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PRESENTATION

Operator

Good day, and welcome to the Dentsply International second-quarter 2011 earnings call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Derek Leckow, Vice President of Investor Relations. Please go ahead, sir.

Derek Leckow - *Dentsply International Inc - VP of IR*

Thanks very much, Caitlin, and good morning, everyone. Thanks for joining us for Dentsply's second-quarter 2011 earnings conference call. I am here with Bret Wise, Chairman and CEO; Chris Clark, our President and COO; and Bill Jellison, our Senior Vice President and CFO.

I hope you have had a chance to review our press release, which we issued earlier this morning. A copy of the press release is available on our website at www.dentsply.com.

Before we get started, it is important to note, this call may include forward-looking statements involving risks and uncertainties. These should be considered in conjunction with the risk factors and uncertainties that are described in our SEC filings. The

Company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this call. A recording of this call in its entirety will be available on our website.

I would now like to turn the call over to Dentsply's Chairman and CEO, Bret Wise. Bret?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Thank you, Derek, and good morning, everyone. Thank you for joining us on our call. This morning we are very pleased to announce record results for our second-quarter 2011. As noted in our release this morning, we experienced higher total sales growth rates, improved earnings performance in the quarter, even in face of the headwinds that we are facing from our supply disruption in orthodontics.

From a revenue perspective, we recorded total sales growth ex-precious metals of 8.7%, which is the highest growth rate that we've had since Q4 2009. Our constant currency growth was approximately 1%; that includes approximately 0.1% from internal growth, and the remainder from acquisitions. These figures are inclusive of our Japanese and orthodontics businesses. If we look at our internal growth excluding sales in the Japanese market and orthodontics, the internal growth rate was 3.4%, and constant currency growth was over 4%. This reinforces our belief that the global dental market continues to slowly improve, and while still not back to the long-term potential in market, it is certainly moving in the right direction.

Currency provided a welcome relief this quarter, as you know, offsetting the headwinds from Japan and orthodontics, as both the euro and the Swiss franc gained strength over the dollar versus the prior-year quarter, to add 7.8% from currency overall. Geographic internal growth was negative 0.9% in the US, negative 0.8% in Europe, and plus 2.3% in the rest of the world, and of course, these growth rates include or reflect the decline in the orthodontics business, which was down more than 20% in our key markets. That was offset by positive internal growth across the rest of our business in the aggregate, in particular endodontics and restoratives, which were quite strong, and our non-dental business, which also continues to recover.

Excluding orthodontics and Japan, our internal sales growth rate was approximately 2% in both US and Europe, and was about 9% outside the United States. Just a quick note on Europe -- the growth rate ex-ortho and ex-Japan here slowed from about 4% in the first quarter to about 2% this quarter. Looking at the calendar, I think there's a couple of reasons why there may have been some acceleration into the first quarter at the expense of Q2 here. The first is the timing in the Easter holidays, which impacted Q1 more last year and Q2 in its entirety this year.

Also, the IDS, which is the largest dental show in the world, was held the last week of March in Germany. We had a very strong performance at that show, and now we believe we may have borrowed a little bit of sales from Q2 and pulled that into Q1 as a result of that show performance. Accordingly, at this point, we think it's more meaningful to look at the first half growth rate of around 3% for Europe versus the second quarter's.

In the rest of the world, we had very strong growth in Asia-Pacific, Latin America, the Middle East and Canada, and as expected due to the circumstances, we were negative in Japan. Overall, we believe that consumable dental markets are stable, and slowly progressing towards more normal growth rates. We continue to be very pleased with our performance here, including the introduction of numerous new products and the launch results we have from those so far this year.

With regard to earnings, we are very pleased with the record results we had for Q2. Earnings per share on a GAAP basis grew 6.1% to $0.52 from $0.49 a year ago, and grew 10% on a non-GAAP basis to $0.55 from $0.50 a year ago. There are several moving parts in these numbers, and of course, Bill Jellison will give you more of the details. Just a few highlights here, though. First is that we had about a $0.03 per share reduction in earnings versus the prior-year quarter due to our businesses that were impacted by the circumstances in Japan, namely our Japanese subsidiaries and also our global orthodontics business.

Chris will give you more insight into the status of our contingency plans, however, I'd like to note as we did in our first quarter call, that this negative impact will grow in the third quarter, perhaps by double the impact in Q2 or more, before starting to recover late in the year and early next year. So as you look at the next quarter, expect that impact to increase.

Also in the quarter, we had a strong improvement in our tax rate. Bill will speak to this further, but this is an ongoing improvement that should benefit us for several years. I think the point here is that the negative impact from the events in Japan were essentially offset by the positive impacts from the tax rate, at least in this quarter. I think it's fair to say that we are very pleased with the results, particularly our team's execution on bringing several new products to market, and also our progress implementing the recovery plans for orthodontics.

Outside the financial results, as you know, we recently announced the agreement to acquire Astra Tech AB from AstraZeneca. At this time, we filed all the necessary regulatory filings, and we've received clearance thus far from Germany, though we are still awaiting clearance in the US and in 2 other markets. We continue to believe this transaction will close before year end.

As noted in our earlier release, we are excited about this opportunity, as it is expected to increase our sales base globally by about 25%; it will double our implant business globally; it will increase our presence in digital dentistry; and we will also be gaining access to another category in medical devices represented primarily by urology. We believe this transaction will allow us to bring approved alternatives to our customers, and also deliver improved opportunities for our stakeholders.

In addition to Astra Tech, I would note that we have completed 3 other transactions this year, 2 in Europe and 1 in the United States. Generally speaking, these are smaller companies; however, we are excited about a technology company that we acquired here in the United States called AMD Lasers. This was acquired late in the second quarter and it's one of the leading laser companies in the United States for use in dental surgery, and this gives us access to a category that we had not previously participated in.

One quick comment on cash flows and cash deployment. We did continue to deliver strong cash flow generation in the quarter, and I think we've demonstrated that throughout market cycles. This year, we've grown our operating cash flow at close to 10%. Currently our balance sheet is essentially debt-free on a net debt basis. With the Astra Tech transaction, of course, we will continue our re-investment in the Company through R&D, sales force expansion, et cetera. However, debt reduction will become a higher priority in the near term, as we expect to rapidly delever the balance sheet following this transaction. This seems like an opportune time to increase our debt with borrowing costs currently quite low, and to more efficiently use our (inaudible - technical difficulty).

On earnings guidance for the year, you saw in the release that we are increasing our adjusted earnings per share guidance for the full year from $1.86 to $1.98, which we had established in April. The new full-year guidance of $1.92 to $2; this new guidance reflects our views on the continued strong operating performance, including the improvement in the tax rate, current foreign currency exchange rates, our current thinking on the orthodontics supply situation, and it excludes any impact from the Astra Tech acquisition.

So that concludes my prepared remarks. I would like to now turn the call over to Chris, and he will give us some further insights on operational changes related to the orthodontics business and Japan, and also comment on our new product pipeline. Chris?

Chris Clark - *Dentsply International Inc - President, COO*

Thank you, Bret, and good morning, everyone. I'm going to just take the next few moments and provide some deeper insights into our progress on the orthodontic front, as well as an update on the progress of our new products. As you will recall, we commented on our first quarter call in April about the impact the Japanese natural disaster on our global orthodontics business. For the second quarter, the impact was pretty much as we expected, as we were able to service customers well into the quarter through our pre-existing stock positions. And then we saw the negative impact worsen noticeably later in the quarter, as our inventories were depleted.

On a positive note, we have moved forward with our alternative sourcing initiatives, and began receiving product from other suppliers in June. Marketed under the Resolve brand name, these products address the non-self-ligating portion of our portfolio. We are still in the very early days of introducing these products and establishing the Resolve brand. However, we are pleased with the initial customer assessments regarding this product offering have been positive.

On an even more positive note, we've also just received some initial self-ligating product shipments from our Japanese manufacturer that were produced at their new manufacturing site outside of the impacted region in Japan. You will recall that we were not -- we are not able to source our self-ligating line from alternative suppliers, as these products are highly specialized, and the exact same product is not available from other sources. Although these initial volumes that we've received at this point are limited, and it does not noticeably change our near-term visibility of resupply, we are encouraged by the development and see this as a very positive sign that adds confidence to our previous estimate of being able to resume full supply early next year.

In terms of the impact on our P&L, as I mentioned earlier, the second quarter impact was pretty much as we had anticipated. Looking forward to the third and fourth quarters, we do see the negative impact increasing further, as expected, likely to level the Q2 effect, as we are no longer -- we no longer have the pre-existing stock level to support our customers. While the alternatively sourced products and small initial shipment from our Japan supplier are helpful, we continue to believe that the impact of this supply issue will escalate in Q3, and likely have a similar impact in Q4 depending on how quickly we can return to market. We do anticipate the sales trend to improve once our Japanese supplier is able to develop additional capacity, particularly with respect to our Self Ligation product line.

Before moving off of ortho, I'd like to emphasize a point that we made on the first quarter call. We are committed to the orthodontics arena for the long term, and we are viewing the currently supply situation caused by the events in Japan through that lens. While we've implemented some restructuring initiatives to address our cost structure on the business, we've taken special care to ensure that we've got the right organization in place to lead us back to above -- strong above-market growth as our supply situation improves. We've taken some actions to address our fixed cost structure, we have retained a disproportionate amount of our infrastructure as we view that this is necessary to return the business to its market position over time.

Moving beyond ortho, I commented on our last couple of quarterly calls about our excitement with what we view as a particularly large, particularly strong new product pipeline. Consistent with those comments, we are pleased to introduce several important new brands in the second quarter, in addition to the Resolve line of orthodontic brackets and accessories that I commented on earlier. I'll comment on just 2 of these this morning. First, in the endodontics area, we continue to expand our introduction of the reciprocating file and motor system with the expansion to the US market late in second quarter.

We're extremely pleased with customer reaction to this initiative globally, and despite significantly expanding our manufacturing capacity, we remain challenged in the short term to support the full level of customer demand. These systems are marketed under the WaveOne and [Resiprot] brand names, and help to reduce the potential for file separation or breakage, while also delivering a much simpler clinical technique that reduces the time to shape the canal by up to 40%.

Also in the second quarter, our European prosthetics business introduced the new Cercon HT, or highly translucent zirconia, that represents the next generation of aesthetics for the zirconia platform. Combining the outstanding translucency with the proven stability of the Cercon base, it can be used for fully contoured crowns and bridges, even in the posterior region. Further testing has shown even less wear on opposing teeth than traditional porcelain infused in metal and glass ceramic restorations. We anticipate introduction into the US before year end once we receive regulatory approval.

In addition to the new products introduced in the second quarter, we remain very pleased with customer acceptance to the innovations we launched earlier in the year. In particular, we are very pleased with early reactions to the 2 other major introductions in the endodontics franchise, namely the GuttaCore Obturation System and the QMix 3-In-One Irrigation Solution.

Together, with the reciprocating file-and-motor system, these products really have begun to define the next generation of root canal therapy.

We are also very pleased with the market acceptance of the ChemFil rock advanced glass-ionomer restorative with its superior mechanical properties and simplified placement process. Our early assessment is that this product will help us to gain a solid foothold in the glass-ionomer category with minimal cannibalization risk to our existing restorative product lines.

Finally, looking forward, I would comment that the R&D portfolio in terms of the pipeline remains strong, and I look forward to providing you additional updates on these new launches as -- and other upcoming introductions as we move forward in future quarterly calls.

I'd now like to turn the call over to Bill Jellison who will cover the financial results for the quarter in greater detail.

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Good morning, everyone. Bret covered most of our sales numbers, but I'd like to add a couple of observations. First, our geographic mix of sales ex-precious metals in the second quarter of 2011 included the US at 35%, Europe represented 42%, and the rest of the world was 23% of sales. Our sales mix has shifted somewhat towards O-US business due to -- in part to the weakening of the dollar, and the loss of business within the orthodontic area. As you know, the weaker dollar in the second quarter, which benefited our top line growth by 7.8%, our earnings per share are also benefiting from the translation benefits of a weaker dollar but are being partially offset by a higher transaction-related impacts, as we sell many products produced in Europe to other parts of the world. This is negatively impacting our gross profit margin rates in the period.

The sales and earnings impacts are consistent with potential impacts laid out in our Investor Relations presentation, and at current exchange rates we expect the top- and bottom-line impacts will continue to be positive for the rest of the year. However, they will probably run slightly lower than those experienced in the second quarter.

Gross profit margins as a percentage of sales ex-precious metals content in the second quarter of 2011 were 55.8% compared to 55.4% for the second quarter of 2010. When compared to the same period last year, we were positively impacted by improved pricing and favorable impact from the integration of acquisitions which were partially offset by negative impacts of foreign exchange. The negative impact of foreign exchange rates on the gross margin rate in the quarter was approximately 20 basis points.

SG&A expenses were $211 million or 37.4% of sales ex-precious metals in the second quarter of 2011 versus 35.2% in the prior year's second quarter. These expenses were higher than those in last year's second quarter when measured as a percent of sales, as we have maintained our investment in the orthodontic business despite the recent decline in sales volumes from the disruption of supply. This will continue to result in higher SG&A rates throughout the year and will impact us hardest in the third and fourth quarter of the year as volumes decline in orthodontics will likely be more significant in those periods. We are also investing around key product launches this year to support new product growth, and absent this impact, the SG&A ratio would have been around 36% on sales ex-precious metals.

Operating margins based on sales excluding precious metals were 17.2% compared to 20.2% last year in the same period. Operating margin based on sales excluding precious metals for comparative purposes excluding acquisition-related activities and restructuring and other costs in both periods would have been 18.5% in the second quarter of 2011 and 20.3% in 2010. These rates were also negatively impacted this year as we are supporting our orthodontic business despite the decline in sales from the lack of product supply in this category. While we are beginning to see some supply begin to come back in this area, we do not expect to see real improvements until product supply has returned to normal which we believe may not occur until the first half of 2012.

As we move into the back half of the year, we expect the impacts of the orthodontic product supply constraints will have a greater negative impact on sales, operating margin rates, and earnings per share, as we experience the full impact of the supply chain disruption and the cost of supporting this business through the rebuilding process. As Brett noted, the impact from the Japanese disaster in Q2 was a negative $0.03 per share. This impact will likely be closer to a negative $0.06 to $0.07 per share in both the third quarter and fourth quarter of this year before it begins to improve.

Net interest and other expense in the second quarter was $4.6 million compared to $6.6 million last year in the second quarter. This reduction in expense resulted primarily from higher net interest income associated with higher interest income and a credit risk adjustment on the outstanding derivatives, which we highlighted as an adjustment for our non-GAAP earnings per share. We were slightly benefited by a higher interest income on our cash balances, as rates have increased slightly from last year. The corporate tax rate in the second quarter of 2011 was approximately 19.8%, and year-to-date is now 22.4%. This is a nice reduction from last year, and is a result of 2 items.

First, we are benefiting from a more favorable geographic mix, as our US-based income has been reduced due to the impact of a weaker dollar and the negative impacts of our supply outage of orthodontic products. We expect this impact will gradually go away as our sales and earnings in this business are rebuilt over the next few years.

We are also benefiting from the recently announced acquisition of Astra Tech. With this acquisition, we will be able to more effectively deploy our cash flow as a result. Much less cash will be repatriated to the US, which will result in a lower average tax rate in 2011 similar to our year-to-date rate of 22% to 23%, and for several years moving forward based on the current tax laws.

The announced acquisition of Astra Tech allows us to efficiently utilize not only our current cash balances, but also our future foreign cash flows. Equity and net income attributable to unconsolidated affiliated Company reflects our investment in non-consolidated businesses. The income shown is primarily the result of the increased market value of the convertible bond we hold in deal. This bond gets fair value adjusted each quarter. Any gain or loss from that change in value is being treated as a non-GAAP item by us. The opposite impact of that valuation change is reflected in our financials; however, it is run through OCI, not our income statement, until we convert the bonds, at which time it will run through our P&L, but we will also flag that item as a non-GAAP adjustment.

Net income attributable to Dentsply International in the second quarter of 2011 was $74.2 million or $0.52 per diluted share, compared to $72.4 million or $0.49 per diluted share in the second quarter of 2010. Net income attributable to Dentsply on an adjusted non-GAAP basis was $78.5 million or $0.55 per diluted share in 2011, compared to $73.9 million or $0.50 per diluted share in the second quarter of 2010. Cash flow from operating activities in the first half of 2011 was $165 million, compared to $150 million from the same period last year, a 10% increase.

Capital expenditures were $25 million in the first half of the year, with depreciation and amortization at around $37 million. Capital expenditures are currently expected to be in the $60 million to $70 million range for the year.

Inventory days were 110 at the end of the second quarter of 2011, compared to 110 days at the end of the first quarter, and 103 days at the end of last year. Approximately 6 of those days, however, is just the result of our higher FX impact. We do not -- or we do expect some additional improvement though in the inventory levels by the end of the year, and mainly in the fourth quarter. Accounts receivable days were 60 days at the end of the second quarter of 2011, compared to 57 days at the end of the second quarter in 2010.

At the end of the second quarter of 2011, we had $672 million in cash and short-term investments. Total debt was $663 million at the end of the second quarter. Year to date, we have repurchased approximately $80 million of our stock, or approximately 2.2 million shares at an average price of approximately $36. Based on the Company's authorization to maintain up to 34 million shares of treasury stock, we now have approximately 12 million shares available for repurchase. However, as we have recently announced our intent to acquire Astra Tech, we are not planning on repurchasing additional shares until we make some reasonable reductions in the debt used to complete that transaction.

Finally, based on our performance in the first half, a gradual improvement in our underlying markets, continued benefits of a weak dollar, and our current assessment of our orthodontic contingency plan, we are adjusting our 2011 full-year earnings per diluted share guidance to $1.92 to $2 on a non-GAAP basis excluding certain adjustments. This guidance also excludes any potential impact from our recently announced plans to acquire Astra Tech.

That concludes our prepared remarks. Thanks for your support, and we'd be glad to answer any questions that you may have at this time.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

We will go first to Jeff Johnson with Robert W. Baird.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Thank you. Good morning, guys.

Chris Clark - *Dentsply International Inc - President, COO*

Morning Jeff.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Chris, you gave the Japanese update so I guess either for you or Bret. We had been hearing you were getting some low-tech supplies or -- it's probably not the right way to say it, If some of the value products may be out of there but not the high end self ligating stuff. We had thought you were maybe subject or your supplier was subject to MHLW approval of some manufacturing lines. Has that happened? And how do we think about the gating, if you've got manufacturing in place that is approved, why take another 2 full quarters to start getting that? What is the rate limiting factor there?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Hi, Jeff. This is Bret, I'll take a stab at this and if -- Chris may have some things to add to this. But with respect to product supply, yes, we've gotten a trickle of supply, I'll call it, two small shipments, one of the non-self ligating product, and recently, we got actually a small shipment of the self ligating product. The Japanese supplier is up and running on a very limited basis. They had some equipment installed and approved for export business to us. The -- I don't -- we shouldn't assume though that because we have this small trickle of supply to think that all the equipment in place validated and ready to go and all of the labor trained because they, of course they are having to replace some of their labor in this new location. So this is going to be an ongoing process.

We do think, we'll expect to see this to continue to improve although I don't think it will be linear and this is one of those items that we will have to give you an update when we have the third quarter call. At this point, I think it's reasonable to assume we will have limited supply in the back half of the year, not merely the supply we had in the second quarter, of course, because we had full inventories coming into the second quarter which we have now depleted. So I think this is going to be more of a process than an event with them, the slow rebuilding of the [eclastic].

Chris Clark - *Dentsply International Inc - President, COO*

Jeff, just to add, I think what it does for me is provide greater confidence on the earlier comments we had said that we think that by early next year that we're going to be back up and running -- when they're going to be back up and running in terms of basically full supply.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right, and Bret, what are you hearing early on from your orthodontists at this point? When we talked to orthodontists, a lot of them like to just buy everything from one group. And understanding the Resolve brand could help mitigate some of the losses, do you feel like most of your customers are just going to ship their purchasing to a competitor in the near term and not bifurcate their purchasing to the Resolve brand, and then get their high end stuff elsewhere? How are you thinking that's going to play out in the next few months to quarters?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

I think that is yet to be seen. We have very good relationships with their customers. Some of our customers, of course, don't buy the self ligating. They only buy the other series of products. I think with those customers, we've got a strong position and we will probably be able to keep that market share.

With respect to one, the customers that were primarily using self ligating and they were not able to supply self ligating, I think you will see a shift that we hope is temporary to other suppliers. And then, of course, there's customers out there that have a mix and I wouldn't expect us to lose of those, all those customers that have a mix between self ligating and the more traditional twin brackets. I think that we're going to be able to compete at least in those -- with those orthodontists in the near term.

The other way I'm thinking about it is as we start to get some supply back, of course, we will be back in those offices with some limited offerings and I think we need to keep in mind the reason to use our brackets is because they liked them best. That's going to play, I think, favorable for us as we go to rebuild market share here. My only other comment is alluded to the accounts here as they -- of course, we haven't taken out the sales and marketing infrastructure of this business. We are fully maintaining that, we are maintaining the relationships with the orthodontists. We are in their offices with alternative offerings and I think that will help in the recovery of the business and demonstrates our commitment to the long term.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right, great. Then one question on Europe and then maybe just a model question for Bill, but on Europe. How can -- Bret, can you give us an update on gating throughout the corner or maybe July so far? There's obviously a lot of concern that have been raised across Europe and healthcare in general in that. I'm hearing good things at IDS in March but maybe starting to taper off from there, the number that's quarter sequentially declines. I think for some reason, do you -- you give us that makes sense but how are you thinking about Europe in the second half?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Usually we don't talk about months within a quarter. I think it is dangerous to do because it's difficult enough to measure our business on 90 days, let alone 30 days.

But with respect to this quarter, we saw the quarter start out reasonably weak in April. As we talked to our businesses, and why that was, we got the explanation that, well, for the Easter holidays, they shut down and that effect was that our customers had shut down, and that effect was mainly in March of last year. Also we didn't have IDS in March last year, we had it in this year so that probably pulled some business out of April and into March.

And then sequentially, we saw the quarter, the operating performance improve throughout the rest of the quarter. So if you looked at May and June, you see much more normal ratios and growth rates compared to what we saw in April. So although I don't think we like -- we usually resist talking about one quarter or another quarter, I think that's what happened in second quarter.

As far as the overall business in Europe, we don't see a dramatic change from what we've seen for the last, let's say, 18 months. Businesses, or the business appears to be solid; of course, it varies by country. Some of the countries in Southern Europe where we've got severe bunch of problems I think are having a much harder time than those in northern Europe. But I guess I would conclude by saying although we had this impact on our results in \April, we don't see a noticeable change outside of that impact.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right, well, that's encouraging. Thank you. And then, Bill, I guess then just the modeling question, EPS in the quarter, if top line impacted by 7% or 8% and doing the typical math that you guide us to on one-third to two-thirds flowing through, probably $0.02 to $0.03 impact this quarter. Is that how we think about the next half of the year, maybe $0.02 or $0.04 total in the second half since you said it's lower? And then anything in your guidance in that $0.04 or $0.05 raise to the midpoint of guidance, anything different in there from an FX or tax rate standpoint or how much is FX and tax rate contributing to the raise in guidance?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Well, I'd say -- obviously the tax rates that I would -- we just stated that we are expecting that lower tax rate not only through the rest of this year but moving forward. So you can definitely expect that the tax rate is a piece of that benefit. Some FX benefit, obviously, we had FX projections for the year based on at different levels but I would say that, that's been at least a little bit more favorable despite the negative impacts that we are getting in from the higher Swiss Francs and the products that we sell out at Switzerland which is a lot of our endodontic-related supplies that are hurting it. That is why our gross margin rate is actually negatively being impacted by FX despite the fact that we are still seeing it positive on bottom line impact on -- from FX, both during the second quarter. I would agree that in the last half of the year, it should still remain positive based on current rates within each of those periods.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right. Thanks, guys.

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Thank you.

Operator

We will go next to Jonathan Block with SunTrust Robinson.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Great. Thanks and good morning.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Hi Jonathan.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Good morning. Maybe just the first one, a quick follow-up on Japan, and I know I'm getting a little bit specific but it seems overall, things are tracking as expected, maybe a little bit better. You mentioned bringing in some of the supply -- limited supply, but if you just look at the math of a $0.03 impact this quarter and then roughly $0.06 to $0.07, I believe, Bill, you said both in Q3, Q4, and then you shake out, best case, maybe in that range of low of $0.15 and as high as $0.18 or so versus your prior $0.12 to $0.17 impact. So am I just parsing it a little too much or when you look at your overall guidance, is there a couple more pennies impact expected now from Japan?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Yes, I think that, that's exactly what you should expect in our guidance that we just gave. So while we've got some positive things within that guidance that are bringing that number up, we believe that Japan is probably going to end up running at the top end of the original range that we gave out there rather than the midpoint of that range. So we do think that despite some of the positive items that we have gotten on the Japanese side, I would say that we expect the overall impact in Japan is slightly worse this year than what maybe what we were originally expecting.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Okay, great. And then to shift over to new products, and Chris, maybe this one's for you. You mentioned WaveOne seems like there's a lot of excitement out there when you launched in the US this quarter and always a good problem to have trying to keep up with demand but can you speak to what you were seeing from maybe the endodontics versus added GPs on the uptake? And then I know you guys have a dominant share but are you seeing that WaveOne's even furthering your share gains or is it still too early where you're only supplying it to current customers as of right now?

Chris Clark - *Dentsply International Inc - President, COO*

Yes, sure. In terms of the endodontics and the GPs, we are seeing, frankly, good reaction from both. So I would characterize the target reactions as being very strong and positive pretty much across the board, which is fabulous. In terms of the -- I'm sorry, the second part of your question?

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Just in terms if you are seeing the share -- if you are seeing WaveOne bring on or further your current market share right now in endodontics?

Chris Clark - *Dentsply International Inc - President, COO*

I would say it's probably a little bit early to tell. We are getting some competitive convergence which would suggest that, in fact, we would expect some share gains as a result of that. We're also obviously seeing some cannibalization as well which is a positive for us in terms of obviously moving from other brands that we sell to this. So I would say that it is pretty much as expected and we are very pleased with it.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Okay. And then, Bret, sometimes you give a little bit more color on overall internal growth rates by -- within your divisions, especially within specialty, are you willing to provide that, those numbers within implants and endodontics and orthodontics?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

We usually don't get that granular but I will tell you that this quarter, our consumables were the strongest growth that we had, of course, because there's no orthodontics in there and minor impact from Japan. Our specialty products were next primarily because the endodontics business is running very well with these new product launches but of course, that is offset by the decline in orthodontics. And our labs business continued to run slightly negative in the quarter as we continued to expect. Now we just launched this new product in either the last week of June or early July in lab that Chris described.

Also, I think it's important to note that in endodontics we had not launched the new file system that we just discussed until, I think it was the last week of June because we got regulatory approval late in June. So those are impacting those rates now, and that all is as reported, not ex ortho, not ex Japan.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Okay, perfect. Thanks very much, guys.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Thank you.

Operator

We will go next to Robert Jones of Goldman Sachs.

Rodelle Walker - *Goldman Sachs - Analyst*

Good morning, this is [Rodelle] Walker. I'm standing in for Bob Jones. I just have a couple of quick questions here, first, just on the general environment. In terms of the discretionary demand, are you seeing dentists seeing an uptick in demand for more discretionary procedures or is it still predominantly on the basic side? Just trying to get more color on what you're seeing on the ground both in the US and OUS from a procedure front?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Okay, I will take a stab at that. One thing I'll note at the beginning here is because of what is going on in our orthodontics business, we don't have access, or we don't have a real good re-through to discretionary procedures because that's one of the primary discretionary procedures. As of that, though, I think we continue to see good traffic flow in our customers' offices for both general dentistry and for specialty work which would be advanced endodontics which is very strong for us right now with of course we have four new products launching in the implant sector. So I don't think we've seen a noticeable change frankly since Q1 in traffic flow or appointments books being fuller or weaker at the dentist level.

Rodelle Walker - *Goldman Sachs - Analyst*

Okay, great. Also just to confirm on the tax going forward, we can expect that to be in the 22% to 23% range for 2011 and for a couple years going forward, right? Just to make sure I have that correct.

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Yes, I think if you're excluding the Astra Tech transaction, the combination of that, so as our business stands at this point, you should expect our current outlook on the tax is in the 22% to 23% range. I'd say also that as it relates to Astra Tech as we announced on the Astra Tech conference call that we had earlier, we stated that the tax rate would be slightly negatively impacted from that because they do have a slightly higher tax rate than us. But I would probably say somewhere in the maybe the 1 point or 2 points higher than the 22% to 23% range that I just gave you once the Astra Tech is blended in with us.

Rodelle Walker - *Goldman Sachs - Analyst*

Okay, great. Thank you.

Operator

We will go next to John Kreger with William Blair.

Robbie Fatta - *William Blair & Company - Analyst*

Hi, good morning, guys. This is Robbie Fatta in for John Kreger today. If I could just ask a similar question to what was just asked about utilization. Some other healthcare services companies have started to talk about reduced utilization in the hospital and now physician office markets recently. And actually, earlier this week, we heard some similar comments from a dental practice owner as well. So, from your perspective, just to confirm, it seems like utilization trends are in line with the first quarter, you did not see any deterioration?

Chris Clark - *Dentsply International Inc - President, COO*

No, we didn't see a notable change. I think dentistry probably might be more stable than some of those other areas of healthcare you see in the hospital and so forth, and we have actually seen people continue to see the dentist, do some of the preventive work. We see appointment books about where we saw them before. Although we're, as you would appreciate, using a sampling technique here as you would as well. So from our viewpoint, we don't see a noticeable change from the first quarter. It appears to be stable or even slightly improving.

Robbie Fatta - *William Blair & Company - Analyst*

Great. There's one other question on Japan, as we start to think about 2012, you mentioned that you think early in the year you might get back to a more normal level of inventory. Do you expect the step down from Q4 to Q1, so from $0.06 to $0.07 in the fourth quarter, do you expect it to go to $0.03 in the first quarter to zero, how do we think about that?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

So I think that as you move through this year, the negative impacts of the $0.06 to $0.07 are really hitting what we believe is the worst level position in our orthodontics business. That is when we are fully out of product; we aren't really building up the supply yet.

As we move into the first quarter, on a year-over-year comparison perspective, it will probably still be negative obviously than it was in the first quarter of 2011 because again, first quarter of 2011 really didn't experience any of that impact. I'd say as you move through the year, we would expect obviously the back half of next year to be much better in the orthodontics area than it was in the back half or expected to be in the back half of this year. So as you move between the fourth quarter of this year and the first quarter of next year, we would expect that, that impact -- or negative impact on the ortho side is probably going to be a little bit less sequentially but it will be actually worse year-over-year.

Robbie Fatta - *William Blair & Company - Analyst*

Got it. And then one last question on acquisitions. You mentioned the acquisition of the laser company which is probably a little bit more high tech than you are probably used to. Does that suggest future acquisitions could be more focused on the equipment side rather than consumables or am I reading too much into that?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

I think you are reading a little bit too much into it. This is a small company, that's one of the leaders in, let's call it the smaller desktop lasers that are used in many opperatories for convenience. It fits very well with some of the parts, other parts marked portfolio where we have small equipment and so forth. In particular, in this case, it gets sent to a category that's used in dental surgery which we thought was important.

So I wouldn't take this -- this is really small equipment, not large equipment. But I wouldn't take this and translate it into a strategic shift here.

Robbie Fatta - *William Blair & Company - Analyst*

Got it. Great. Thanks very much.

Operator

(Operator Instructions)

We'll go next to Scott Green with Bank of America Merrill Lynch.

Scott Green - *BofA Merrill Lynch - Analyst*

Hi, thanks for questions. So in this quarter, internal growth was around 3.4% ex Japan versus in the first quarter, I think you said low 4% ex Japan. So just Europe shifts around Eater and IDS pull-through, is that what accounts for the delta in your view and so normalizing for that, it's stable sequentially? Is that how you would describe it?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

I think that's a pretty way to summarize it. We saw the European market much slower year over year in April and then returned to more normal rates. And we think that's, if you take Europe is our largest region and that shifted from 4% to 2% and I think that is why you see the sequential overall internal growth rate ex Japan and ortho moderating just a bit.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay. And then maybe another way to ask about momentum in the business. Last quarter, you highlighted that you were starting to see some favorable mix within the categories to more premium products. Did that continue in the second quarter?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

That is one thing that is a little bit hard to detect across 100,000 SKUs. But I would generally say, yes, it did in that the new products we are bringing out are getting a very warm reception and those are typically the most advanced technologies at the highest prices. So if I had an indicator of that mixed shift, that would be it. And of course, we see actually a very warm reception for the new products we have bringing to market even though they're premium price.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, so do you sense that there are more gains to be had in the market just on normalizing utilization or from here to get more towards the 4% to 5% historical average global market growth, do you need to see more substantial job gains and more substantial economic improvement?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Well, we are flirting with the low end of that range now even though we don't have any job gains or substantial improvement. I think the way we are thinking about this is that there is some very bad unemployment information baked into the baseline now. I don't think that's going to get worse and thus, we think that as we see some slow improvements in the economy that, that will all be upside and probably push the growth rate back into that normalized range, 4% to 6% for the market. We are not far off that now, though, I would reemphasize. Now that the bad news is in the baseline, we are getting close to normal growth rates and a tick up in employment, of course, would be upside from here.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, okay. Then my question on Japan, the way to describe it, if you are going to -- if you are expecting to see production back up to normal levels, is -- in the early part of 2012 -- is what maybe preventing a $0.17 snap back next year the market share you will have to recoup?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Yes, I think that's fair to say. We are realistic about this. We are quote loaning our customers to some of our competitors right now and we want to call that loan back in. But it is a competitive marketplace; we are keeping the reps in place. We are keeping the SG&A in place, the marketing resources in place so we're going to be going out in market and trying to win that customer base back. But as you mentioned, it is not really a rubber band, it's something that has to happen over time.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay. All right. Any updated view on how much of that market share you will be able to get back over the course of 2012?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

No, we haven't speculated on that at this point.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, okay. And maybe one last one, last quarter you had spoken about an implant symposium that you were hosting in June in the US and I was curious how that went versus your expectations?

Chris Clark - *Dentsply International Inc - President, COO*

Yes, Scott. It's Chris. I think it went -- we were very, very pleased with the reaction and the participation and engagement. It was a fabulous event. I think the -- it gave us an opportunity certainly to emphasize some of the advancements in the clinical techniques that we have as well as the product line. And certainly, it just happened to come right after the announcement of the Astra Tech acquisition so certainly that was a nice bonus with folks as well. I think we were very, very pleased with the action.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Operator

We'll go next to Larry Marsh with Barclays Capital.

Larry Marsh - *Barclays Capital - Analyst*

Thanks and good morning everyone. Just a couple of clarifications if I could, one would be just components of guidance just to make sure I'm understanding the magnitude correctly. So we think about this year, the $0.04 to $0.05 midpoint uptick seems to be dominated by tax rate, maybe get a little bit of benefit from FX, offset as you said by maybe $0.03 or $0.04 incremental impact in Japan given it is the higher end of your range. Is that the right magnitude?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Yes, I think that sounds fine, Larry. Keep in mind that on the tax side because it's -- we are really booked in half a year's benefit, running through the second quarter that the benefit that we are picking up on tax in the 2Q is about -- if split that -- that is what we are expecting on a normalized basis in each of the remaining quarters. On the FX side, this is probably the second quarter, as I mentioned earlier as we got through the first quarter that we expect at least the current exchange rates that the second quarter is going to be probably the highest benefited quarter for the year associated with FX. Although we still believe that current FX rates that will probably be north of 5% but lower than the top line impact that we are getting this quarter on FX. I think that, that is reasonable for both the third quarter and fourth quarter at this point.

Larry Marsh - *Barclays Capital - Analyst*

Okay. Bill, in your prepared remarks, part of which I missed, did you give a -- do you quantify the specific top line benefit from currency?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Well, the top line benefit is, I think, 7.48% this quarter and the next couple quarters it's just going to be more of the -- north, somewhere between 5% and that point, I think, as long as rates don't change.

Larry Marsh - *Barclays Capital - Analyst*

Okay. Then just, but as you had said, I think an important message is tax rate is going to be structurally lower going forward before you add on Astra Tech. So on an annualized basis, why shouldn't we think this new thought of tax rate, all of the things equal gives you $0.07, $0.08, $0.09 annually as a base even on a go-forward basis versus my prior expectation which was closer to 25.5% tax rate?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Yes, I think the $0.07 impact that you had talked about, I think that based on the rates that we just discussed, I think that's a reasonable expectation. Keep in mind that probably a good 25% of that benefit, maybe a little bit more is really associated with the negative impact that we are getting right now from that US and geographic mix, associated with the ortho.

However, if that tax rate does go up a little bit, because of that fact, hopefully that means our orthodontic business is snapping back a little bit quicker and if that's the case, then hopefully you will still get the benefit of the improved performance there. But, no, I think that is a fair assessment. If you're thinking in the $0.05 a share range excluding the negative mix impacts from the decks, we expect that, that should be a realistic position moving forward.

Larry Marsh - *Barclays Capital - Analyst*

Okay, great. I just -- two other quick things. I wanted to make sure I understood correctly is your message, Bret, really, that you feel, what, perhaps as confident if not more confident that you're going to be able solve for this supply-chain issue in Japan and now it's just a matter of getting those customers back that, as you said, you have loaned to competitors. So it sounds like you are maybe more confident that you have got the fix in place for next year or is that being too aggressive in terminology?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

No, I think since we last spoke, a lots happened. We are now more than 90 days out from the disaster -- well, we're almost 120 days out from the disaster and when we last spoke, we were more like 30 days out. So the encouraging signs are, one, we are getting a trickle of supply and that happened -- that has happened pretty quickly. They had to remove their equipments, install it, validate it, get approval and now they started shipping. They have had to train new employees.

I would note that, that doesn't mean they get back to full capacity rapidly. I think that's still going to be a process, but the trickle of supply that we have now received came quicker than we thought it would.

So to us, it looks like it is a matter of time now, right? They have proven they can produce this product off the equipment in their new facility and they are rebuilding the capacity. That is much more favorable than it was 90 days ago when we weren't certain how or when they could get any capacity back online. So now they have some and I think that it's a matter of time til we get back to full production again.

Larry Marsh - *Barclays Capital - Analyst*

Okay, that's good news. One other thing, just to make sure I understand, Bret, obviously you have been in the business a long time and your message is thus, you can tell there really is a stable to somewhat improving environment. You've already built in the base case of fairly high unemployment in your numbers anyway. What do you think would cause you to have to revise your thinking, especially you say the US as you look at it into next year that would -- that is not in your thinking today?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Larry, I'm not going to speculate about what changes might happen in the future. Broad economic issues are hard to predict, at least they are hard to predict for me. So I think that we will give you an update on 2012 and so forth as we get to the end of the year. But at this point as far as we can tell, the dental markets are stable and reacting about as we would expect them to.

Larry Marsh - *Barclays Capital - Analyst*

Right, again, so you would imagine even with the news of late, the feedback you are getting is that is stable and performing as expected so that is the message there.

Then final question, and this may be more Astra Tech related. I know this isn't the subject of the call but just remind us, again, assuming it closes, this year or early next year, your ability to deploy capital to do things like selectively buy back stock and look for tuck-in acquisitions. Is that going to be altered or temporarily held at bay as you integrate or remind us again of the capital allocation post-close?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Well, post-transaction we will still have substantial liquidity. We are establishing our bank arrangements and the bond transactions for this transaction so that we will maintain a very, very strong liquidity position on the balance sheet which will allow us to do things selectively. I think the message this morning though was that, probably as you had expected, is that debt reduction will be a much higher priority for us especially in the intermediate and near term after we close the transaction.

Larry Marsh - *Barclays Capital - Analyst*

Right. Very good. Thank you.

Operator

We'll go next to Brandon Couillard with Jefferies.

Brandon Couillard - *Jefferies & Co. - Analyst*

Hello, thanks for taking the question. Bill, do you have any greater visibility on the financing calls for the Astra Tech deal at this point. And when do you expect to finalize the financing for that transaction? Will you pre-fund that deal in the third quarter by chance?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Sure, so right now we actually literally just took down our revolving credit agreement so we replaced the one that we had out there which was a $200 million facility. We upsized that facility to about $500 million.

We're also going to add an additional piece of that revolver at the point in time that we close which is another $250 million piece which lasts for about a year. On top of that, we've got in the neighborhood of around $1 billion of additional financing made up of a series of 10-year bonds, some 2-year bonds and 3-year bonds that's expected right now. But we are looking at a number of different things at this stage but our expectation is that we will have that financing in place yet this third quarter whether the transaction has closed or not.

Brandon Couillard - *Jefferies & Co. - Analyst*

Okay. Do you have an update on the revenue contribution from acquisitions for the year?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

This is excluding Astra Tech?

Brandon Couillard - *Jefferies & Co. - Analyst*

Yes, excluding Astra Tech, for the 3 deals you have done so far.

Bill Jellison - *Dentsply International Inc - CFO, SVP*

In a run -- it's going to run somewhere between 0.5 point and 1 point probably for the rest of this year.

Brandon Couillard - *Jefferies & Co. - Analyst*

Any chance you could break out the mix of price versus volume in the period?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Break down that mix of price and volume, is that what you're saying? Our price, as we mentioned early on, has been probably running this year somewhat in the 1.5% to 2% range and I think that -- that is a fair assessment across the board. Some lines, some divisions are obviously higher than that and other ones are closer to even flat or up slightly but I think that, that is a good broad-based range. And I'd say that, that range as well is probably maybe a little bit better than probably what we have seen in the last couple of years.

Brandon Couillard - *Jefferies & Co. - Analyst*

Great. Thank you.

Operator

We will go next to Jonathan Block with SunTrust Robinson.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Hi, guys. Just one quick follow-up. On MTM, congrats. It looks like you did get approval over in Canada and I'm just not that familiar with your plans on how to rollout. It looks like on WaveOne, you willing to do a European launch and then a US launch at a later date. For MTM, is that something you would pursue in Canada and then rollout in the other territories as the regulatory approvals come in or do you hold off until you get at least Europe as well?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

No, Jonathan, we'll go ahead and launch in Canada. We got approval there and then as we get approval elsewhere, we'll go ahead and roll that out as well.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

I appreciate it. Thanks.

Operator

That does conclude our question-and-answer session for today. At this time, I will turn the conference back over to our speakers for any additional or closing comments.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Thank you, everyone. That concludes our conference call today. We thank you for your interest in Dentsply and look forward to seeing you at upcoming investor conferences. If you have any follow-up questions, please contact Investor Relations. Good-bye.

Operator

And again, that does conclude today's conference. We thank you for your participation.