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DENTSPLY INTERNATIONAL INC /DE/
Form 10-Q
November 02, 2007
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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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 X 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 X 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 X Accelerated filer Non-accelerated filer

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

Yes No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: At November 1, 2007 DENTSPLY International Inc. (the "Company") had 151,451,981 shares of Common Stock outstanding, with a par value of \$.01 per share.

DENTSPLY International Inc.

FORM 10-Q

For Quarter Ended September 30, 2007

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**DENTSPLY INTERNATIONAL
INC. AND SUBSIDIARIES
CONSOLIDATED
CONDENSED STATEMENTS
OF INCOME**

(unaudited)

	Three Months Ended		Nine Months Ended			
	September 30, 2007	2006	September 30, 2007	2006		
	(in thousands, except per share amounts)					
Net sales			\$ 488,103	\$ 435,725	\$ 1,468,329	\$ 1,339,165
Cost of products sold			235,113	209,814	700,277	650,964
Gross profit			252,990	225,911	768,052	688,201
Selling, general and administrative expenses			165,708	148,521	501,869	446,878
Restructuring and other costs (income) (Note 9)			4,692	(1,149)	8,889	6,184
Operating income			82,590	78,539	257,294	235,139
Other income and expenses:						
Interest expense			7,138	9,062	16,803	25,207
Interest income			(6,613)	(9,646)	(20,109)	(26,917)
Other (income) expense, net			220	638	(337)	1,089
Income before income taxes			81,845	78,485	260,937	235,760
Provision for income taxes			16,126	29,036	71,313	76,991
Net income			\$ 65,719	\$ 49,449	\$ 189,624	\$ 158,769
Earnings per common share (Note 4):						
-Basic			\$ 0.43	\$ 0.32	\$ 1.25	\$ 1.02
-Diluted			\$ 0.42	\$ 0.31	\$ 1.23	\$ 1.00
Cash dividends declared per common share			\$ 0.040	\$ 0.035	\$ 0.120	\$ 0.105
Weighted average common shares outstanding (Note 4):						
-Basic			151,632	153,968	151,886	156,246
-Diluted			154,736	157,153	154,735	159,344

See accompanying notes to Unaudited Interim Consolidated Condensed Financial Statements.

DENTSPLY INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(unaudited)

	September 30, 2007	December 31, 2006
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 141,821	\$ 65,064
Short-term investments	118,921	79
Accounts and notes receivable-trade, net (Note 1)	326,012	290,791
Inventories, net (Note 7)	277,057	232,441
Prepaid expenses and other current assets	110,125	129,816
Total Current Assets	973,936	718,191
Property, plant and equipment, net	351,566	329,616
Identifiable intangible assets, net	71,518	67,648
Goodwill, net	1,121,810	995,382
Other noncurrent assets, net	96,087	70,513
Total Assets	\$ 2,614,917	\$ 2,181,350
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 87,154	\$ 79,951
Accrued liabilities	193,837	181,196
Income taxes payable	34,407	47,292
Notes payable and current portion of long-term debt	7,020	2,995
Total Current Liabilities	322,418	311,434
Long-term debt (Note 12)	495,668	367,161
Deferred income taxes	51,717	53,191
Other noncurrent liabilities	291,199	175,507
Total Liabilities	1,161,002	907,293
Minority interests in consolidated subsidiaries	280	222
Commitments and contingencies (Note 11)		
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, 2007 and December 31, 2006	1,628	1,628
Capital in excess of par value	169,409	168,135
Retained earnings	1,519,461	1,352,342
Accumulated other comprehensive income (Note 3)	124,136	79,914
Treasury stock, at cost, 11.4 million shares at September 30, 2007 and 11.0 million shares at December 31, 2006	(360,999)	(328,184)
Total Stockholders' Equity	1,453,635	1,273,835

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Total Liabilities and Stockholders' Equity \$ 2,614,917 \$ 2,181,350

See accompanying notes to Unaudited Interim Consolidated Condensed Financial Statements.

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

(unaudited)

Nine Months Ended

September 30,

2007 2006

(in thousands)

Cash flows from operating activities:

Net income	\$ 189,624	\$ 158,769
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	32,212	30,446
Amortization	5,608	5,179
Share-based compensation expense	11,541	13,129
Restructuring and other costs	8,889	1,034
Other, net	9,022	(49,102)
Net cash provided by operating activities	256,896	159,455

Cash flows from investing activities:

Capital expenditures	(37,840)	(34,810)
Cash paid for acquisitions of businesses and equity investment	(100,635)	(31,974)
Purchases of short-term investments	(112,771)	(282,462)
Liquidation of short-term investments	69	157,023
Expenditures for identifiable intangible assets	(781)	(223)
Other, net	2,881	2,313
Net cash used in investing activities	(249,077)	(190,133)

Cash flows from financing activities:

Net change in short-term borrowings	3,356	5,991
Cash paid for treasury stock	(88,142)	(166,768)
Cash dividends paid	(19,071)	(16,475)
Proceeds from long-term borrowings	170,255	94,799
Payments on long-term borrowings	(49,562)	(42,100)
Proceeds from exercise of stock options	38,696	25,993
Excess tax benefits from share-based compensation	5,412	5,486
Net cash provided by (used in) financing activities	60,944	(93,074)

Effect of exchange rate changes on cash and cash equivalents 7,994 21,593

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Net increase (decrease) in cash and cash equivalents	76,757	(102,159)
Cash and cash equivalents at beginning of period	65,064	433,984
Cash and cash equivalents at end of period	\$ 141,821	\$ 331,825

See accompanying notes to Unaudited Interim Consolidated Condensed Financial Statements.

DENTSPLY International Inc.

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

September 30, 2007

The accompanying Unaudited Interim Consolidated Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial statements and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. 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 should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's most recent Form 10-K filed February 23, 2007.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of DENTSPLY International Inc., as applied in the consolidated interim financial statements presented herein, are substantially the same as presented on pages 56 through 63 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2006, except for the following:

FIN 48

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes," which clarifies the accounting for income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1,

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2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. As a result of the implementation the Company recognized a \$3.8 million increase to reserves for uncertain tax positions.

The total amount of gross unrecognized tax benefits, as of the date of adoption, is approximately \$48.7 million. Of this total, approximately \$37.8 million (net of the federal benefit of state issues) represents the amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate. It is reasonably possible that certain amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date of the Company's consolidated financial statements. Expiration of statutes of limitation in various jurisdictions could include unrecognized tax benefits of approximately \$7.1 million, \$2.0 million of which will have no impact upon the effective income tax rate. A decrease of unrecognized tax benefits of approximately \$10.7 million, \$5.1 million of which will have no impact upon the effective income tax rate could occur as a result of final settlement and resolution of outstanding tax matters in foreign jurisdictions during the next twelve months.

As a result of the adoption of FIN 48, the Company had a material change to the scheduled contractual cash obligations disclosed in its 2006 Annual Report on Form 10-K filed February 23, 2007. As of September 30, 2007, the Company's contractual obligation related to the adoption of FIN 48 is \$48.7 million.

The total amounts of interest and penalties, as of the date of adoption, were \$7.8 million and \$3.9 million, respectively. The Company has consistently classified interest and penalties recognized in its consolidated financial statements as income taxes based on the accounting policy election of the Company.

The Company is subject to United States federal income tax as well as income tax of multiple state and foreign jurisdictions. The significant jurisdictions include the United States, Switzerland and Germany. The Company has substantially concluded all United States federal income tax matters for years through 2003, resulting in the years 2004 through 2006 being subject to future potential tax audit adjustments while years prior to 2004 are settled. The Company has been notified that it will be audited for United States Federal Income Tax purposes for the tax year 2005 and for Germany from 2001 through 2003. The taxable years that remain open for Switzerland are years 1996 through 2006. For Germany the open years are from 1998 through 2006.

Accounts and Notes Receivable-Trade

Accounts and notes receivable-trade are stated net of allowances for doubtful accounts and trade discounts, which were \$19.2 million and \$16.6 million at September 30, 2007 and December 31, 2006, respectively.

Revisions in Classification

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

New Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This will allow entities the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective for financial statements issued for fiscal years ending after November 15, 2007. The Statement should not be applied retrospectively to fiscal years beginning prior to that effective date, except as permitted for early adoption. The Company is currently evaluating the impact of adopting SFAS 159 on the financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements," which requires the Company to define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 157 on the financial statements.

NOTE 2 – STOCK COMPENSATION

The Company has stock options outstanding under three stock option/equity incentive plans (1993 Plan, 1998 Plan and 2002 Amended and Restated Plan ("the 2002 Plan")). Further grants can only be made under the 2002 Plan. Under the 1993 and 1998 Plans, a committee appointed by the Board of Directors granted to key employees and directors of the Company, options to purchase shares of common stock at an exercise price determined by the fair market value of the common stock on the date of grant. Stock options generally expire ten years after the date of grant under these plans and grants become exercisable over a period of three years after the date of grant at the rate of one-third per year, except when they become immediately exercisable upon death, disability or qualified retirement.

Effective May 15, 2007, the stockholders of the Company approved an amendment to the 2002 Plan. The purpose of the amendment was to eliminate the automatic stock option grants to outside directors and include performance criteria with respect to the grant of performance-based restricted stock and restricted stock units. Under the amended 2002 Plan, no more than 2,000,000

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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.

The 2002 Plan authorized 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 and 1998 Plans, subject to adjustment as follows: each January, if 7% of the outstanding common shares of the Company exceed 14,000,000, the excess becomes available for grant under the Plan. The 2002 Plan enables the Company to grant "incentive stock options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, to key employees of the Company, and "non-qualified stock options" ("NSOs"), which do not constitute ISOs to key employees and non-employee directors of the Company. The 2002 Plan also enables the Company to grant stock, which is subject to certain forfeiture risks and restrictions ("Restricted Stock"), stock delivered upon vesting of units ("Restricted Stock Units" or "RSUs") and stock appreciation rights ("SARs"). ISOs and NSOs are collectively referred to as "options." Options, Restricted Stock, Restricted Stock Units and SARs are collectively referred to as "awards." Such awards are granted at exercise prices not less than the fair market value of the common stock on the grant date. The number of shares available for grant under the 2002 Plan as of September 30, 2007 was 6,548,286 shares.

Non-Qualified Stock Options

The total compensation cost related to non-qualified stock options recognized in the operating results for the three months and nine months ended September 30, 2007 was \$3.3 million and \$9.5 million, respectively. The total compensation cost related to non-qualified stock options recognized in the operating results for the three months and nine months ended September 30, 2006 was \$4.5 million and \$12.9 million, respectively, including the cost for stock-based awards granted prior to January 1, 2006, but not yet vested as of that date. These costs were allocated appropriately to either cost of products sold or selling, general and administrative expenses. The associated future income tax benefit recognized during the three months and nine months ended September 30, 2007 was \$0.4 million and \$2.0 million, respectively. The associated future income tax benefit recognized during the three months and nine months ended September 30, 2006 was \$0.9 million and \$3.3 million, respectively.

There were 3,136,756 non-qualified stock options unvested as of September 30, 2007. The remaining unamortized compensation cost related to non-qualified stock options is \$14.7 million, which will be expensed over the weighted average remaining vesting period of the options, or 1.2 years. Cash received from stock option exercises for the three months and nine months ended September 30, 2007 was \$12.4 million and \$38.7 million, respectively. It is the Company's practice to issue shares from treasury stock when options are exercised. The future estimated income tax benefit to be realized for the options exercised in the three months and nine months ended September 30, 2007 was \$2.7 million and \$9.9 million, respectively. The future estimated income tax benefit to be realized for the options exercised in the three months and nine months ended September 30, 2006 was \$1.0 million and \$8.1 million, respectively. The aggregate intrinsic value of stock options exercised in the three months and nine months ended September 30, 2007 was \$9.7 million and \$31.3 million, respectively. The aggregate intrinsic value of the outstanding stock options as of September 30, 2007 was \$172.2 million.

Under SFAS 123(R), the Company continues to use the Black-Scholes option-pricing model to estimate the fair value of each option awarded. The following table sets forth the assumptions used to determine compensation cost for our non-qualified stock options issued during the three months and nine months ended September 30, 2007:

	Weighted Average Three Months Ended September 30, 2007	Weighted Average Nine Months Ended September 30, 2007
Per share fair value	\$ 10.58	\$ 8.99

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Expected dividend yield	0.42%	0.47%
Risk-free interest rate	4.46%	4.54%
Expected volatility	21%	18%
Expected life (years)	5.33	5.40

The following is a summary of the status of the Plans as of September 30, 2007 and changes during the quarter then ended:

	Outstanding	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
	Shares		Shares	
December 31, 2006	11,563,791	\$ 22.97	7,912,549	\$ 20.21
Granted	159,164	34.88		
Exercised	(1,962,831)	19.71		
Expired/Canceled	(128,169)	27.77		
September 30, 2007	9,631,955	\$ 23.77	6,495,199	\$ 20.93

The weighted average remaining contractual term of all outstanding options is 6.3 years and the weighted average remaining contractual term of exercisable options is 5.2 years.

Restricted Stock Units

During the first nine months of 2007, the Company granted a total of 223,100 RSUs to key employees and Board members. As of September 30, 2007, a total of 5,480 RSUs were cancelled and 217,620 RSUs remained outstanding. The RSUs outstanding have a weighted-average fair value per share of \$30.98, which was the fair value of the Company's stock as measured on the date of grant. RSUs 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. The fair value of each RSU assumes that performance goals will be achieved. If such goals are not met, no compensation cost is recognized and any recognized compensation cost is reversed. Under the terms of the RSUs, the three year period is referred to as the restricted period. RSUs and the rights under the award may not be sold, assigned, transferred, donated, pledged or otherwise disposed of during the three year restricted period prior to vesting. Upon the expiration of the applicable restricted period and the satisfaction of all conditions imposed, all restrictions imposed on Restricted Stock Units will lapse, and one share of common stock will be issued as payment for each vested RSU.

During the restricted period, the Company will pay cash dividends on the RSUs, in the form of additional RSUs on each date that the Company pays a cash dividend to holders of common stock. The additional RSUs are subject to the same terms and conditions as the original RSUs and vest when the restrictions lapse.

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The total compensation cost related to RSUs recognized in the operating results for the three months and nine months ended September 30, 2007 was \$0.5 million and \$1.3 million, respectively. These amounts represent the aggregate fair value of stock units that were expensed during the third quarter and first nine months of 2007, but not yet vested as of that date. These costs were included in the cost of products sold and selling, general and administrative expenses. The associated future income tax benefit recognized during the three months and nine months ended September 30, 2007 was \$0.2 million and \$0.4 million, respectively. All 218,087 RSUs and RSU dividends remained unvested as of September 30, 2007. The unamortized compensation cost related to RSUs is \$4.9 million, which will be expensed over the remaining restricted period of the RSUs, or 2.4 years. The aggregate intrinsic value of the outstanding RSUs as of September 30, 2007 was \$9.3 million.

NOTE 3 – COMPREHENSIVE INCOME

The components of comprehensive income, net of tax, are as follows:

	Three Months Ended September 30, 2007		September 30, 2006	
	(in thousands)			
Net income	\$ 65,719	\$ 49,449	\$ 189,624	\$ 158,769
Other comprehensive income:				
Foreign currency translation adjustments	55,414	(5,176)	82,950	43,708
Net loss on derivative financial instruments	(30,582)	5,922	(36,437)	(31,711)
Unrealized loss on available-for-sale securities	(89)	(47)	(227)	(6)
Amortization of unrecognized losses and prior year service cost, net	(2,465)	-	(2,064)	-
Total comprehensive income	\$ 87,997	\$ 50,148	\$ 233,846	\$ 170,760

During the quarter ended September 30, 2007, foreign currency translation adjustments included currency translation gains of \$63.0 million and losses of \$7.6 million on the Company's loans designated as hedges of net investments. During the quarter ended September 30, 2006, foreign currency translation adjustments included currency translation losses of \$9.5 million and partially offset by gains of \$4.3 million on the Company's loans designated as hedges of net investments. During the nine months ended September 30, 2007, foreign currency translation adjustments included currency translation gains of \$87.8 million and losses of \$4.8 million on the Company's loans designated as hedges of net investments. During the nine months ended September 30, 2006, foreign currency translation adjustments included currency translation gains of \$51.2 million offset by losses of \$7.5 million on the Company's loans designated as hedges of net investments. As a result of the Company's adoption of Statement of Financial Accounting Standards No. 158 ("SFAS 158") on January 1, 2007, the Company recognized \$0.4 million of the unrecognized losses and prior service cost, net in comprehensive income. The \$0.4 million was derived using the average exchange rate for the current period, which may differ from the exchange rate used to record the unrecognized losses and prior service cost, net.

The balances included in accumulated other comprehensive income in the consolidated balance sheets are as follows:

	September 30, 2007	December 31, 2006
	(in thousands)	
Foreign currency translation adjustments	\$ 218,291	\$ 135,341

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Net loss on derivative financial instruments	(69,002)	(32,565)
Unrealized gain on available-for-sale securities	106	333
Unrecognized losses and prior service cost, net	(25,259)	(23,195)
	\$ 124,136	\$ 79,914

The cumulative foreign currency translation adjustments included translation gains of \$304.7 million and \$216.9 million as of September 30, 2007 and December 31, 2006, respectively, offset by losses of \$86.4 million and \$81.6 million, respectively, on loans designated as hedges of net investments.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands, except per share amounts)			
<u>Basic Earnings Per Common Share Computation</u>				
Net income	\$ 65,719	\$ 49,449	\$189,624	\$158,769
Common shares outstanding	151,632	153,968	151,886	156,246
Earnings per common share - basic	\$ 0.43	\$ 0.32	\$ 1.25	\$ 1.02
<u>Diluted Earnings Per Common Share Computation</u>				
Net income	\$ 65,719	\$ 49,449	\$189,624	\$158,769
Common shares outstanding	151,632	153,968	151,886	156,246
Incremental shares from assumed exercise of dilutive options	3,104	3,185	2,849	3,098
Total shares	154,736	157,153	154,735	159,344
Earnings per common share - diluted	\$ 0.42	\$ 0.31	\$ 1.23	\$ 1.00

Options to purchase 102,237 and 2,263,367 shares of common stock that were outstanding during the quarters ended September 30, 2007 and September 30, 2006, 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 options outstanding during the nine months ended September 30, 2007 and September 30, 2006 were 1,423,623 and 2,634,220, respectively.

NOTE 5 - BUSINESS ACQUISITIONS

The acquisition related activity for the nine months ended September 30, 2007 of \$104.6 million, net of cash acquired, was related to five acquisitions in 2007 and earn-out payments on acquisitions from prior years. The following list provides information about the acquired companies:

- Sultan Healthcare, Inc., based in New Jersey, is a well-known United States dental consumable manufacturer recognized primarily for infection control products, dental materials and preventive products;
- DFT Dis Hekimligi Urunleri A.S. Ata Anil ("DFT") is a sales and marketing organization for implant products in Turkey;
- NEKS Technologies, Inc. is a dental equipment manufacturer in Quebec, Canada, which develops and commercializes proprietary, non-invasive, handheld dental instruments for early diagnosis of pathologies;
- TMV Medica SA is a sales and marketing organization for implant products in Spain; and
- Sportswire LLC is a manufacturer of Endodontic materials based in Oklahoma.

The purchase agreements for the Sultan Healthcare, Inc. and DFT acquisitions provide for additional payments to be made based upon the operating performance of the business. The NEKS Technologies, Inc. purchase agreement also provides for an additional payment to be made based upon the operating performance of the business through 2010. The results of operations for the five businesses have been included in the accompanying financial statements since the effective date of the respective transaction.

The purchase prices have been allocated on the basis of preliminary estimates of the fair values of assets acquired and liabilities assumed. As of September 30, 2007, the Company has recorded a total of \$86.1 million in goodwill related to the unallocated portions of the respective purchase prices. Of this total amount of goodwill, \$83.8 million is expected to be fully deductible for tax purposes. Goodwill was assigned to the following 3 segments:

- \$75.7 million to United States, Germany, and Certain Other European Regions Consumable Businesses;
- \$8.1 million Canada/ Latin America/ Endodontics/ Orthodontics; and,
- \$2.3 million to Global Dental Laboratory Business/ Implants/Non-Dental.

Several of the Company's 2005 acquisitions included provisions for possible additional payments based on the performance of the individual businesses post closing (generally for two to three years). During the first half of 2007, the Company paid \$7.2 million in additional purchase price under these agreements.

NOTE 6 - SEGMENT INFORMATION

The Company follows Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 establishes standards for disclosing information about reportable segments in financial statements. 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% and 98% of sales for the periods ended September 30, 2007 and 2006, respectively.

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 under SFAS 131 as the Company's chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company's operations. The accounting policies of the groups are consistent with those described in the most recently filed 10-K Consolidated Financial Statements in the summary of significant accounting policies. The Company measures segment income for reporting purposes as net operating profit before restructuring, interest and taxes.

In January 2007, the Company reorganized its operating group structure expanding into four operating groups from the three groups under the prior management structure. The segment information below reflects this revised structure and the services provided with each segment 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.

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

This business group includes responsibility for the sales and distribution for chairside consumable products and certain small equipment, certain laboratory products, and certain Endodontic products in France, United Kingdom, Italy, the Commonwealth of Independent States ("CIS"), Middle East, Africa, Asia, 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 manufacturing and sale of Orthodontic products, the manufacturing of 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 chairside consumable and laboratory products in Brazil. It also has responsibility for the sales and distribution of most Company 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 sales and distribution of certain Company Endodontic products in the United States, Canada, Switzerland, Benelux, Scandinavia, and Eastern Europe, and 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. This business group is also responsible for sales and distribution in the United States for implant and bone substitute/grafting materials and the distribution of implants in Brazil.

Global Dental Laboratory Business/Implants/Non-Dental

This business group includes the responsibility for the design, manufacture, world-wide sales and distribution for laboratory products, excluding certain laboratory products mentioned earlier, 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, Asia, Australia and sales and distribution of implants in Brazil. This business group is also responsible for the Company's non-dental business.

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

Generally, the Company evaluates performance of the operating groups based on the groups' operating income and net third party sales excluding precious metal content. The following tables set forth information about the Company's operating groups for the three months and nine months ended September 30, 2007 and 2006:

Third Party Net Sales

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in thousands)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 120,313	\$ 110,517	\$ 326,947	\$ 308,666
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	85,748	76,599	270,458	236,888
Canada/Latin America/Endodontics/Orthodontics	142,437	124,352	426,890	385,331
Global Dental Laboratory Business/Implants/Non-Dental	141,047	126,727	447,790	412,765
All Other (a)	(1,442)	(2,470)	(3,756)	(4,485)
Total	\$ 488,103	\$ 435,725	\$ 1,468,329	\$ 1,339,165

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Third Party Net Sales, excluding precious metal content

	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
	(in thousands)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 120,313	\$ 110,516	\$ 326,947	\$ 308,666
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	80,635	71,000	252,698	220,356
Canada/Latin America/Endodontics/Orthodontics	141,588	123,545	424,067	382,851
Global Dental Laboratory Business/Implants/Non-Dental	104,238	92,253	330,750	294,395
All Other (a)	(1,442)	(2,469)	(3,756)	(4,484)
Total excluding Precious Metal Content	445,332	394,845	1,330,706	1,201,784
Precious Metal Content	42,771	40,880	137,623	137,381
Total including Precious Metal Content	\$ 488,103	\$ 435,725	\$ 1,468,329	\$ 1,339,165

(a) Includes: amounts recorded at Corporate headquarters.

Inter-segment Net Sales

	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
	(in thousands)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 36,096	\$ 34,709	\$ 108,464	\$ 104,172
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	2,028	2,565	8,402	7,314
Canada/Latin America/Endodontics/Orthodontics	21,515	16,503	66,334	53,209
Global Dental Laboratory Business/Implants/Non-Dental	11,124	25,003	59,492	59,556
All Other (a)	36,675	31,257	108,876	95,002
Eliminations	(107,438)	(110,037)	(351,568)	(319,253)
Total	\$ -	\$ -	\$ -	\$ -

Segment Operating Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in thousands)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 38,823	\$ 45,843	\$ 110,625	\$ 116,914
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	1,373	(573)	6,091	147
Canada/Latin America/Endodontics/Orthodontics	43,386	38,756	131,954	128,578
Global Dental Laboratory Business/Implants/Non-Dental	21,675	18,963	79,202	66,715
All Other (b)	(17,975)	(25,599)	(61,689)	(71,031)
Segment Operating Income	87,282	77,390	266,183	241,323
Reconciling Items:				
Restructuring and other costs	(4,692)	1,149	(8,889)	(6,184)
Interest Expense	(7,138)	(9,062)	(16,803)	(25,207)
Interest Income	6,613	9,646	20,109	26,917
Other income (expense), net	(220)	(638)	337	(1,089)
Income before income taxes	\$ 81,845	\$ 78,485	\$ 260,937	\$ 235,760

(a) Includes: the results of 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.

Assets

	September 30, 2007 (in thousands)	December 31, 2006
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 297,355	\$ 273,233
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	308,370	271,999
Canada/Latin America/Endodontics/Orthodontics	748,609	705,321
Global Dental Laboratory Business/Implants/Non-Dental	750,742	682,879
All Other (a)	509,841	247,918
Total	\$ 2,614,917	\$ 2,181,350

(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, 2007 and December 31, 2006, the cost of \$11.2 million, or 4.0%, and \$11.2 million, or 4.8%, 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 \$28.3 million and \$26.3 million as of September 30, 2007 and December 31, 2006, 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, 2007 and December 31, 2006 by \$3.2 million and \$3.3 million, respectively.

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

	September 30, 2007 (in thousands)	December 31, 2006
Finished goods	\$ 175,708	\$ 143,167

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Work-in-process	48,567	43,855
Raw materials and supplies	52,782	45,419
	\$ 277,057	\$ 232,441

NOTE 8 - BENEFIT PLANS

The Company adopted SFAS 158 for the year ended December 31, 2006 using the prospective method as required by the statement. The Company has early adopted the provision of SFAS 158 that requires the alignment of the measurement date and the year-end balance sheet date for the 2007 fiscal year. The net of tax adjustment to retained earnings was \$0.4 million.

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, 2007 and September 30, 2006, respectively:

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands)			
Service cost	\$ 1,700	\$ 1,702	\$ (1)	\$ 9
Interest cost	1,814	1,426	169	55
Expected return on plan assets	(1,075)	(932)	-	-
Amortization of transition obligation	54	53	-	-
Amortization of prior service cost	50	30	(96)	(117)
Amortization of net loss	308	263	110	9
Net periodic benefit cost	\$ 2,851	\$ 2,542	\$ 182	\$ (44)

	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands)			
Service cost	\$ 5,014	\$ 4,928	\$ 31	\$ 55
Interest cost	5,245	4,368	430	447
Expected return on plan assets	(3,075)	(2,796)	-	-
Amortization of transition obligation	161	156	-	-
Amortization of prior service cost	111	87	(289)	(514)
Amortization of net loss	906	777	172	168
Net periodic benefit cost	\$ 8,362	\$ 7,520	\$ 344	\$ 156

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The following sets forth the information related to the funding of the Company's benefit plans for 2007:

	Pension Benefits	Other Postretirement Benefits
	(in thousands)	
Actual, September 30, 2007	\$ 6,632	\$ 444
Projected for the remainder of the year	1,516	225
Total for year	\$ 8,148	\$ 669

NOTE 9 - RESTRUCTURING AND OTHER COSTS (INCOME), NETRestructuring Costs*2007 Plans*

During 2007, the Company initiated several restructuring plans primarily related to the closure and consolidation of certain production and selling facilities in Europe, China and South America in order to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. During the nine months ended September 30, 2007, the Company recorded charges of \$2.0 million for severance and other restructuring costs. The plans include the elimination of approximately 25 positions, with 12 of these positions having been eliminated as of September 30, 2007. The major components of these charges and the remaining outstanding balances at September 30, 2007 are as follows:

	2007 Provisions (in thousands)	Amounts Applied 2007	Balance September 30, 2007
Severance	\$ 1,269	\$ (265)	\$ 1,004
Lease/contract terminations	106	-	106
Other restructuring costs	606	(423)	183
	\$ 1,981	\$ (688)	\$ 1,293

2006 Plans

During 2006, the Company initiated several restructuring plans primarily related to the closure and consolidation of certain production and selling facilities in the United States and Europe in order to better leverage the Company's resources by reducing costs and obtaining operational efficiencies. During the nine months ended September 30, 2007, the Company recorded charges of \$1.8 million for additional severance and other restructuring costs. The plans include the elimination of approximately 115 positions, with 79 of these positions having been eliminated as of September 30, 2007. These plans are expected to be substantially completed by the end of 2007. The major components of these charges and the remaining outstanding balances at September 30, 2007 are as follows:

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	2006	Amounts Applied 2006	2007	Amounts Applied 2007	Change in Estimate 2007	Balance September 30, 2007
	(in thousands)					
Severance	\$ 2,205	\$ -	\$ 468	\$(1,779)	\$ (240)	\$ 654
Lease/Contract terminations	-	-	33	(33)	-	-
Other restructuring costs	73	-	1,325	(1,131)	(260)	7
	\$ 2,278	\$ -	\$ 1,826	\$(2,943)	\$ (500)	\$ 661

2005 Plans

During 2005, the Company initiated several restructuring plans primarily related to the shutdown of the pharmaceutical manufacturing facility outside of Chicago. In addition, these costs related to the consolidation of certain United States production facilities in order to better leverage the Company's resources. The primary objective of these initiatives is to reduce costs and obtain operational efficiencies. As of September 30, 2007, the shutdown of the pharmaceutical manufacturing facility has been substantially completed. During the nine months ended September 30, 2007, the Company recorded charges of \$0.3 million primarily for additional severance costs and other restructuring costs. The plans include the elimination of approximately 155 administrative and manufacturing positions, all within the United States, with 148 of these positions having been eliminated as of September 30, 2007. The Company does not expect any significant future expenses related to these plans. The major components of these charges and the remaining outstanding balances at September 30, 2007 are as follows:

	2005	2006	Amounts Applied 2006	Change in Estimate 2006	2007	Amounts Applied 2007	Change in Estimate 2007	Balance September 30, 2007
	(in thousands)							
Severance	\$ 2,400	\$ 3,570	\$(4,420)	\$ (523)	\$ 313	\$ (850)	\$ (82)	\$ 408
Lease/contract terminations	-	184	(184)	-	-	-	-	-
Other restructuring costs	-	5,882	(5,882)	-	15	(15)	-	-
	\$ 2,400	\$ 9,636	\$(10,486)	\$ (523)	\$ 328	\$ (865)	\$ (82)	\$ 408

2004 Plans

During 2004, the Company initiated several restructuring plans primarily related to the creation of a European Shared Services Center in Yverdon, Switzerland, which resulted in the identification of redundant personnel in the Company's European accounting functions. In addition, these costs related to the consolidation of certain sales/customer service and distribution facilities in Europe and Japan. The primary objective of these restructuring initiatives is to improve operational efficiencies and to reduce costs within the related businesses. The plans include the elimination of approximately 105 administrative and manufacturing positions primarily in Germany. Certain of these positions are being replaced at the European Shared Services Center and therefore the net reduction

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in positions is expected to be 52. As of September 30, 2007, 42 of these positions have been eliminated. These plans are expected to be fully completed in early 2008. The major components of these charges and the remaining outstanding balances at September 30, 2007 are as follows:

	2004	Amounts Applied 2004	2005 Provisions	Change in Estimate 2005	Amounts Applied 2005	Balance Year Ended 2005
(in thousands)						
Severance	\$ 4,877	\$ (583)	\$ 322	\$ (1,168)	\$ (1,740)	\$ 1,708
Lease/contract terminations	881	-	190	-	(435)	636
	\$ 5,758	\$ (583)	\$ 512	\$ (1,168)	\$ (2,175)	\$ 2,344

	Balance Year Ended 2005	2006 Provisions	Amounts Applied 2006	Change in Estimate 2006	2007 Provisions	Amounts Applied 2007	Change in Estimate 2007	Balance September 30, 2007
(in thousands)								
Severance	\$ 1,708	\$ 118	\$ (632)	\$ (275)	\$ 40	\$ (213)	\$ (73)	\$ 673
Lease/contract terminations	636	-	(204)	-	-	(87)	-	345
	\$ 2,344	\$ 118	\$ (836)	\$ (275)	\$ 40	\$ (300)	\$ (73)	\$ 1,018

Other Costs

During the nine months ended September 30, 2007, the Company recorded a total of \$5.4 million related to several legal claims.

NOTE 10 – FINANCIAL INSTRUMENTS AND DERIVATIVES

The Company uses interest rate swaps, cross currency interest rate swaps, commodity swaps, forward exchange contracts, and foreign currency denominated debt held at the parent company level to manage risks generally associated with foreign exchange rates, interest rates and commodity price fluctuations. The aggregate net fair value of the Company's derivative instruments at September 30, 2007 and December 31, 2006 was negative \$112.6 million and negative \$53.4 million, respectively. For a more detailed discussion of the Company's derivative instruments, refer to the Company's 2006 Annual Report on Form 10-K.

Cash Flow Hedges

The Company uses interest rate swaps to convert a portion of its variable rate debt to fixed rate debt. The Company selectively enters into commodity swaps to effectively fix certain variable raw material costs. The Company enters into forward exchange contracts to hedge the foreign currency exposure of its anticipated purchases of certain inventory from Japan. In addition, forward exchange contracts are used by certain of the Company's subsidiaries to hedge intercompany inventory purchases, which are denominated in non-local currencies.

Amounts recorded in accumulated other comprehensive income (loss) related to cash flow hedging instruments follow:

<u>Net of Tax</u>	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
	(in thousands)			
Beginning balance	\$(1,677)	\$(2,603)	\$(3,003)	\$(5,856)
Changes in fair value of derivatives	(71)	(2,790)	507	(445)
Reclassifications to earnings from equity	377	849	1,125	1,757
Total activity	306	(1,941)	1,632	1,312
Ending balance	\$(1,371)	\$(4,544)	\$(1,371)	\$(4,544)

As of September 30, 2007, \$1.2 million of deferred net losses on derivative instruments in accumulated other comprehensive income are expected to be reclassified to current earnings during the next twelve months.

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.

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Amounts recorded in accumulated other comprehensive income (loss) related to hedges of net investments in foreign operations follow:

<u>Net of Tax</u>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in thousands)			
Beginning balance	\$126,603	\$84,567	\$106,248	\$76,570
Foreign currency translation adjustment	63,017	(9,484)	87,798	51,241
Changes in fair value of:				
foreign currency debt	(7,603)	4,308	(4,848)	(7,533)
derivative hedge instruments	(30,888)	7,864	(38,069)	(33,023)
Total activity	24,526	2,688	44,881	10,685
Ending balance	\$151,129	\$87,255	\$151,129	\$87,255

NOTE 11 - COMMITMENTS AND CONTINGENCIES

On January 5, 1999, the Department of Justice filed a Complaint against the Company in the United States District Court in Wilmington, Delaware alleging that the Company's tooth distribution practices violated the antitrust laws and seeking an order for the Company to discontinue its practices. This case has been concluded and the District Court, upon the direction of the Court of Appeals, issued an injunction preventing DENTSPLY from taking action to restrict its tooth dealers from adding new competitive teeth lines. This decision relates only to the distribution of artificial teeth in the United States and, notwithstanding the outcome of this case, the Company is confident that it can continue to develop this business.

Subsequent to the filing of the Department of Justice Complaint in 1999, several private party class actions were filed based on allegations similar to those in the Department of Justice case, on behalf of dental laboratories, and denture patients in seventeen states who purchased Trubyte teeth or products containing Trubyte teeth. These cases were transferred to the United States District Court in Wilmington, Delaware. The private party suits seek damages in an unspecified amount. The Court granted the Company's Motion on the lack of standing of the laboratory and patient class actions to pursue damage claims. The Plaintiffs in the laboratory case 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' petition to the United States Supreme Court asking it to review this decision of the Third Circuit was denied. The Plaintiffs in the laboratory case 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. Dentsply and the dealers filed Motions to dismiss plaintiffs' claims, except for the resale price maintenance claims. The District Court has granted the Motions filed by Dentsply and the dealers, leaving only the resale price maintenance claim. Additionally, manufacturers of two competitive tooth lines and a dealer, as a putative class action, have filed separate actions seeking damages alleged to have been incurred as a result of the Company's tooth distribution practice found to be a violation of the antitrust law.

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On March 27, 2002, a Complaint was filed in Alameda County, California (which was transferred to Los Angeles County) by Bruce Glover, DDS alleging, inter alia, breach of express and implied warranties, fraud, unfair trade practices and negligent misrepresentation in the Company's manufacture and sale of Advance® cement. The Judge entered an Order granting class certification, as an opt-in class, which was later converted to an opt-out class. In general, the Class is defined as California dentists who purchased and used Advance® cement and were required, because of failures of the cement, to repair or reperform dental procedures for which they were not paid. The parties entered a settlement agreement, which was approved by the Court at a fairness hearing on June 15, 2007. The settlement establishes a procedure by which dentists, who believe they were required to perform dental work because of a problem caused by Advance® cement, can submit claims for review and reimbursement of unpaid fees. The Company's primary level insurance carrier has confirmed coverage for claims in this matter up to one million dollars, their asserted policy limits. Litigation is pending with the Company's excess insurance carrier regarding the level and coverage of their insurance for this case.

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 based on assertions that the Cavitron was sold in breach of contract and warranty arising from misrepresentations about the potential uses of the product because it cannot deliver potable or sterile water. The Complaint seeks a refund of the purchase price paid for Cavitron scalers.

NOTE 12 - FINANCING ARRANGEMENTS

During the first quarter of 2007, the Company entered into a purchase agreement with a group of initial purchasers, providing for the issuance by the Company of \$150.0 million aggregate principal amount of floating rate Senior Notes due 2010 through a private placement. The net proceeds from the offering after deducting placement fees and expenses of the offering were \$149.5 million. The obligations of the Company and the initial purchasers are subject to the terms and conditions of the Note Purchase Agreement.

DENTSPLY International Inc.

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

In accordance with the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995, DENTSPLY International Inc. ("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 most recent Annual Report on Form 10-K as filed on February 23, 2007. Investors are further cautioned that the risk factors in Item 1A, Part I of Company's most recent Annual Report on Form 10-K may not be exhaustive and that many of these factors are beyond the Company's ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. The Company undertakes no duty and has no obligation to update forward-looking statements.

OVERVIEW

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

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

Management believes that an average overall internal growth rate of 4-6% is a long-term sustainable rate for the Company. This annualized growth rate expectation typically includes approximately 1-2% of price increases. The Company typically implements most of its price changes in the beginning of the fourth quarter of the year. These price changes, other marketing and promotional programs offered to customers from time to time, the management of inventory levels by distributors and the implementation of strategic initiatives, may impact sales levels in a given period.

During the nine months ended September 30, 2007, the Company's overall internal growth was approximately 6.2% compared to 4.3% for the full year 2006. Internal growth rates in the United States and Europe, the largest dental markets in the world, were 3.9% and 8.0%, respectively during the first nine months of 2007 compared to 1.1% and 4.9%, respectively for the full year 2006. The internal growth rate in all other regions during the nine months ended September 30, 2007 was 8.3%, compared to 10.8% for the full year 2006.

Product innovation is a key component of the Company's overall growth strategy. Through the first nine months of 2007, the Company continued to introduce multiple new products or significant product enhancements. New advances in technology are anticipated to have a significant influence on future products in dentistry. As a result, the Company has pursued 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 other third parties. Although the Company believes these activities will lead to new innovative dental products, they involve new technologies and there can be no assurance that commercialized products will be developed.

Although the professional dental market in which the Company operates has experienced consolidation, it is still a fragmented industry. The Company continues to focus on opportunities to expand the Company's product offerings through acquisitions and investments in companies. Management believes that there will continue to be adequate opportunities to participate as a consolidator or investor in the industry for the foreseeable future. As further discussed in Note 5 to the Unaudited Interim Consolidated Condensed Financial Statements, the Company has purchased several businesses during 2007.

The Company also remains focused on reducing costs and achieving operational efficiencies. Management expects to continue to consolidate operations or functions to reduce costs while improving service levels. In addition, the Company remains focused on enhancing efficiency through expanded use of technology, process improvement initiatives and new marketing strategies. The Company believes that the benefits from these opportunities will improve the cost structure and offset areas of rising costs such as energy, benefits, regulatory oversight and compliance and financial reporting.

In 2006, the Company entered into a new U.S.-based Strategic Partnership Program, designed to significantly improve its ability to collaborate with and provide value to its key distributor partners. This program encompasses all of the Company's divisions selling through United States dental distributors and has resulted in a consolidated network of United States distributors, which represented over 90% of the Company's distributor-based business in the United States.

RESULTS OF OPERATIONS, QUARTER ENDED SEPTEMBER 30, 2007 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2006

Net Sales

The discussion below summarizes the Company's sales growth, excluding precious metals, from internal growth and net acquisition growth and highlights the impact of foreign currency translation. The recent acquisitions did not have a significant impact on sales growth during the first nine months of 2007. These disclosures of net sales growth provide the reader with sales results on a comparable basis between periods.

Management believes that the presentation of net sales excluding precious metal content provides useful information to investors because a significant portion of DENTSPLY's net sales is comprised of sales of precious metals generated through sales of the Company's precious metal alloy products, which are used by third parties to construct crown and bridge solutions. 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.

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

Three Months Ended

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	September 30, 2007	2006	\$ Change	% Change
	(in millions)			
Net sales	\$ 488.1	\$ 435.7	\$ 52.4	12.0%
Precious metal content of sales	(42.8)	(40.9)	(1.9)	4.6%
Net sales, excluding precious metal content	\$ 445.3	\$ 394.8	\$ 50.5	12.8%

The net sales growth for the three months ended September 30, 2007 of 12.8%, excluding precious metal content, was comprised of 6.0% of internal growth, 3.9% of foreign currency translation and 2.9% for net acquisitions. The 6.0% internal growth for the three months ended September 30, 2007 was comprised of 3.2% in the United States, 7.2% in Europe and 10.4% for all other regions combined.

Internal Sales Growth

	Three Months Ended September 30,	
	2007	2006
United States	3.2%	3.2%
Europe	7.2%	2.9%
Other regions	10.4%	8.2%

United States

The internal sales growth of 3.2%, excluding precious metal content, in the United States was primarily a result of improvement in growth rates for our laboratory products, continued growth in the Implants and Orthodontics categories and lower sales in the dental consumable category.

Europe

In Europe, the internal sales growth of 7.2%, excluding precious metal content, was due to strong performance in all of the specialty businesses and was partially offset by lower sales in the dental consumable category.

All Other Regions

The internal sales growth of 10.4% in all other regions was primarily the result of strong sales growth in Asia (excluding Japan), Latin America, Middle East, Canada and Australia.

Gross Profit

	Three Months Ended September 30,		\$ Change	% Change
	2007	2006		
	(dollars in millions)			
Gross Profit	\$ 253.0	\$ 225.9	\$ 27.1	12.0%

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Gross Profit as a percentage of net sales, including precious metal content	51.8%	51.8%
Gross Profit as a percentage of net sales, excluding precious metal content	56.8%	57.2%

The 0.4% decrease from September 30, 2006 to 2007 in the gross profit as a percentage of net sales, excluding precious metal content, was due to unfavorable product mix, business acquisitions, and unfavorable price variances related to the weakening U.S. dollar, partially offset by the Company's lean manufacturing initiatives.

Operating Expenses

	Three Months Ended		\$ Change	% Change
	September 30, 2007	2006		
	(in millions)			
Selling, general and administrative expenses ("SG&A")	\$ 165.7	\$ 148.5	\$ 17.2	11.6%
Restructuring and other costs (income), net	\$ 4.7	\$ (1.1)	\$ 5.8	NM

SG&A Expenses

SG&A expenses, measured against sales including precious metal content, decreased to 33.9% for the three months ended September 30, 2007 compared to 34.1% for the three months ended September 30, 2006. SG&A expenses, measured against sales excluding precious metal content, decreased to 37.2% in 2007 compared to 37.6% in 2006. This decrease is a result of a reduction in general and administrative expenses and a reduction in stock compensation expense as a result of accelerated vesting in 2006. Currency translation partially offset this decrease.

Restructuring and Other Costs (Income), Net

During the quarter ended September 30, 2007, the Company recorded restructuring and other costs of \$4.7 million. The costs associated with the quarter ended September 30, 2007 related to costs for achieving operational efficiencies and several legal claims.

Other Income and Expense

	Three Months Ended		Change
	September 30, 2007	2006	
	(in millions)		
Net interest expense (income)	\$ 0.5	\$ (0.5)	\$ 1.0
Other expense, net	0.2	0.6	(0.4)
Net interest and other expense	\$ 0.7	\$ 0.1	\$ 0.6

Net Interest Expense (Income)

The increase in net interest expense was mainly the result of higher interest rates and a weaker U.S. dollar, offset by lower average net debt levels in 2007 compared to the prior year period.

Other Expense, Net

Other expense in the 2007 period included approximately \$0.2 million of currency transaction losses. The 2006 period included \$0.2 million of currency transaction losses and \$0.4 million of other non-operating losses.

Income Taxes and Net Income

The Company's effective tax rate for the three months ended September 30, 2007 decreased to 19.7% from 37.0% for the same period in 2006. This decrease primarily related to a German Business Tax Reform Act, which was signed into law during the third quarter of 2007. This legislation had a favorable impact on the Company's deferred taxes and resulted in a net one-time favorable adjustment to tax expense.

Net income increased \$16.3 million, or 32.9%, to \$65.7 million in 2007 from \$49.4 million in 2006. Fully diluted earnings per share were \$0.42 in 2007, an increase of 35.5% from \$0.31 in 2006. Net income in the third quarter of 2007 included restructuring and other costs, net of tax, of \$3.0 million, or \$0.02 per diluted share, and a net reduction to income tax expense of \$7.8 million, or \$0.05 per diluted share, from tax related adjustments. Net income for the three months ended September 30, 2006 included restructuring and other income, net of tax, of \$0.6 million, or less than \$0.01 per diluted share, and a net charge to income tax expense of \$3.4 million, or \$0.02 per diluted share, from tax related adjustments.

Operating Segment Results

In January 2007, the Company reorganized its operating group structure expanding into four operating groups from the three groups under the prior management structure. These four operating groups are managed by two Senior Vice Presidents, a Franchise Vice President and an Executive Vice President and represent our operating segments. Each of these operating groups covers a wide range of product categories and geographic regions. The product categories and geographic regions often overlap across the groups. Further information regarding the details of each group is presented in Note 6 of the Unaudited Interim Consolidated Condensed Financial Statements. The management of each group is evaluated for performance and incentive compensation purposes on net third party sales excluding precious metal content and segment operating income.

Third Party Net Sales, excluding precious metal content

	Three Months Ended		\$ Change	% Change
	September 30, 2007	2006		
	(dollars in millions)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 120.3	\$ 110.5	\$ 9.8	8.9%

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France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	\$ 80.6	\$ 71.0	\$ 9.6	13.6%
Canada/Latin America/Endodontics/ Orthodontics	\$ 141.6	\$ 123.5	\$ 18.1	14.6%
Global Dental Laboratory Business/ Implants/Non-Dental	\$ 104.2	\$ 92.3	\$ 11.9	13.0%

Segment Operating Income

	Three Months Ended September 30,		\$ Change	% Change
	2007	2006		
	(dollars in millions)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 38.8	\$ 45.8	\$ (7.0)	-15.3%
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	\$ 1.4	\$ (0.6)	\$ 2.0	NM
Canada/Latin America/Endodontics/ Orthodontics	\$ 43.4	\$ 38.8	\$ 4.6	11.9%
Global Dental Laboratory Business/ Implants/Non-Dental	\$ 21.7	\$ 19.0	\$ 2.7	14.3%
<u>United States, Germany, and Certain Other European Regions Consumable Businesses</u>				

Net sales for this group increased 8.9% during the three months ended September 30, 2007 compared to 2006. Internal growth was negative as a result of reduced shipments and reduced dealer promotional activities compared to the prior year in advance of fourth quarter price increases. In addition, during the third quarter of 2006, the U.S.-based Strategic Partnership Program was announced and would be effective in the late 2006. As a result, several distributors purchased additional inventories before the program became effective. The group was positively impacted by acquisition activity and currency translation.

Operating income decreased \$7.0 million during the quarter ended September 30, 2007 compared to 2006. The decrease was primarily related to higher expense allocation from Corporate headquarters of sales and marketing expenses to better reflect activity within the segment, negative internal growth, and partially offset by the favorable impact of acquisition activity and currency translation.

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

Net sales increased 13.6% during the three months ended September 30, 2007 compared to 2006. Strong internal growth occurred in the CIS, Middle East, United Kingdom and Australia businesses. Currency translation also added to the positive growth.

Operating income increased \$2.0 million during the quarter ended September 30, 2007 compared to 2006. The increase was primarily related to sales growth.

Canada/Latin America/Endodontics/Orthodontics

Net sales increased 14.6% during the three months ended September 30, 2007 compared to 2006. Strong growth continued in the Canada, Endodontic and Orthodontic businesses, and improved growth occurred in the Latin American businesses. Currency translation also added to the positive growth.

Operating income increased \$4.6 million during the quarter ended September 30, 2007 compared to 2006. Increases in operating income occurred in the Canada, Endodontic and Orthodontic businesses.

Global Dental Laboratory Business/Implants/Non-Dental

Net sales increased 13.0% during the three months ended September 30, 2007 compared to 2006. Significant growth occurred in the Implant business and moderate growth in the Global Dental Laboratory and the Non-Dental businesses. Currency translation also added to the positive growth.

Operating income increased \$2.7 million during the quarter ended September 30, 2007 compared to 2006. The increase in operating profits was driven primarily by the sales growth in the Implant business. In addition, operating profit was positively impacted from currency translation.

RESULTS OF CONTINUING OPERATIONS, NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2006**Net Sales**

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

	Nine Months Ended September 30,			
	2007	2006	\$ Change	% Change
	(in millions)			
Net sales	\$ 1,468.3	\$ 1,339.2	\$ 129.1	9.6%
Precious metal content of sales	(137.6)	(137.4)	(0.2)	0.1%
Net sales, excluding precious metal content	\$ 1,330.7	\$ 1,201.8	\$ 128.9	10.7%

The net sales growth for the nine months ended September 30, 2007 of 10.7%, excluding precious metal content, was comprised of 6.2% of internal growth, 3.5% of foreign currency translation and 1.0% for net acquisitions. The 6.2% of internal growth for the nine months ended September 30, 2007 was comprised of 3.9% in the United States, 8.0% in Europe and 8.3% for all other regions combined.

Internal Sales Growth

	Nine Months Ended September 30,	
	2007	2006
United States	3.9%	3.5%
Europe	8.0%	7.1%
Other regions	8.3%	5.5%

United States

The internal sales growth of 3.9%, excluding precious metal content, in the United States was primarily a result of continued solid growth in the Orthodontic business and improvement in preventative products.

Europe

In Europe, the internal sales growth of 8.0%, excluding precious metal content, was led by strong continued performance in all of the specialty businesses.

All Other Regions

The internal sales growth of 8.3% in all other regions was primarily the result of strong sales growth in Asia (excluding Japan), Middle East, Canada and Australia.

Gross Profit

	Nine Months Ended September 30,		\$ Change	% Change
	2007	2006		
	(dollars in millions)			
Gross Profit	\$ 768.1	\$ 688.2	\$ 79.9	11.6%

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Gross Profit as a percentage of net sales, including precious metal content	52.3%	51.4%
Gross Profit as a percentage of net sales, excluding precious metal content	57.7%	57.3%

The 0.4% increase for the nine months ended September 30, 2006 to 2007 in the gross profit as a percentage of net sales, excluding precious metal content, was primarily due to favorable product mix and the Company's lean manufacturing initiatives. The increase was partially offset by business acquisitions. Product mix is favorable primarily based on continued growth in Implants.

Operating Expenses

	Nine Months Ended		\$ Change	% Change
	September 30, 2007	2006		
	(in millions)			
Selling, general and administrative expenses ("SG&A")	\$ 501.9	\$ 446.9	\$ 55.0	12.3%
Restructuring and other costs, net	\$ 8.9	\$ 6.2	\$ 2.7	43.7%

SG&A Expenses

SG&A expenses, measured against sales including precious metal content, increased to 34.2% in 2007 compared to 33.4% in 2006. SG&A expenses, measured against sales excluding precious metal content, increased to 37.7% in 2007 from 37.2% in 2006. The increase in the SG&A expenses is primarily a result of increased sales and marketing expenditures to support growth in the specialty businesses offset by a reduction in stock compensation expense as a result of accelerated vesting in 2006. Currency translation also contributes to the increase in SG&A.

Restructuring and Other Costs, Net

During the nine months ended September 30, 2007, the Company recorded restructuring and other costs of \$8.9 million. The costs associated with the nine months ended September 30, 2007 related to costs for achieving operational efficiencies and several legal claims. (See also Note 9 to the Unaudited Interim Consolidated Condensed Financial Statements).

Other Income and Expense

	Nine Months Ended		Change
	September 30, 2007	2006	
	(in millions)		
Net interest income	\$ (3.3)	\$ (1.7)	\$ (1.6)
Other (income) expense, net	(0.3)	1.1	(1.4)
Net interest and other income	\$ (3.6)	\$ (0.6)	\$ (3.0)

Net Interest Income

The increase in net interest income was mainly the result of lower average net debt levels in 2007 compared to the prior year period, offset by higher interest rates and a weaker U.S. dollar.

Other (Income) Expense, Net

Other income in the 2007 period included approximately \$0.3 million of currency transaction gains. The 2006 period included \$0.1 million of currency transaction losses and \$1.0 million of other non-operating costs.

Income Taxes and Net Income

The Company's effective tax rate for the nine months ended September 30, 2007 decreased to 27.3% from 32.7% for the same period in 2006. This decrease primarily related to a German Business Tax Reform Act, which was signed into law during the third quarter of 2007. This legislation had a favorable impact on the Company's deferred taxes and resulted in a net one-time favorable adjustment to tax expense. The operational tax rate for the nine months ended September 30, 2007 was 30.2%.

Net income increased \$30.9 million, or 19.4%, to \$189.6 million in 2007 from \$158.8 million in 2006. Fully diluted earnings per share were \$1.23 in 2007, an increase of 23.0% from \$1.00 in 2006. Net income for the nine months ended September 30, 2007 included restructuring and other costs, net of tax, of \$5.7 million or \$0.04 per diluted share, and a net tax reduction of \$7.4 million, or \$0.05 per diluted share, due to tax related adjustments. Net income for the nine months ended September 30, 2006 included the after tax impact from restructuring costs of \$4.1 million, or \$0.03 per diluted share, and a net tax charge of \$4.0 million, or \$0.03 per diluted share, due to tax related adjustments.

Operating Segment ResultsThird Party Net Sales, excluding precious metal content

	Nine Months Ended September 30,		\$ Change	% Change
	2007	2006		
	(dollars in millions)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 326.9	\$ 308.7	\$ 18.2	5.9%
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	\$ 252.7	\$ 220.4	\$ 32.3	14.7%
Canada/Latin America/Endodontics/ Orthodontics	\$ 424.1	\$ 382.9	\$ 41.2	10.8%
Global Dental Laboratory Business/ Implants/Non-Dental	\$ 330.8	\$ 294.4	\$ 36.4	12.3%

Segment Operating Income

	Nine Months Ended September 30,		\$ Change	% Change
	2007	2006		
	(dollars in millions)			
U.S., Germany, and Certain Other European Regions Consumable Businesses	\$ 110.6	\$ 116.9	\$ (6.3)	-5.4%
France, U.K., Italy, CIS, Middle East, Africa, Pacific Rim Businesses	\$ 6.1	\$ 0.1	\$ 6.0	NM
Canada/Latin America/Endodontics/ Orthodontics	\$ 132.0	\$ 128.6	\$ 3.4	2.6%
Global Dental Laboratory Business/ Implants/Non-Dental	\$ 79.2	\$ 66.7	\$ 12.5	18.7%

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

Net sales increased 5.9% during the nine months ended September 30, 2007 compared to 2006. Internal growth was hindered by the initial implementation of the U.S.-based Strategic Partnership Program and reduced promotional activity in Germany in advance of the fourth quarter price increase. During the third quarter of 2006, the U.S.-based Strategic Partnership Program was announced

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and would be effective in late 2006. As a result, several distributors purchased additional inventories before the program became effective. Currency translation and acquisition activity positively contributed to the overall growth.

Operating income decreased \$6.3 million during the nine months ended September 30, 2007 compared to 2006. The decrease was primarily related to higher expense allocation from Corporate headquarters of sales and marketing expenses to better reflect activity within the segment and partially offset by the favorable impact from acquisition activity and currency translation.

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

Net sales increased 14.7% during the nine months ended September 30, 2007 compared to 2006. Strong internal growth occurred in the CIS, Middle East, United Kingdom, Asia (excluding Japan) and Australia businesses. Currency translation also added to the positive growth.

Operating income increased \$6.0 million during the nine months ended September 30, 2007 compared to 2006. The increase was primarily related to sales growth.

Canada/Latin America/Endodontics/Orthodontics

Net sales increased 10.8% during the nine months ended September 30, 2007 compared to 2006. Significant growth occurred in the Orthodontic and Canadian businesses. Currency translation also added to the positive growth.

Operating income increased \$3.4 million during the nine months ended September 30, 2007 compared to 2006. The increase in operating profits was driven primarily by sales growth in the Endodontic, Orthodontic and Canadian businesses, and partially offset by the additional operational investment into the combined Endodontic/Implant businesses in the United States.

Global Dental Laboratory Business/Implants/Non-Dental

Net sales increased 12.3% during the nine months ended September 30, 2007 compared to 2006. Strong growth occurred in the Implant business and currency translation also added to the positive growth.

Operating income increased \$12.5 million during the nine months ended September 30, 2007 compared to 2006. The increase in operating profits was driven primarily by the sales growth in the Implant business and improved margin in the Global Dental Laboratory business. In addition, operating profit was positively impacted from currency translation.

CRITICAL ACCOUNTING POLICIES

As discussed in the Significant Accounting Policies section of Note 1 to the Unaudited Interim Consolidated Condensed Financial Statements, the Company adopted FIN 48 on January 1, 2007.

There have been no other material changes to the Company's disclosure in its 2006 Annual Report on Form 10-K filed February 23, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Nine months ended September 30, 2007

Cash flow from operating activities during the nine months ended September 30, 2007 was \$256.9 million compared to \$159.5 million during the same period of 2006. The increase resulted from higher net income of \$30.9 million, a decrease in income taxes payable and an improved working capital ratio when compared to prior year. The 2006 cash flows also included a \$23.0 million payment of taxes associated with the 2005 repatriation of earnings.

Investing activities during the first nine months of 2007 include capital expenditures of \$37.8 million. The Company expects that capital expenditures will be approximately \$60 million for the full year of 2007. The acquisition related activity for the period ended September 30, 2007 of \$100.6 million, net of cash acquired, was primarily related to five acquisitions in 2007 and earn-out payments on acquisitions from prior years. (See Note 5 to the Unaudited Interim Consolidated Condensed Financial Statements).

At September 30, 2007, the Company had authorization to maintain up to 14,000,000 shares of treasury stock under the stock repurchase program as approved by the Board of Directors. Under this program, the Company purchased 2,483,709 shares during the first nine months of 2007 at an average price of \$35.49. As of September 30, 2007, the Company held 11,429,271 shares of treasury stock. The Company also received proceeds of \$38.7 million as a result of the exercise of 1,962,831 stock options during the nine months ended September 30, 2007.

The Company's long-term borrowings increased by a net of \$128.5 million during the nine months ended September 30, 2007. This net change included a net new borrowing of \$120.7 million during the first nine months and an increase of \$7.8 million due to exchange rate fluctuations on debt denominated in foreign currencies and changes in the value of interest rate swaps. At September 30, 2007, the Company's ratio of long-term debt to total capitalization increased to 25.4% compared to 22.4% at December 31, 2006. Also in that same period, the Company's cash, cash equivalents and short-term investments have increased from \$65.1 million to \$260.7 million.

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On March 13, 2007, the Company entered into a note purchase agreement with a group of initial purchasers, providing for the issuance of \$150 million aggregate principal amount of floating rate senior notes due 2010 (the "Notes") through a private placement. The net proceeds from the offering after deducting placement fees and expenses of the offering were \$149.5 million. The obligations of Dentsply and the initial purchasers are subject to the terms and conditions of the Note Purchase Agreement.

Under its multi-currency revolving credit agreement, the Company is able to borrow up to \$500 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, 2007, the Company was in compliance with these covenants. The Company also has available an aggregate \$250 million under two commercial paper facilities; a \$250 million United States facility and a \$250 million U.S. dollar equivalent European facility ("Euro CP facility"). Under the Euro CP facility, borrowings can be denominated in Swiss Francs, Japanese yen, Euros, British pounds sterling and U.S. dollars. The multi-currency revolving credit facility serves as a back-up to these commercial paper facilities. The total available credit under the commercial paper facilities and the multi-currency facility in the aggregate is \$500 million with \$219.2 million outstanding under the multi-currency facility and \$122.7 million outstanding under the commercial paper facilities at September 30, 2007.

The Company also has access to \$35.0 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, 2007, \$6.8 million is outstanding under these short-term lines of credit. At September 30, 2007, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of \$183.5 million.

At September 30, 2007, the Company held \$74.5 million of precious metals on consignment from several financial institutions. These consignment agreements allow the Company to acquire the precious metal at market rates at a point in time, which is approximately the same time and for the same price as alloys are sold to the Company's customers. In the event that the financial institutions would discontinue offering these consignment arrangements, and if the Company could not obtain other comparable arrangements, the Company may be required to obtain third party financing to fund an ownership position in the required precious metal inventory levels.

The Company's cash, cash equivalents and short-term investments increased \$195.6 million in total during the nine months ended September 30, 2007 to \$260.7 million. In the first nine months of 2007, the Company repaid \$49.6 million of maturing long-term borrowings and repurchased \$88.1 million of treasury stock.

There have been no other material changes to the Company's scheduled contractual cash obligations disclosed in its 2006 Annual Report on Form 10-K filed February 23, 2007. 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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This will allow entities the opportunity to mitigate

volatility in reported earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective for financial statements issued for fiscal years ending after November 15, 2007. The Statement should not be applied retrospectively to fiscal years beginning prior to that effective date, except as permitted for early adoption. The Company is currently evaluating the impact of adopting SFAS 159 on the financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements," which requires the Company to define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 157 on the financial statements.

EXPECTED IMPACT OF SIGNIFICANT TAX REFORM

The German parliament passed the 2008 Business Tax Reform Act, which was signed into law during the third quarter of 2007. This legislation had a favorable impact on the Company's deferred taxes and resulted in a net one-time favorable adjustment to tax expense, during the third quarter, of approximately \$9.8 million.

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 filed for the year ending December 31, 2006.

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.

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 three months ended September 30, 2007 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 United States District Court in Wilmington, Delaware alleging that the Company's tooth distribution practices violated the antitrust laws and seeking an order for the Company to discontinue its practices. This case has been concluded and the District Court, upon the direction of the Court of Appeals, issued an injunction preventing DENTSPLY from taking action to restrict its tooth dealers from adding new competitive teeth lines. This decision relates only to the distribution of artificial teeth in the United States and, notwithstanding the outcome of this case, the Company is confident that it can continue to develop this business.

Subsequent to the filing of the Department of Justice Complaint in 1999, several private party class actions were filed based on allegations similar to those in the Department of Justice case, on behalf of dental laboratories, and denture patients in seventeen states who purchased Trubyte teeth or products containing Trubyte teeth. These cases were transferred to the United States District Court in Wilmington, Delaware. The private party suits seek damages in an unspecified amount. The Court granted the Company's Motion on the lack of standing of the laboratory and patient class actions to pursue damage claims. The Plaintiffs in the laboratory case 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' petition to the United States Supreme Court asking it to review this decision of the Third Circuit was denied. The Plaintiffs in the laboratory case 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. Dentsply and the dealers filed Motions to dismiss plaintiffs' claims, except for the resale price maintenance claims. The District Court has granted the Motions filed by Dentsply and the dealers, leaving only the resale price maintenance claim. Additionally, manufacturers of two competitive tooth lines and a dealer, as a putative class action, have filed separate actions seeking damages alleged to have been incurred as a result of the Company's tooth distribution practice found to be a violation of the antitrust law.

On March 27, 2002, a Complaint was filed in Alameda County, California (which was transferred to Los Angeles County) by Bruce Glover, DDS alleging, inter alia, breach of express and implied warranties, fraud, unfair trade practices and negligent misrepresentation in the Company's manufacture and sale of Advance® cement. The Judge entered an Order granting class certification, as an opt-in class, which was later converted to an opt-out class. In general, the Class is defined as California dentists who purchased and used Advance® cement and were required, because of failures of the cement, to repair or reperform dental procedures for which they were not paid. The parties entered a settlement agreement, which was approved by the Court at a fairness hearing on June 15, 2007. The settlement establishes a procedure by which dentists, who believe they were required to perform dental work because of a problem caused by Advance® cement, can submit claims for review and reimbursement of unpaid fees. The Company's primary level insurance carrier has confirmed coverage for claims in this matter up to one million dollars, their asserted policy limits. Litigation is pending with the Company's excess insurance carrier regarding the level and coverage of their insurance for this case.

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 Cavatron® 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.

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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 based on assertions that the Cavitron was sold in breach of contract and warranty arising from misrepresentations about the potential uses of the product because it cannot deliver potable or sterile water. The Complaint seeks a refund of the purchase price paid for Cavitron scalers.

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 filed for the year ending December 31, 2006.

Item 2 - Unregistered Sales of Securities and Use of Proceeds

At September, 2007, the Company had authorization to maintain up to 14,000,000 shares of treasury stock under the stock repurchase program as approved by the Board of Directors. During the quarter ended September 30, 2007, the Company had the following activity with respect to this repurchase program:

Period	Total Number of Shares Purchased (in thousands, except per share amounts)	Total Cost of Shares Purchased	Average Price Paid Per Share	Number of Shares that May be Purchased Under the Share Repurchase Program
July 1-31, 2007	-	\$ -	\$ -	3,264.1
August 1-31, 2007	1,183.4	43,920.8	37.12	2,262.8
September 1-30, 2007	-	-	-	2,570.7
	1,183.4	\$ 43,920.8	\$ 37.12	

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, 2007.

Item 6 - Exhibits

Exhibit Number

- 31 Section 302 Certification Statements.
- 32 Section 906 Certification Statement.

Signatures

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

DENTSPLY International Inc.

/s/ Bret W. Wise
Bret W. Wise
Chairman of the Board, President, and
Chief Executive Officer

November 2, 2007
Date

/s/ William R. Jellison
William R. Jellison
Senior Vice President and
Chief Financial Officer

November 2, 2007
Date