taking into account the effective interest rates and foreign exchange rates. As of September 30, 2009, the estimated net fair values of the swap agreements were negative \$186.8 million, which are recorded in AOCI, net of tax effects, and as other noncurrent liabilities and other noncurrent assets.

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At September 30, 2009, the Company had Euro-denominated, Swiss franc-denominated, and Japanese yen-denominated debt and cross currency interest rate swaps (at the parent company level) to hedge the currency exposure related to a designated portion of the net assets of its European, Swiss and Japanese subsidiaries. At September 30, 2009 and 2008, the accumulated translation gains on investments in foreign subsidiaries, primarily denominated in Euros, Swiss francs and Japanese yen, net of these net investment hedges, were \$130.8 million and \$101.4 million, respectively, which are included in AOCI, net of tax effects.

The following tables summarize the fair value of the Company's derivatives at September 30, 2009.

| Foreign Exchange Forward Contracts (in thousands) | Notional Amounts | | Fair Value (Liability) Asset |
|--|--------------------|---------------|---------------------------------|
| | 2009 | 2010 | 2009 |
| Forward sale, 9.9 million Australian dollars | \$ 7,230 | \$ 1,504 | \$ (324) |
| Forward purchase, 6.2 million British pounds | (3,506) | (6,441) | (6) |
| Forward sale, 14.3 million Canadian dollars | 2,901 | 10,482 | (1,202) |
| Forward purchase, 75.5 million Swiss francs | (72,840) | - | 2,753 |
| Forward sale, 5.7 million Danish Krone | 1,118 | - | 10 |
| Forward purchase, 8.8 million Euros | (16,317) | 3,359 | 431 |
| Forward sale, 45.7 million Japanese yen | 9,075 | (8,566) | 1,010 |
| Forward sale, 93.4 million Mexican Pesos | 6,923 | - | 100 |
| Forward sale, 10.0 million Taiwanese dollars | 310 | - | (9) |
| Total Foreign Exchange Forward Contracts | \$ (65,106) | \$ 338 | \$ 2,763 |

| Interest Rate Swaps (in thousands) | Notional Amount | | | | | Fair Value Liability |
|---------------------------------------|-----------------|-------------------|-----------------|-------------------|--------------------|-------------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 and Beyond | 2009 |
| Euro | \$ 366 | \$ 2,101 | \$ 1,383 | \$ 1,383 | \$ 5,880 | \$ (876) |
| Japanese yen | - | - | - | 139,996 | - | (3,364) |
| Swiss francs | - | - | - | 62,739 | - | (4,968) |
| US dollars | - | 150,000 | - | - | - | (2,229) |
| Total Interest Rate Swaps | \$ 366 | \$ 152,101 | \$ 1,383 | \$ 204,118 | \$ 5,880 | \$ (11,437) |

| Cross Currency Basis Swaps (in thousands) Swiss franc 592.5 million @ 1.21 pay CHF 3mo. LIBOR | Notional Amount | | | | | Fair Value Liability |
|--|-----------------|------------|-----------|-----------|--------------------|-------------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 and Beyond | 2009 |
| rec. USD 3mo. LIBOR | \$ - | \$ 150,090 | \$ 77,603 | \$ 54,631 | \$ 289,563 | \$ (83,060) |
| Euros 358.0 million @ \$1.17 | - | 158,201 | - | - | 366,206 | (103,765) |
| pay EUR 3mo. LIBOR rec. | | | | | | |

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USD 3mo. LIBOR
Total Cross Currency

| | | | | | | | |
|-------------|----|---|------------|-----------|-----------|------------|--------------|
| Basis Swaps | \$ | - | \$ 308,291 | \$ 77,603 | \$ 54,631 | \$ 655,769 | \$ (186,825) |
|-------------|----|---|------------|-----------|-----------|------------|--------------|

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| Commodity Contracts (in thousands) | Notional Amount | | | | | Fair Value Asset |
|---------------------------------------|-----------------|----------|------|------|-----------------|------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 and Beyond | 2009 |
| Silver Swap - U.S. dollar | \$ (713) | \$ (449) | \$ - | \$ - | \$ - | \$ 244 |
| Platinum Swap - U.S. dollar | (723) | (452) | - | - | - | 46 |
| Total Commodity Contracts | \$ (1,436) | \$ (901) | \$ - | \$ - | \$ - | \$ 290 |

As of September 30, 2009, \$3.9 million of deferred net losses on derivative instruments 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 balance sheet location of the Company's derivatives:

| Asset Derivatives Designated as Hedging Instruments (in thousands) | Balance Sheet | 2009 |
|---|------------------------------|----------|
| | Classification | |
| Foreign exchange contracts | Other current assets (a) | \$ 1,222 |
| Foreign exchange contracts | Other noncurrent assets, net | 3 |
| Commodity contracts | Other current assets (a) | 290 |
| Total Asset Derivatives Designated as Hedging Instruments | | \$ 1,515 |
| Asset Derivatives Not Designated as Hedging Instruments | | |
| Foreign exchange contracts | Other current assets (a) | \$ 3,423 |
| Total asset derivatives | | \$ 4,938 |

(a) Reported on the Condensed Consolidated Balance Sheet within "Prepaid expenses and other current assets."

| Liability Derivatives Designated as Hedging Instruments (in thousands) | Balance Sheet | 2009 |
|---|------------------------------|----------|
| | Classification | |
| Interest rate contracts | Accrued liabilities | \$ 7,141 |
| Interest rate contracts | Other noncurrent liabilities | 3,420 |
| Foreign exchange contracts | Accrued liabilities | 1,350 |
| Foreign exchange contracts | Other noncurrent liabilities | 6 |
| Cross currency interest rate swaps | Accrued liabilities | 24,262 |

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| | | |
|---|------------------------------|------------|
| Cross currency interest rate swaps | Other noncurrent liabilities | 162,563 |
| Total liability derivatives designated as hedging instruments | | \$ 198,742 |

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| | Balance Sheet | |
|---|------------------------------|------------|
| Liability Derivatives Not Designated as Hedging Instruments | Classification | 2009 |
| Interest rate contracts | Other noncurrent liabilities | \$ 876 |
| Foreign exchange contracts | Accrued liabilities | 529 |
| Total liability derivatives not designated as hedging instruments | | \$ 1,405 |
| Total liability derivatives | | \$ 200,147 |

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

Three Months Ended September 30,

| Derivatives in Cash Flow | | Statement of Operations | (Loss) Gain |
|----------------------------|-------------|-------------------------|----------------------|
| Hedging Relationships | (Loss) Gain | Classification | Reclassified from |
| (in thousands) | in AOCI (a) | | AOCI into income (b) |
| Interest rate contracts | \$ (2,051) | Interest expense | \$ (2,252) |
| Foreign exchange contracts | (243) | Cost of products sold | (302) |
| Foreign exchange contracts | (449) | SG&A expenses | 240 |
| Commodity contracts | 343 | Cost of products sold | (190) |
| Total | \$ (2,400) | | \$ (2,504) |

Nine Months Ended September 30,

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

| Derivatives in Cash Flow | Statement of | Three Months Ended September 30, | Nine Months Ended September 30, |
|----------------------------|--------------------|----------------------------------|---------------------------------|
| Hedging Relationships | Operations | (Loss) Gain | Loss |
| (in thousands) | Classification | Recognized | Recognized |
| | | in Income (c) | in Income (c) |
| Interest rate contracts | Other expense, net | \$ (54) | \$ (155) |
| Foreign exchange contracts | Interest expense | (54) | (235) |
| Foreign exchange contracts | Interest expense | 13 | (35) |
| Commodity contracts | Interest expense | (9) | (38) |
| Total | | \$ (104) | \$ (463) |

- (a) Amount of gain or (loss) reported in AOCI, effective portion.
- (b) Amount of gain or (loss) reclassified from AOCI into income, effective portion only.
- (c) Amount of gain or (loss) recognized in income, ineffective portion and amount excluded from effectiveness testing.

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

Three Months Ended September 30.

| Derivatives in Net Investment Hedging Relationships (in thousands) | Loss in AOCI (a) | Statement of Operations Classification | Gain (Loss) Recognized in Income (b) |
|---|------------------|--|--------------------------------------|
| 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.

| Derivatives in Net Investment Hedging Relationships (in thousands) | Loss in AOCI (a) | Statement of Operations Classification | Gain (Loss) Recognized in Income (b) |
|---|------------------|--|--------------------------------------|
| 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 statement of operations impact of the Company's hedges not designated as hedging for the three and nine months end September 30, 2009:

| Derivatives Not Designated as Hedging Instruments under Hedging Relationship (in thousands) | Statement of Operations Classification | Three Months Ended September 30, Gain (Loss) Recognized in Income (b) | Nine Months Ended September 30, Loss Recognized in Income (b) |
|--|--|---|---|
| Foreign exchange contracts | Other expense, net | \$ 2,485 | \$ (13,428) |
| Interest rate contracts | Other expense, net | - | (2) |
| Interest rate contracts | Interest Expense | (124) | (390) |
| | | \$ 2,361 | \$ (13,820) |

(a) Amount of loss reported in AOCI, effective portion.

(b) Amount of gain or (loss) recognized in income, ineffective portion and amount excluded from effectiveness testing.

Amounts recorded in AOCI related to cash flow hedging instruments follow:

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| <u>(in thousands, net of tax)</u> | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Beginning balance | \$ (6,005) | \$ 345 | \$ (7,874) | \$ (1,573) |
| Changes in fair value of derivatives | (1,506) | (2,444) | (1,152) | (411) |
| Reclassifications to earnings from equity | 1,526 | (407) | 3,041 | (522) |
| Total activity | 20 | (2,851) | 1,889 | (933) |
| Ending balance | \$ (5,985) | \$ (2,506) | \$ (5,985) | \$ (2,506) |

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Amounts recorded in AOCI related to hedges of net investments in foreign operations follow:

| <u>(in thousands, net of tax)</u> | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Beginning balance | \$ 93,272 | \$ 190,074 | \$ 77,585 | \$ 156,790 |
| Foreign currency translation adjustment | 74,264 | (166,398) | 78,776 | (58,311) |
| Changes in fair value of: | | | | |
| foreign currency debt | (7,673) | 5,752 | (2,260) | (4,488) |
| derivative hedge instruments | (29,073) | 71,977 | (23,311) | 7,414 |
| Total activity | 37,518 | (88,669) | 53,205 | (55,385) |
| Ending balance | \$ 130,790 | \$ 101,405 | \$ 130,790 | \$ 101,405 |

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 Condensed 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, 2009 and December 31, 2008, which are classified as "Cash and cash equivalents," "Other noncurrent assets, net," "Accrued liabilities," and "Other noncurrent liabilities." 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.

| As of September 30, 2009 | | | | |
|--------------------------------------|------------|------------|----------|---------|
| (in thousands) | Total | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Money market funds | \$ 333,368 | \$ 333,368 | \$ - | \$ - |
| Commodity forward purchase contracts | 290 | - | 290 | - |
| Foreign exchange forward contracts | 4,648 | - | 4,648 | - |
| Total assets | \$ 338,306 | \$ 333,368 | \$ 4,938 | \$ - |

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Liabilities

| | | | | |
|------------------------------------|------------|------|------------|------|
| Interest rate swaps | \$ 11,437 | \$ - | \$ 11,437 | \$ - |
| Cross currency interest rate swaps | 186,825 | - | 186,825 | - |
| Foreign exchange forward contracts | 1,885 | - | 1,885 | - |
| Total liabilities | \$ 200,147 | \$ - | \$ 200,147 | \$ - |

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As of December 31, 2008

| (in thousands) | Total | Level 1 | Level 2 | Level 3 |
|--------------------------------------|------------|------------|------------|---------|
| Assets | | | | |
| Money market funds | \$ 203,991 | \$ 203,991 | \$ - | \$ - |
| Interest Rate Swaps | 2 | - | 2 | - |
| Foreign exchange forward contracts | 2,053 | - | 2,053 | - |
| Total assets | \$ 206,046 | \$ 203,991 | \$ 2,055 | \$ - |
| Liabilities | | | | |
| Interest rate swaps | \$ 12,529 | \$ - | \$ 12,529 | \$ - |
| Commodity forward purchase contracts | 1,931 | - | 1,931 | - |
| Cross currency interest rate swaps | 148,935 | - | 148,935 | - |
| Total liabilities | \$ 163,395 | \$ - | \$ 163,395 | \$ - |

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 forward purchase contracts, interest rate swaps, and foreign exchange forward contracts are considered cash flow hedges and cross currency interest rate swaps are considered hedge 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.

During the quarter-ended September 30, 2009, the resolution of outstanding tax matters, including finalization of audits, reduced income taxes by approximately \$5.6 million.

It is reasonably possible that certain amounts of unrecognized tax benefits will significantly increase or decrease within 12 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 \$1.6 million, of which, \$0.8 million will have no impact upon the effective income tax rate. Expiration of statutes of limitation in various jurisdictions could include unrecognized tax benefits of approximately \$0.6 million.

NOTE 13 - FINANCING ARRANGEMENTS

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In the second quarter of 2009, the Company's U.S. dollar denominated private placement note, U.S. dollar commercial paper facility, and multi-currency revolving credit agreement were classified as short-term liabilities as they mature within the next twelve months. Notes payable and current portion of long-term debt, as classified on the condensed consolidated balance sheets, amounted to \$240.4 million and \$25.8 million at September 30, 2009 and December 31, 2008, respectively.

The Company estimates the fair value and carrying value of its total debt was \$395.2 million as of September 30, 2009. The fair value of the Company's long-term debt equaled its carrying value as the Company's debt is variable interest rate and reflects current market rates. The interest rates on private placement notes, revolving debt and commercial paper are variable and therefore the fair value of these instruments approximates their carrying values.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

On January 5, 1999, the Department of Justice filed a Complaint against the Company in the U.S. District Court in Wilmington, Delaware alleging that the Company's tooth distribution practices violated the antitrust laws and seeking an order for the Company to discontinue its practices. This case has been concluded and the District Court, upon the direction of the Court of Appeals, issued an injunction in May 2006, preventing DENTSPLY from taking action to restrict its tooth dealers in the U.S. from adding new competitive teeth lines.

Subsequent to the filing of the Department of Justice Complaint in 1999, a private party putative class action was filed based on allegations similar to those in the Department of Justice case, on behalf of dental laboratories who purchased Trubyte teeth or products containing Trubyte teeth. The District Court granted the Company's Motion on the lack of standing of the laboratory class action to pursue damage claims. The Plaintiffs appealed this decision to the Third Circuit and the Court largely upheld the decision of the District Court in dismissing the Plaintiffs' damages claims against DENTSPLY, with the exception of allowing the Plaintiffs to pursue a damage claim based on a theory of resale price maintenance between the Company and its tooth dealers. The Plaintiffs then filed an amended complaint in the District Court asserting that DENTSPLY and its tooth dealers, and the dealers among themselves, engaged in a conspiracy to violate the antitrust laws. The District Court has granted the Motions filed by DENTSPLY and the dealers, to dismiss Plaintiffs' claims, except for the resale price maintenance claims. The Plaintiffs have appealed the dismissal of these claims to the Third Circuit. The Third Circuit has proposed scheduling oral arguments in January 2010. Also pending is a case filed by a manufacturer of a competitive tooth line seeking unspecified damages alleged to have been incurred as a result of the Company's tooth distribution practices, including the practice found to be a violation of the antitrust law.

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

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

As of September 30, 2009, a reasonable estimate of a range of losses related to the current litigation noted above cannot be made.

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 compensatory and \$40.0 million in punitive damages. 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. DENTSPLY does not believe the outcome of this matter will have a material adverse effect on its financial position.

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.

NOTE 15 – SUBSEQUENT EVENTS

On October 16, 2009, the Company entered into a Note Purchase Agreement with a group of initial purchasers, providing for the issuance by the Company on a delayed basis, no later than February 19, 2010, of \$250.0 million aggregate principal amount of fixed rate 4.11% Senior Notes with an average maturity of five years and a final maturity in six years, through a private placement. The net proceeds after deducting fees and expenses of the loan are \$250.0 million. The proceeds will be used to refinance the March 15, 2010 \$150.0 million U.S. Private Placement Note and general corporate purposes. The obligations of the Company and the lenders are subject to the terms and conditions of the Note Purchase Agreement.

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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 the DENTSPLY International Inc. and Subsidiaries (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 import.

Investors are cautioned that forward-looking statements involve risks and uncertainties which may materially affect the Company's business and prospects, and should be read in conjunction with the risk factors and uncertainties discussed within Item 1A, Part I of the Company's Annual Report on Form 10-K/A for the year ended December 31, 2008. Investors are further cautioned that the risk factors in Item 1A, Part I of the Company's Annual Report on Form 10-K/A may not be exhaustive and that many of these factors are beyond the Company's ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty and has no obligation to update forward-looking statements.

OVERVIEW

DENTSPLY International Inc. believes it is the world's largest designer, developer and manufacturer of professional dental products. 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 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. DENTSPLY's dental sundry products in the dental consumable category include dental anesthetics, prophylaxis paste, dental sealants, impression materials, restorative materials, tooth whiteners and topical fluoride. The Company manufactures a wide variety of different dental sundry consumable products marketed under more than one hundred brand names. 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 in the dental laboratory category include dental prosthetics, including 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.

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

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Key Measurements

The principal measurements used by the Company in evaluating its business are: (1) internal growth in the U.S., Europe and all other regions; (2) constant currency growth in the U.S., Europe and all other regions; (3) operating margins of each reportable segment; (4) the development, introduction and contribution of innovative new products; (5) growth through acquisition; and (6) continued focus on controlling costs and enhancing efficiency.

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

Management believes that an average overall internal growth rate of 4-6% is a long-term sustainable rate for the Company. The internal growth rate may vary outside of this range based on weaker or stronger economic conditions. History shows that growth in the dental industry typically performs better than the overall economy. Management expects this trend to continue in light of the current economic environment, although to a lesser degree. 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.

Product innovation is a key component of the Company’s overall growth strategy. New advances in technology are anticipated to have a significant influence on future products in dentistry. As a result, the Company continues to pursue several research and development initiatives to support this technological development, including partnerships and collaborations with various research institutions and dental schools. In addition, the Company licenses and purchases technologies developed by third parties. Although the Company believes these activities will lead to new innovative dental products, they involve new technologies and there can be no assurance that commercialized products will be developed.

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

Company’s Response to Economic Conditions

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. Due to the current economic conditions, the overall dental market has been negatively impacted by inventory reductions in its distribution channels, particularly in certain emerging market regions.

Additionally, the current conditions of the economy have negatively impacted the Company’s gross profit rate. Unfavorable product and geographic sales mix, unfavorable overhead absorption and movements in foreign currencies are the key factors that have affected the Company’s gross profits. The Company continues to manage these negative factors to the extent possible.

Due to the international nature of DENTSPLY’s business, movements in foreign exchange rates may impact the statement of income. With approximately 60% of the Company’s sales located in regions outside the U.S., the Company’s sales are significantly impacted by the strengthening or weakening of the U.S. dollar. As discussed further under regional sales and the segment descriptions, the Company was negatively impacted by the movements in currencies.

The Company has always maintained its focus on minimizing costs and achieving operational efficiencies. In response to the recent credit crisis and the recessionary economic conditions, management is concentrating on cost containment that focuses the business on creating and maintaining operational and financial flexibility through controlling operating costs. Management will continue to evaluate the consolidation of operations or functions and reduce the cost of those operations and functions while improving service levels. In addition, the Company remains

focused on enhancing efficiency through expanded use of technology and process improvement initiatives. The Company believes that the benefits from these initiatives will improve the cost structure and offset areas of rising costs such as energy, employee benefits, and regulatory oversight and compliance.

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The Company initiated several restructuring plans that included global headcount reductions and business consolidations and reorganizations in late 2008 and the first half of 2009. The Company will begin to realize the cost savings associated with these restructuring plans in 2009 and expects to realize the full cost savings associated with these restructuring plans in 2010. (See also Note 9, Restructuring, Impairments and Other Costs, to the Unaudited Interim Consolidated Condensed Financial Statements.)

RESULTS OF OPERATIONS, QUARTER ENDED SEPTEMBER 30, 2009 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2008

Net Sales

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

The presentation of net sales, excluding precious metal content, is considered a measure not calculated in accordance with generally accepted accounting principles in the United States of America ("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 | | | |
|---|--------------------|----------|-----------|----------|
| | September 30, | | \$ Change | % Change |
| | 2009 | 2008 | | |
| Net sales | \$ 531.0 | \$ 530.0 | \$ 1.0 | 0.2% |
| Less: Precious metal content of sales | 37.4 | 41.9 | (4.5) | (10.7)% |
| Net sales, excluding precious metal content | \$ 493.6 | \$ 488.1 | \$ 5.5 | 1.1% |

Net sales, excluding precious metal content, for the three months ended September 30, 2009 was \$493.6 million, an increase of 1.1% over prior year third quarter. The change in net sales was driven by constant currency growth of 2.5%, partially offset by currency translation, which reduced sales by 1.4%. The constant currency sales growth was comprised of acquisition growth of 4.0%, offset by internal growth of negative 1.5%. Sales for dental products grew on a constant currency basis by 3.6%. Internal growth was negative 0.3% for dental products.

Constant Currency and Internal Sales Growth

United States

Net sales, excluding precious metal content, decreased 1.6% in the United States in the third quarter on a constant currency basis, including 1.0% acquisition growth and internal growth of negative 2.6%. The negative internal growth was primarily driven by the lower sales in dental laboratory and non-dental products and a lower level of inventory purchased by dealers ahead of the October 1, 2009 price increase as compared to 2008.

Europe

Net sales, excluding precious metal content, in Europe improved by 5.8% on a constant currency basis due to acquisitions completed in 2008. Internal growth was negative 1.1% primarily due to lower sales in the CIS and lower sales in non-dental products throughout the region. Dental specialty products in Europe, excluding the CIS, experienced strong internal sales growth during the quarter.

All Other Regions

Net sales, excluding precious metal content, in the other regions of the world increased by 4.6% on a constant currency basis primarily related to acquisitions completed in 2008. Internal growth was flat. The Company experienced strong internal growth in dental consumables products offset primarily by lower sales of dental laboratory products.

Gross Profit

| (in millions) | Three Months Ended | | \$ Change | % Change |
|---|-----------------------|----------|-----------|----------|
| | September 30, 2009 | 2008 | | |
| Gross Profit | \$ 273.0 | \$ 280.2 | \$ (7.2) | (2.6)% |
| Gross Profit as a percentage of net sales, including precious metal content | 51.4% | 52.9% | | |
| Gross Profit as a percentage of net sales, excluding precious metal content | 55.3% | 57.4% | | |

Gross profit as a percentage of net sales, excluding precious metal content, decreased 2.1 percentage points for the three months ended September 30, 2009 compared to 2008. The decrease is due to lower sales volumes and dealer inventory reductions, unfavorable product and geographic sales mix, adverse movements in foreign currencies and lower production volumes as a result of lower sales volumes and dealer inventory reductions. The resulting impact of unfavorable manufacturing overhead absorption left more costs in inventory which will mostly be rolled off during the fourth quarter. Additionally, acquisitions completed in 2008 negatively impacted gross profit as a percentage of net sales.

Operating Expenses

| (in millions) | Three Months Ended | | \$ Change | % Change |
|---|-----------------------|----------|-----------|----------|
| | September 30, 2009 | 2008 | | |
| Selling, general and administrative expenses | | | | |
| ("SG&A") | \$ 178.8 | \$ 180.7 | \$ (1.9) | (1.0)% |
| Restructuring, impairments and other costs | \$ 1.2 | \$ 18.5 | \$ (17.3) | NM |
| SG&A as a percentage of net sales, including precious metal content | 33.7% | 34.1% | | |
| SG&A as a percentage of net sales, excluding precious metal content | 36.2% | 37.0% | | |

NM-not meaningful

SG&A Expenses

SG&A expenses, measured against sales, excluding precious metal content, decreased to 36.2% in 2009 from 37.0% in 2008. On a constant currency basis, and despite inclusion of costs of businesses acquired in 2008, SG&A expenses were also lower in 2009 when compared to 2008. Expenses continued to be tightly controlled as the Company focuses on reducing discretionary costs and various fixed costs to maintain an efficient cost structure in a difficult economic environment.

Restructuring, Impairments and Other Costs, Net

During the three months ended September 30, 2009, the Company recorded restructuring, impairments and other costs of \$1.2 million. These costs are related to legal matters, new and ongoing restructuring plans to reduce operational costs through consolidation of facilities, global headcount reduction and business re-organizations. In 2008, the Company incurred costs of \$18.5 million primarily related to legal settlements. (See also Note 9, Restructuring, Impairments and Other Costs, of the Notes to Unaudited Interim Condensed Consolidated Financial Statements).

Other Expense and Income, Net

| (in millions) | Three Months Ended September 30, | | Change |
|--------------------------------|-------------------------------------|--------|----------|
| | 2009 | 2008 | |
| Net interest expense | \$ 4.6 | \$ 4.6 | \$ (0.0) |
| Other expense, net | 0.5 | 1.0 | (0.5) |
| Net interest and other expense | \$ 5.1 | \$ 5.6 | \$ (0.5) |

Net Interest Expense

Net interest expense for the three months ended September 30, 2009 was flat compared with the prior period as significantly lower variable interest rates and lower average debt balances were offset by lower interest rates earned on investments. Interest expense was \$3.8 million lower as Euro interest rates were 360 basis points lower and commercial paper outstanding was \$149.3 million lower than the prior year quarter. Interest income decreased \$3.8 million as the interest rates on Euro investment balances were 400 basis points lower and the Euro investment balance was lower by \$71.9 million in the current year than the prior year.

Other Expense, Net

Other expense in the 2009 period included approximately \$0.6 million of currency transaction losses and \$0.1 million of other non-operating income. The 2008 period included \$0.7 million of currency transaction losses and \$0.3 million of other non-operating costs.

Income Taxes and Net Income

| (in millions, except per share data) | Three Months Ended September 30, | | \$ Change | % Change |
|---|-------------------------------------|---------|-----------|-------------|
| | 2009 | 2008 | | |
| Effective income tax rates | 22.8% | 12.2% | | |
| Net income attributable to DENTSPLY International | \$ 67.5 | \$ 66.0 | \$ 1.5 | 2.3% |
| Earnings per common share: | | | | |
| - Diluted | \$ 0.45 | \$ 0.44 | | |

The Company's effective tax rate for the three months ended September 30, 2009 increased to 22.8% from 12.2% for the same period in 2008. Both periods were impacted by settlements with taxing authorities and statute closures, which favorably impacted the effective tax rate by \$5.6 million and \$10.0 million for the three months ended September 30, 2009 and 2008, respectively. In aggregate, the effective tax rate for the three months ended September 30, 2009 and 2008 was favorably benefited by \$2.6 million or 2.9 percentage points and \$8.2 million or 10.9 percentage points, respectively.

For the period ending September 30, 2009, net income attributable to DENTSPLY International increased \$1.5 million, or 2.3%, to \$67.5 million. Fully diluted earnings per share were \$0.45 in the third quarter 2009, an increase of 2.3% from \$0.44 in the third quarter 2008. Net income attributable to DENTSPLY International for the third quarter of 2009 included acquisition related activity, net of tax and non-controlling interest, of \$0.1 million, restructuring, impairments and other costs, net of tax and non-controlling interest, of \$0.8 million or \$0.01 per diluted share, and a net tax reduction of \$2.6 million due to tax related adjustments or \$0.02 per diluted share. Net income for the third quarter of 2008, included restructuring, impairments and other costs, net of tax, of \$11.4 million, or \$0.07 per diluted share, and a net tax reduction of \$8.2 million due to tax related adjustments or \$0.05 per diluted share.

Operating Segment ResultsThird Party Net Sales, excluding precious metal content

| (in millions) | Three Months Ended | | \$ Change | % Change |
|---|-----------------------|----------|-----------|----------|
| | September 30, 2009 | 2008 | | |
| U.S., Germany, and Certain Other European Regions Consumable Businesses | \$ 143.0 | \$ 126.5 | \$ 16.5 | 13.0% |
| France, U.K., Italy, and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | \$ 100.3 | \$ 99.5 | \$ 0.8 | 0.8% |
| Canada/Latin America/Endodontics/Orthodontics | \$ 149.2 | \$ 154.9 | \$ (5.7) | (3.7)% |
| Dental Laboratory Business/Implants/Non-Dental | \$ 102.0 | \$ 107.8 | \$ (5.8) | (5.4)% |

Segment Operating Income

| (in millions) | Three Months Ended | | \$ Change | % Change |
|---|-----------------------|---------|-----------|----------|
| | September 30, 2009 | 2008 | | |
| U.S., Germany, and Certain Other European Regions Consumable Businesses | \$ 49.0 | \$ 50.5 | \$ (1.5) | (3.0)% |
| France, U.K., Italy, and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | \$ 3.6 | \$ 1.9 | \$ 1.7 | NM |
| Canada/Latin America/Endodontics/Orthodontics | \$ 39.5 | \$ 46.8 | \$ (7.3) | (15.6)% |
| Dental Laboratory Business/Implants/Non-Dental | \$ 19.1 | \$ 25.6 | \$ (6.5) | (25.4)% |

NM-not meaningful

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

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Net sales, excluding precious metal content, increased 13.0% during the three months ended September 30, 2009 compared to 2008. On a constant currency basis, sales increased 13.6% due largely to the results of an acquisition completed in 2008. Sales growth in the third quarter of 2009 was partially muted by lower dealer inventory stocking ahead of the Company's October 1 price increases compared with 2008 activity.

Operating income decreased \$1.5 million during the three months ended September 30, 2009 compared to 2008. The decrease was primarily attributable to unfavorable product and geographic sales mix, negative currency translation and lower production at manufacturing facilities.

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France, United Kingdom, Italy, CIS, Austria, Central and Eastern Europe, Middle East, Africa, Pacific Rim Businesses

Net sales, excluding precious metal content, increased 0.8% during the three months ended September 30, 2009 compared to 2008. On a constant currency basis, sales increased 1.5%. The increase was largely the result of an acquisition completed in 2008.

Operating income increased \$1.7 million during the three months ended September 30, 2009 compared to 2008, driven primarily by expense reductions across the segment.

Canada/Latin America/Endodontics/Orthodontics

Net sales, excluding precious metal content, decreased 3.7% during the three months ended September 30, 2009 compared to 2008. On a constant currency basis, sales decreased by 1.7% mainly due to lower sales of non-dental products.

Operating income decreased \$7.3 million during the three months ended September 30, 2009 compared to 2008. The decrease was driven by lower sales and unfavorable manufacturing overhead absorption. This group also had a negative impact from movements in foreign currency exchange rates.

Dental Laboratory Business/Implants/Non-Dental

Net sales, excluding precious metal content, decreased 5.4% during the three months ended September 30, 2009 compared to 2008. On a constant currency basis, sales decreased 3.6%. Net sales, excluding precious metal content, were negatively impacted by weakness in the dental laboratory and non-dental businesses as well as the unfavorable impact of currency translation across the segment.

Operating income decreased \$6.5 million during the three months ended September 30, 2009 compared to 2008, which was impacted by lower sales and unfavorable manufacturing overhead absorption.

RESULTS OF OPERATIONS, NINE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2008

Net Sales

| (in millions) | Nine Months Ended | | \$ Change | % Change |
|---------------|--------------------|------------|-----------|----------|
| | September 30, 2009 | 2008 | | |
| Net sales | \$ 1,591.2 | \$ 1,685.6 | \$ (94.4) | (5.6)% |

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| | | | | |
|---|------------|------------|-----------|---------|
| Less: Precious metal content of sales | 120.0 | 159.0 | (39.0) | (24.5)% |
| Net sales, excluding precious metal content | \$ 1,471.2 | \$ 1,526.6 | \$ (55.4) | (3.6)% |

Net sales, excluding precious metal content, for the nine months ended September 30, 2009 were \$1,471.2 million, 3.6% lower than the prior year. Net sales growth on a constant currency basis was 1.2%. The constant currency sales growth was comprised of acquisition growth of 4.3%, partially offset by internal growth of negative 3.1%. Sales of dental products increased by 2.0% on a constant currency basis. Internal growth for dental products was negative 2.1% as a result of a softer dental market and dealer inventory reductions.

Constant Currency and Internal Sales Growth

United States

Net sales, excluding precious metal content, decreased 2.1% in the United States on a constant currency basis, including 1.1% acquisition growth and internal growth of negative 3.2%. The lower sales were driven by continued softness in the economy, significantly lower sales of non-dental products and dealer inventory reductions within the Company's dental business.

Europe

Net sales, excluding precious metal content, in Europe improved by 3.5% on a constant currency basis driven by acquisitions completed in 2008. Internal growth was negative 3.9%, primarily due to the decline in non-dental products and lower sales in the CIS, which was affected by negative foreign exchange movements and customer liquidity constraints, partially offset by dental specialty products in the rest of Europe.

All Other Regions

Net sales, excluding precious metal content, in the other regions of the world increased by 2.9% on a constant currency basis primarily related to acquisitions completed in 2008. Internal growth was negative 1.2%. The region experienced internal growth in dental specialty products offset by continued softness in other dental products.

Gross Profit

| (in millions) | Nine Months Ended | | | |
|---|-------------------|----------|-----------|----------|
| | September 30, | | \$ Change | % Change |
| | 2009 | 2008 | | |
| Gross Profit | \$ 826.9 | \$ 880.9 | \$ (54.0) | (6.1)% |
| Gross Profit as a percentage of net sales, including precious metal content | 52.0% | 52.3% | | |
| Gross Profit as a percentage of net sales, excluding precious metal content | 56.2% | 57.7% | | |

Gross profit as a percentage of net sales, excluding precious metal content, decreased 1.5 percentage points for the nine months ended September 30, 2009 compared to 2008. The decrease is the result of unfavorable product and geographic sales mix, unfavorable manufacturing overhead absorption and movements in foreign currencies. Additionally, acquisitions completed in 2008 negatively impacted gross profit as a percentage of net sales.

Operating Expenses

| (in millions) | Nine Months Ended | | | |
|---|-------------------|----------|-----------|----------|
| | September 30, | | \$ Change | % Change |
| | 2009 | 2008 | | |
| Selling, general and administrative expenses ("SG&A") | \$ 543.2 | \$ 565.6 | \$ (22.4) | (4.0)% |

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| | | | | |
|---|--------|---------|-----------|----|
| Restructuring and other costs, net | \$ 5.9 | \$ 20.2 | \$ (14.3) | NM |
| SG&A as a percentage of net sales, including precious metal content | 34.1% | 33.6% | | |
| SG&A as a percentage of net sales, excluding precious metal content | 36.9% | 37.0% | | |

NM-not meaningful

SG&A Expenses

SG&A measured against sales, excluding precious metal content, decreased to 36.9% in 2009 from 37.0% in 2008. On a constant currency basis and despite inclusion of costs of businesses acquired in 2008 and costs related to the 2009 International Dental Show, SG&A expenses were slightly lower in 2009 when compared to 2008. Expenses continued to be tightly controlled as the Company focuses on reducing discretionary costs and various fixed costs to maintain an efficient cost structure in a difficult economic environment.

Restructuring, Impairments and Other Costs, Net

During the nine months ended September 30, 2009, the Company recorded restructuring, impairments and other costs of \$5.9 million. These costs are related to legal matters, new and ongoing restructuring plans to reduce operational costs through consolidation of facilities, global headcount reduction and business re-organizations. In 2008, the Company incurred costs of \$20.2 million primarily related to legal settlements. (See also Note 9, Restructuring, Impairments and Other Costs, of the Notes to Unaudited Interim Condensed Consolidated Financial Statements).

Other Expense and Income, Net

| (in millions) | Nine Months Ended | | Change |
|--------------------------------|-----------------------|---------|----------|
| | September 30, 2009 | 2008 | |
| Net interest expense | \$ 12.6 | \$ 10.9 | \$ 1.7 |
| Other expense, net | 1.3 | 4.1 | (2.8) |
| Net interest and other expense | \$ 13.9 | \$ 15.0 | \$ (1.1) |

Net Interest Expense

The change in net interest expense for the nine months ended September 30, 2009 compared with the prior period was mainly the result of significantly lower Euro interest rates and lower debt average balances combined with stronger U.S. dollar average exchange rates. Interest expense decreased \$8.5 million on lower average debt and interest rates. Interest income decreased \$10.2 million on lower average investment balances, lower interest rates on Euro investment balances, which were 360 basis points lower in the current year than the prior year and the stronger U.S. dollar against the Euro.

Other Expense, Net

Other expense in the 2009 period included approximately \$0.9 million of currency transaction losses and \$0.4 million of other non-operating costs. The 2008 period included \$3.0 million of currency transaction losses and \$1.1 million of other non-operating costs.

Income Taxes and Net Income

| (in millions, except per share data) | Nine Months Ended | | \$ Change | % Change |
|--------------------------------------|-----------------------|------|-----------|----------|
| | September 30, 2009 | 2008 | | |

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| | | | | |
|----------------------------|----------|----------|-----------|--------|
| Effective income tax rates | 24.8% | 24.0% | | |
| Net income attributable to | | | | |
| DENTSPLY International | \$ 199.4 | \$ 212.9 | \$ (13.5) | (6.3)% |
| Earnings per common share: | | | | |
| - Diluted | \$ 1.33 | \$ 1.40 | | |

The Company's effective tax rate for the nine months ended September 30, 2009 increased to 24.8% from 24.0% for the same period in 2008. Both periods were impacted by settlements with taxing authorities and statute closures, which in total decreased the effective tax rate for the nine months ended September 30, 2009 and 2008 by \$2.1 million or 0.8 percentage points and \$6.5 million or 2.3 percentage points, respectively.

For the period ending September 30, 2009, net income attributable to DENTSPLY International decreased \$13.5 million, or negative 6.3% to \$199.4 million. Fully diluted earnings per share were \$1.33 for the nine months ended September 30, 2009, a decrease of 5.0% from \$1.40 for the nine months ended September 30, 2008. Net income attributable to DENTSPLY International for the nine months ended September 30, 2009 included restructuring, impairment and other costs, net of tax and non-controlling interest, of \$1.8 million or \$0.01 per diluted share, acquisition related activity, net of tax and non-controlling interest, of \$4.0 million or \$0.02 per diluted share, and a net tax reduction of \$2.1 million due to tax related adjustments or \$0.01 per diluted share. Net income for the nine months ended September 30, 2008, included restructuring, impairment and other costs, net of tax, of \$12.4 million or \$0.08 per diluted share, a benefit of \$1.1 million or \$0.01 per diluted share for non-performance risk loss on derivatives and a net tax reduction of \$6.5 million due to tax related adjustments or \$0.04 per diluted share.

Operating Segment ResultsThird Party Net Sales, excluding precious metal content

| (in millions) | Nine Months Ended September 30, | | \$ Change | % Change |
|---|------------------------------------|----------|-----------|----------|
| | 2009 | 2008 | | |
| U.S., Germany, and Certain Other European Regions Consumable Businesses | \$ 407.5 | \$ 371.6 | \$ 35.9 | 9.7% |
| France, U.K., Italy, and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | \$ 298.7 | \$ 325.4 | \$ (26.7) | (8.2)% |
| Canada/Latin America/Endodontics/Orthodontics | \$ 449.8 | \$ 475.3 | \$ (25.5) | (5.4)% |
| Dental Laboratory Business/Implants/Non-Dental | \$ 317.2 | \$ 357.1 | \$ (39.9) | (11.2)% |

Segment Operating Income

| (in millions) | Nine Months Ended September 30, | | \$ Change | % Change |
|---|------------------------------------|----------|-----------|----------|
| | 2009 | 2008 | | |
| U.S., Germany, and Certain Other European Regions Consumable Businesses | \$ 125.8 | \$ 138.4 | \$ (12.6) | (9.1)% |
| France, U.K., Italy, and Certain Other European Countries, CIS, Middle East, Africa, Pacific Rim Businesses | \$ 10.5 | \$ 9.4 | \$ 1.1 | 11.7% |
| Canada/Latin America/Endodontics/Orthodontics | \$ 135.1 | \$ 153.2 | \$ (18.1) | (11.8)% |
| Dental Laboratory Business/Implants/Non-Dental | \$ 66.0 | \$ 92.4 | \$ (26.4) | (28.6)% |

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

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Net sales, excluding precious metal content, increased 9.7% during the nine months ended September 30, 2009 compared to 2008. On a constant currency basis, sales increased 11.6%, which was driven primarily by acquisition growth.

Operating income decreased \$12.6 million during the nine months ended September 30, 2009 compared to 2008. Operating income was negatively affected by unfavorable product and geographic sales mix and currency translation. In addition, the decrease was partially attributable to the roll-off of inventory step-up related to an acquisition completed in late 2008. The segment, excluding an acquisition completed in 2008, reduced operating expenses during the nine months ended September 30, 2009 when compared to the same period in 2008.

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France, United Kingdom, Italy, CIS, Austria, Central and Eastern Europe, Middle East, Africa, Pacific Rim Businesses

Net sales, excluding precious metal content, decreased 8.2% during the nine months ended September 30, 2009 compared to 2008, of which negative 6.6% was the result of currency translation. On a constant currency basis, sales were negative 1.6% due to lower sales mainly in the CIS partially offset by acquisitions and growth in the Pacific Rim.

Operating income increased \$1.1 million during the nine months ended September 30, 2009 compared to 2008. The increase was driven primarily by increased profits in the Pacific Rim operations and expense reductions in several geographies, partially offset by lower sales volumes, mainly in the CIS.

Canada/Latin America/Endodontics/Orthodontics

Net sales, excluding precious metal content, decreased 5.4% during the nine months ended September 30, 2009 compared to 2008, of which negative 4.7% was the result of currency translation. On a constant currency basis, sales decreased by 0.7% driven by a decrease in non-dental products partially offset by growth in Orthodontics and acquisitions.

Operating income decreased \$18.1 million during the nine months ended September 30, 2009 compared to 2008. The decrease was driven primarily by lower sales in non-dental products, unfavorable absorption and the negative impact from foreign currency transactions.

Dental Laboratory Business/Implants/Non-Dental

Net sales, excluding precious metal content, decreased 11.2% during the nine months ended September 30, 2009 compared to 2008, of which negative 6.3% was the result of currency translation. On a constant currency basis, sales were negative 4.8%. The primary driver of the lower sales was weakness in the dental laboratory and implants businesses and reduced sales in the non-dental business partially offset by acquisition growth.

Operating income decreased \$26.4 million during the nine months ended September 30, 2009 compared to 2008, primarily as a result of lower sales, unfavorable product sales mix and currency translation.

CRITICAL ACCOUNTING POLICIES

As discussed in Note 1, Significant Accounting Policies, of the Notes to Unaudited Interim Condensed Consolidated Financial Statements, the Company adopted four new accounting standards since January 1, 2009.

There have been no other material changes to the Company's disclosure in its Annual Report on Form 10-K/A for the year ended December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Nine months ended September 30, 2009

Cash flow from operating activities during the nine months ended September 30, 2009 was \$245.4 million compared to \$236.8 million during the same period of 2008. Net income from continuing operations decreased by \$14.6 million to \$198.4 million. Improvements in working capital for 2009 were the primary reason for the increase in cash from operations. Inventory and accounts receivable balances on a constant currency basis were positive contributors to the change in cash flow, while foreign exchange impacts resulted in higher absolute dollar balances and reported days in each category. Reductions in accounts payable and accruals largely offset the improvements from inventory and accounts receivable.

Investing activities during the first nine months of 2009 include capital expenditures of \$43.3 million.

At September 30, 2009, the Company had authorization to maintain up to 17,000,000 shares of treasury stock under the stock repurchase program as approved by the Board of Directors. Under this program, the Company purchased 723,700 shares for \$21.3 million during the first nine months of 2009 at an average price of \$29.37. As of September 30, 2009, the Company held 14.3 million shares of treasury stock. The Company also received proceeds of \$9.5 million as a result of the exercise of 658,867 stock options during the nine months ended September 30, 2009.

The Company's long-term borrowings decreased by a net of \$54.3 million during the nine months ended September 30, 2009. This change included net repayments of \$57.2 million during the first nine months and an increase of \$2.9 million due to exchange rate fluctuations on debt denominated in foreign currencies. At September 30, 2009, the Company's ratio of long-term debt to total capitalization decreased to 7.4% compared to 21.2% at December 31, 2008. Also in that same period, the Company's cash, cash equivalents and short-term investments have increased from \$204.2 million to \$333.4 million.

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Under its multi-currency revolving credit agreement, the Company is able to borrow up to \$500.0 million through May 2010. This facility is unsecured and contains certain affirmative and negative covenants relating to its operations and financial condition. The most restrictive of these covenants pertain to asset dispositions and prescribed ratios of indebtedness to total capital and operating income plus depreciation and amortization to interest expense. At September 30, 2009, the Company was in compliance with these covenants. The Company also has available an aggregate \$250.0 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. The total available credit under the commercial paper facility and the multi-currency facility in the aggregate is \$500.0 million with \$62.7 million outstanding under the multi-currency facility.

The Company's debt instruments that are supported by the multi-currency revolving credit facility and a private placement note have been re-classified as current until the Company replaces the May 2010 maturing facility. Management's intent is to replace the maturing facility, at least in part, in the first or second quarter of next year.

The Company entered into a Note Purchase Agreement ("Note") with a group of initial purchasers through a private placement, providing for the issuance by the Company on a delayed basis, no later than February 19, 2010, of \$250.0 million aggregate principal amount of fixed rate 4.11% Senior Notes with an average maturity of five years and a final maturity in six years. This Note is unsecured and contains certain affirmative and negative covenants relating to its operations and financial condition of the Company similar in substance to the existing \$150.0 million U.S. Private Placement Note ("U.S. Note") maturing March 15, 2010. The purpose of the new Note is to refinance the existing U.S. Note at maturity as well as for general corporate purposes.

The Company also has access to \$67.2 million in uncommitted short-term financing under lines of credit from various financial institutions. The lines of credit have no major restrictions and are provided under demand notes between the Company and the lending institutions. At September 30, 2009, \$21.7 million is outstanding under these short-term lines of credit. At September 30, 2009, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of \$480.7 million.

At September 30, 2009, the Company held \$87.0 million of precious metals on consignment from several financial institutions. These consignment agreements allow the Company to acquire the precious metal at market rates at a point in time, which is approximately the same time and for the same price as alloys are sold to the Company's customers. In the event that the financial institutions would discontinue offering these consignment arrangements, and if the Company could not obtain other comparable arrangements, the Company may be required to obtain third party financing to fund an ownership position in the required precious metal inventory levels.

There have been no other material changes to the Company's scheduled contractual cash obligations disclosed in its Annual Report on Form 10-K/A for the year ended December 31, 2008. The Company expects on an ongoing basis, to be able to finance cash requirements, including capital expenditures, stock repurchases, debt service, operating leases and potential future acquisitions, from the funds generated from operations and amounts available under its existing credit facilities.

NEW ACCOUNTING PRONOUNCEMENTS

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

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 Annual Report on Form 10-K/A for the year ended December 31, 2008.

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

On January 5, 1999, the Department of Justice filed a Complaint against the Company in the U.S. District Court in Wilmington, Delaware alleging that the Company's tooth distribution practices violated the antitrust laws and seeking an order for the Company to discontinue its practices. This case has been concluded and the District Court, upon the direction of the Court of Appeals, issued an injunction in May 2006, preventing DENTSPLY from taking action to restrict its tooth dealers in the U.S. from adding new competitive teeth lines.

Subsequent to the filing of the Department of Justice Complaint in 1999, a private party putative class action was filed based on allegations similar to those in the Department of Justice case, on behalf of dental laboratories who purchased Trubyte teeth or products containing Trubyte teeth. The District Court granted the Company's Motion on the lack of standing of the laboratory class action to pursue damage claims. The Plaintiffs appealed this decision to the Third Circuit and the Court largely upheld the decision of the District Court in dismissing the Plaintiffs' damages claims against DENTSPLY, with the exception of allowing the Plaintiffs to pursue a damage claim based on a theory of resale price maintenance between the Company and its tooth dealers. The Plaintiffs then filed an amended complaint in the District Court asserting that DENTSPLY and its tooth dealers, and the dealers among themselves, engaged in a conspiracy to violate the antitrust laws. The District Court has granted the Motions filed by DENTSPLY and the dealers, to dismiss Plaintiffs' claims, except for the resale price maintenance claims. The Plaintiffs have appealed the dismissal of these claims to the Third Circuit. The Third Circuit has proposed scheduling oral arguments in January 2010. Also pending is a case filed by a manufacturer of a competitive tooth line seeking unspecified damages alleged to have been incurred as a result of the Company's tooth distribution practices, including the practice found to be a violation of the antitrust law.

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

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

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 compensatory and \$40.0 million in punitive damages. 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. Dentsply does not believe the outcome of this matter will have a material adverse effect on its financial position.

Item 1A – Risk Factors

There have been no significant material changes to the risks factors as disclosed in the Company’s Annual Report on Form 10-K/A for the year ending December 31, 2008.

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Item 2 - Unregistered Sales of Securities and Use of Proceeds

At September 30, 2009, the Company had authorization to maintain up to 17,000,000 shares of treasury stock under the stock repurchase program as approved by the Board of Directors. During the quarter ended September 30, 2009, the Company had the following activity with respect to this repurchase program:

(in thousands, except per share amounts)

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Cost of Shares Purchased | Number of Shares that May be Purchased Under the Share Repurchase Program |
|----------------------|--|------------------------------------|--------------------------------------|--|
| July 1-31, 2009 | 22.9 | \$ 28.89 | \$ 661.5 | 2,827.9 |
| August 1-31, 2009 | 161.9 | 33.76 | 5,467.6 | 2,808.9 |
| September 1-30, 2009 | 161.8 | 33.04 | 5,345.3 | 2,686.8 |
| | 346.6 | \$ 33.11 | \$ 11,474.4 | |

Item 4 - Submission of Matters to Vote of Security Holders

There were no matters submitted to security holders for vote during the quarter ended September 30, 2009.

Item 6 - Exhibits

Exhibit Number

| | |
|---------|--|
| 31 | Section 302 Certification Statements. |
| 32 | Section 906 Certification Statements. |
| 99.1 | Incorporated by reference to exhibit included in Form 8-K filed on October 21, 2009. |
| 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 Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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/ | <u>Bret W. Wise</u> | <u>October 29, 2009</u> |
| | Bret W. Wise | Date |
| | Chairman of the Board and | |
| | Chief Executive Officer | |

| | | |
|-----|----------------------------|-------------------------|
| /s/ | <u>William R. Jellison</u> | <u>October 29, 2009</u> |
| | William R. Jellison | Date |
| | Senior Vice President and | |
| | Chief Financial Officer | |