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PRESENTATION

Operator

Good day and welcome to the DENTSPLY International's second quarter year 2009 earnings conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Bret Wise, the Chairman and Chief Executive Officer. Please go ahead, sir.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Thanks, Rae Ann, and good morning everyone. Thank you for joining us on our second quarter call. This is Bret Wise, Chairman and CEO, and also with us today are Chris Clark, our President and COO, and Bill Jellison, our Senior Vice President and CFO. We each have some prepared remarks today speaking to our results for the quarter, how we see the global dental market emerging at this point, as well as the outlook. And following our prepared remarks we'll be glad to take any questions that you may have. Before we get started it is important to note that this conference call will include forward-looking statements involving risks and uncertainties. These should be considered in conjunction with the risk factors and uncertainties described in the Company's most recent annual report on Form 10-K and our periodic reports on 10-Q, press releases, and other filings with the SEC.

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. Last night we announced our results for the second quarter of 2009 and we are pleased to report continued, although modest, constant currency growth for the quarter, pretty solid earnings results, and that conditions overall in the global dental market seem to be more stable than we saw late last year and early this year and in fact there are some pockets of improvement. As noted in our release, sales for the second quarter declined 7% on a GAAP basis and declined 5.6% ex-precious metals. The sales growth ex-precious metals was comprised of internal growth of a negative 3.9%, which is comparable to the 3.7% we experienced in Q1, and acquisitions added 4.4% in the quarter giving us constant currency growth of about 0.5 percentage point.

Currency was negative 6.1% in the quarter, as the dollar remained stronger relative to most international currencies compared to the second quarter of last year. As you know, the dollar has again weakened a bit in recent weeks, so this drag may diminish a bit going forward and Bill will spoke more to that. Our dental internal growth was a negative 3.1% in the quarter, as the non-dental business continues to lag far behind our dental business. On an internal growth basis for our dental business, which is 97% of our sales, the specialty businesses were essentially flat in the quarter in the aggregate, the chair-side consumables, including small equipment, was down low single-digits, and lab products in total were down right at double-digits. At this point I would say the lab market appears to be impacted most by the continuing global economic conditions and I would say lab equipment in particular.

In recent quarters there has been a lot of discussion regarding dealer inventory levels and what impact that may be having on our wholesale results from quarter-to-quarter. Our belief today is that in this quarter we saw changes in dealer inventories as largely neutral in the US, perhaps with the exception of the lab-based products where we continue to see some reductions. Outside of the US our believe is there -- is that there continues to be some dealer inventory reductions and I would say those are particularly in regions that have been hardest hit by the recession and/or those areas where there has been large-scale currency devaluations. And although it is difficult to estimate the full impact on our global sales, our best estimate is that it is in the 1% range negative. The impact is a negative 1% on our internal growth for the quarter and I would say most of that is outside the US.

The second item to consider is, and we commented on this in our first quarter call, is that Easter fell in the second quarter of 2009, but it was in the first quarter last year, in 2008. Accordingly, we were down one shipping day in the US this quarter and three shipping days in most of Europe, due to the timing of holidays. And I think these two -- these two points continue to be important in evaluating this quarter's results, how, really how this quarter's results may reflect the health of the global dental market. How stable trends are and, of course to some extent, how our business is trending. Our regional internal growth was negative 3.2% in the US and a negative 1.9% for dental only and that was an improvement over the first quarter. Our European internal growth ex-precious metals was a negative 6.6% this quarter, which in fact is worse than the first quarter, but this was largely driven by the Eastern European countries, as the more -- the more developed countries in Europe appear more stable.

Excluding the CIS, our European dental growth was a negative 2%, which is essentially comparable to what it was in the first quarter. And rest of world growth was flat this quarter, which was a substantial improvement versus the negative 4.2% we saw in the first quarter of 2009. So given that the markets were negatively impacted in the quarter by the timing of the Easter holiday and probably some continuing dealer inventory reductions, our assessment is the overall global dental market appears to be stabilizing at this point. That does not mean that it is recovering in the aggregate, but it does not appear to be getting worse at this point. And I think it's probably important to note that we have begun to see signs of improvement in certain markets, certain geographic markets and also certain areas of dentistry.

And this is certainly true with respect to our results this quarter and overall, I would say we're pleased with how most of our businesses are performing in this market relative to the competition and that's especially true in implants and orthodontics, where both were mid single-digits on a constant currency basis and where we think it's clear that we continue to take share. On an earnings basis we had EPS of $0.47 a share in the quarter. That's down just under 10% versus last year. However, on a non-GAAP basis, excluding the restructuring charges and the tax adjustments, earnings were $0.49 a quarter versus $0.52 on a comparable basis in the prior year, down 5.8% for the quarter. We did experience some gross margin contraction this quarter, however, we also significantly reduced our inventories, which contributed to lower gross margin in the period due to absorption. And we continue to see a negative drag from currency and, to a lesser extent, an adverse mix.

On the other hand, we had a very focused program in place throughout the year to control expenses, which has allowed us to mitigate somewhat the effect of the slower sales on our earnings performance. Bill will provide more details on the earnings performance, but overall I feel we had a reasonably good quarter given the environment, our significant reductions in inventories, and the need to balance cost savings with investing and growth opportunities. Given our first half performance and outlook for the remainder of the year, we're maintaining our full-year guidance of $1.80 to $1.90 per diluted share. And again, that's measured on a non-GAAP basis. Our assessment of the overall dental market would lead us to believe that some stabilization is occurring and we hope to see some improvement emerging late in the year, probably in the fourth quarter. As we enter Q3, we're likely to experience some tough comparisons due to the dealer inventory stocking that occurred last year in our third quarter ahead of our October 1 price increases.

I would say in the prior year we saw increased dealer buying ahead of the annual price increases, which we expect less of this year given our dealer's increased focus on controlling or reducing inventory levels and managing cash flow. Any adverse effect from that on Q3 for us, however, will likely reverse in Q4, so at this point we're anticipating maybe a slightly relative -- slightly weaker Q3 on a relative basis and a slightly stronger Q4 on a relative basis due to that effect. And although we don't give quarterly guidance, we would suggest that you evaluate your estimates for the balance of this year for the proper balance between Q3 and Q4 with this in mind. That concludes my prepared remarks. I would now like to turn the call over to Chris Clark, our President and COO.

Chris Clark - *DENTSPLY International Inc. - President & COO*

Thank you, Bret. Good morning, everyone. I'd like to take a few moments and give you some insights into two areas. First an update on our ongoing cost containment efforts, which are continuing to deliver strong benefits to our P&L. And also an update on several new products and key initiatives that should provide us solid growth platforms as we move forward. As Bret mentioned, a key contributor to our second quarter results was a continued strong organizational focus on cost containment. And as I mentioned on our first quarter call, our business leaders continue to closely monitor discretionary spending. They are taking actions to delay or eliminate nonessential programs. And we are really pleased with their efforts, as total spending in the quarter, excluding currencies and acquisitions, was down in the mid to high single-digit range versus prior year.

Moreover, the organization continues to proactively identify ways to streamline operations, as appropriate, as the bulk of the $3.1 million pretax restructuring charge that we took in the second quarter relates to efforts taken to reduce fixed costs. Looking forward, we anticipate additional modest restructuring charges, as we continue to address our fixed-cost base. I would like to reiterate that any actions taken will likely be very minimal in the areas of sales representation and in the area of research and development. This approach allows us to address the need for flexibility during the period, while also ensuring that we maintain our focus on strategic growth opportunities, both now and in the future. Now we are continuing to make targeted investments in key growth areas despite the currently negative economic conditions. First, we're continuing to spend -- focus spending on innovation efforts and on leveraging new product introductions, as new products continue to be a key driver of market share gains even in this economic climate.

In the second quarter we introduced the new ProFile vortex nickel-titanium endodontic file to the US market. This file combines a very flexible design with improved fatigue resistance, as well as improved shaping characteristics. We launched this product in June and we have already seen several significant conversions of competitive accounts to DENTSPLY in the first -- first month and a half. In the restoratives area we're introducing the new Surefil SDR posterior bulk fill flowable composite base. This allows for excellent cavity adaptation and also for bulk fill placements up to four millimeters in depth. This results in up to less 30 -- up to 30% less placement time for the dentist. Importantly, this unique chemistry employs a new stress-decreasing resin system that addresses really one of the primary causes of procedural failures for composites, that is stress accumulation during curing.

This product is being launched globally and we believe it really begins to redefine the direction of the key category of composite restorations. Beyond the area of R&D, we're also continuing key investments in other areas. In June we held our first US implant symposium, posting a series of scientific sessions with over 120 of the top opinion leaders in implantology. We were very pleased with this event and, as well, we were very pleased with the reaction of the participates to the ANKYLOS system, as well as to our new CX abutment design that allows the dentist to select between index and non-index options, depending on their clinical preference. We continue to gain market share globally in implants, as Bret mentioned, and in particular behind the ANKYLOS product line. I would now like to turn the call over to Bill Jellison, our Chief Financial Officer, to review the Q2 financial results in greater detail. Bill?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Good morning, everyone. Net sales for the second quarter of 2009 decreased by 7% in total and decreased by 5.6% excluding pressure metals. The sales decrease ex-precious metals for the quarter included a constant currency increase of 0.5%, which includes a 3.9% decrease from internal growth and a 4.4% increase from acquisitions. The quarter was also negatively impacted by 6.1% from foreign exchange translation, as the dollar strengthened against most currencies from last year's second quarter. The geographic mix of sales ex-precious metals in the second quarter of 2009 included the US at 38.6%, Europe represented 40%, and the rest of the world was 21.4% of sales. Our non-dental business had a negative impact on internal growth of approximately 0.8 percentage points in the period.

We also believe that our internal growth in the quarter was negatively impacted by dealer inventory reductions of approximately 1 percentage point and by fewer selling days due to holiday schedules of approximately 1 to 2 percentage points. The stronger dollar in the second quarter compared to most currencies in the same period last year continued to not only negatively impact our sales growth, but also had a negative impact on earnings per share in the period of approximately $0.02 to $0.03. Based on current currency rates, we believe this negative impact will be somewhat lessened in the back half of the year. Gross profit margins as a percentage of sales ex-precious metal content in the second quarter of 2009 were 56.1% compared to 58.2% for the second quarter of 2008. The rate was negatively impacted in the quarter compared to the same period last year by a number of factors. Approximately 50 basis points of the reduction was from the impact of recent acquisitions, including the impact of acquisition-related activities, which was the roll-off of the remaining inventory step-up.

We were also negatively impacted by lower production volumes, which negatively impacted the absorption of overhead as we reduced inventory levels, the effects of foreign exchange movements and by a slightly negative product mix. We do expect the recent acquisitions and FX to continue to have a negative impact on margin rates for the rest of this year. SG&A expenses were $185.1 million or 36.2% of sales ex-precious metals in the second quarter of 2009 versus 37% in the prior-year's second quarter. These expenses were not only lower than those in last year's second quarter on a dollar basis, but they were also lower when measured as a percent of sales. Expenses were tightly controlled as we work to not only bring down discretionary cost, but also to reduce various fixed expenses to maintain an appropriate balance in a difficult economic environment.

The recent acquisitions, which have a higher expense to sales run rate than our base business, continued to have a negative impact on our SG&A expense levels. These acquisitions are expected to continue to run at a higher percent level throughout the remainder of the year, as these businesses are further integrated into the Company. Operational margins for the quarter were 17.8% compared to 19% in the second quarter of last year. Operating margins, based on sales excluding precious metals, were 19.3% compared to 20.9% last year in the same period. And operating margins, based on sales excluding precious metals, for comparative purposes, excluding recent acquisition-related activities and restructuring and other costs in both periods, would have been 20.1% in the second quarter of 2009 and 21.1% in 2008.

Approximately half of the rate reduction in the period is from the impact of recent acquisitions. The remaining impact is from the lower production volumes, negative FX impacts, and a slightly negative product mix. Net interest and other expense in the second quarter was $3.7 million compared to $3.2 million last year in the second quarter. But remember, in the second quarter last year we were benefited by the $1.8 million reduction to net interest expense for the initial adjustment for the provisions of SFAS 157, fair value measurements, which we highlighted as a non-GAAP adjustment. Without reflecting this benefit last year, this expense category would have shown an improvement of $1.3 million in expense resulting from lower net interest expense as interest rates and borrowing levels have decreased compared to last year. The corporate tax rate in the second quarter decreased to approximately 25.7% from approximately 28.5% in the second quarter of 2008.

This rate reduction primarily relates to the benefit of a global business and tax reorganization, which was completed at the end of 2008. We expect this to be a reasonable assumption for an operational tax rate for 2009 and this year's rate approximately the same as 2008's full-year operational tax rate. However, as the tax rate has had a positive impact on our earnings in the first half of this year compared to the same periods last year, it will have a negative $0.01 to $0.02 per quarter impact for the remaining two quarters of this year. DENTSPLY's net income in the second quarter of 2009 was $70.2 million or $0.47 per diluted share compared to $78.6 million or $0.52 per diluted share in the second quarter of 2008. Net income on an adjusted non-GAAP basis, excluding acquisition-related costs, restructuring, and other costs, interest income from the initial fair value measurement adjustment and income tax related adjustments, was $73.1 million or $0.49 per diluted share in 2009 compared to $79.4 million or $0.52 per diluted share in the second quarter of 2008.

Our cash flow from operating activities in the second quarter increased significantly in comparison to the first Q and was $105 million in the quarter. And in the first half of 2009 it was approximately $115 million compared to $139 million in the same period last year. The cash flow in the first half of 2009 was lower than last year, due primarily to the lower net income in the first half of the year and from higher taxes paid in the period. Capital expenditures were $25 million in the first half of the year, with depreciation and amortization at $33 million in the first half. Inventory days were 110 at the end of the second quarter of 2009, but generated $21 million of cash flow in the quarter. Inventory decreased in the period through some solid efforts and is expected to improve further by year-end. Accounts receivable days were 58 days at the end of both the first and second quarter of 2009 compared to 56 days at the end of the second quarter of 2008 and 54 days at the end of 2008.

We believe our accounts receivables are in good shape, considering the worldwide softening of the global economy, and they remain a key focus of our team. At the end of the second quarter of 2009 we had $252 million in cash and short-term investments. Total debt was $420 million at the end of the second quarter. Year-to-date we have repurchased approximately $10 million of our stock or approximately 400,000 shares at an average price of roughly $26. Based on the Company's authorization to maintain up to 17 million shares of treasury stock, we now have slightly less than 3 million shares available for repurchase. Finally, as Bret noted, our results to date and our current business outlook provide us confidence to reaffirm our 2009 full-year earnings per diluted share guidance of $1.80 to $1.90 on a non-GAAP basis, which excludes restructuring and other costs, recent acquisition-related activities, and income tax-related adjustments.

I would like to point out, however, that we expect less dealer purchases in the third quarter in advance of our price increases this year compared to last year in the quarter. This will also result in less destocking by dealers in the fourth quarter this year than in 2008. We believe this will make the third quarter a more difficult earnings comparison period for us than the fourth quarter. 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

(Operator instructions) And we will take our first question from Jeff Johnson with Robert Baird.

Jeff Johnson - *Robert Baird - Analyst*

Thank you. Good morning, guys.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Good morning, Jeff.

Chris Clark - *DENTSPLY International Inc. - President & COO*

Good morning, Jeff.

Jeff Johnson - *Robert Baird - Analyst*

Couple of things here. Bill and Bret combined, just trying to understand the guidance as far as how it gates in Q3 and Q4. Bill, I think in your comments you were talking on the earnings side there on how we should think about Q3, a little more pressure. But Bret, in your comments were they more organic-growth related that maybe we take a sequential step down a bit in Q3 before picking up a bit in Q4?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Well, I think it's potentially both, Jeff, and that's a good question. The guidance that we have out is $1.80 to $1.90 a diluted share. And of course we don't do quarterly guidance, but as we look at where things stand we know the impact that we had last year when we raised prices a little bit higher than we usually do and we had more dealer stocking in Q3, and -- and then more liquidation of inventory in Q4. Well, this year we expect to have less stocking in Q3, which, of course, depresses a little bit the internal growth and earnings, and then we expect to see just the opposite in Q4, where -- because we won't have the destocking that we had in 2008. So it could have a modest effect on both.

Jeff Johnson - *Robert Baird - Analyst*

Okay. And I'm just, I guess, more than anything trying to understand. In Q3 if we had a one to two point organic growth drag this quarter from fewer selling days, the worldwide internal growth comp actually gets a little easier in Q3 versus Q2, so just trying to figure out how much of this may be conservatism on your part on the organic growth side for that to maybe tick down in Q3 versus there's something else there I may be missing?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

No, I don't think you are missing anything. It's just the -- the two issues that I think are important to note is we did have the less selling days in Q2 and that hurt the organic growth number. I think in Q3 we're even on days and Q4 I think there's one more selling day than the prior year. Is that right, about the same? Okay. So the biggest impact on us in Q3, because the days are even with the prior year, is whether our dealers want the inventory in advance of the price increase versus prior year.

Jeff Johnson - *Robert Baird - Analyst*

Sure. All right. And Chris, if I could go back to your comments on the fixed-cost structure. You guys are obviously dealing with a lot of headwinds at this point, whether it's the negative organic growth that's pressuring margins, the drag currency is having, the Zhermack and, I think, Materialise is still probably impacting there. So frankly, I'm surprised operating margins have been holding in pretty darn well here. If we get a bit of organic revenue growth next year, and I know that's probably the key to that assumption and hard to know whether that will happen yet or not, but assuming that happens, how much of the fixed-cost structure have you taken out at this point and how can we think about the leverage that we could maybe even see next year?

Chris Clark - *DENTSPLY International Inc. - President & COO*

Yes, I think the way to think about it, Jeff, is clearly our businesses have looked at it and to a degree made some choices in terms of saying in this environment there's some things that they had in their base that they probably don't need. And we have also made some structural decisions in terms of some things, frankly, to simplify the way we operate. I think that, obviously, as things pick up there is probably some spending that we would want to put back in to help accelerate growth, but I certainly wouldn't expect us to put in everything that we have taken out by any stretch. So I do think we can -- we can anticipate some leverage off that.

Jeff Johnson - *Robert Baird - Analyst*

And so fair to say, and maybe this is a question for Bill, that if we get some organic revenue growth, whether that starts in Q4 or into -- into early '10, the drop-through could be -- could be pretty nice?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Well, I think, Jeff, one, we aren't -- we don't give any kind of guidance out for 2010 until we get later on in the year. But I think that, as Chris mentioned, any type of general growth for us obviously helps us on the leverage side, whether it's in the emerging markets or international markets, as well as in the US side. And while there would be a lot of expenses that are out there, some of those expenses, for example, things like commission expense that naturally would get reduced in periods like this, would be more normalized in, let's say, 2010. So there will be some drags of those types of items, but there were also changes that were made in both the discretionary pieces as well as the fixed expenses that we absolutely want to be maintaining and containing on a more normalized basis moving forward as well.

Jeff Johnson - *Robert Baird - Analyst*

All right. Great. And then just last question, last quarter I think you talked about the opportunity from an M&A standpoint to execute on a few deals, I think even quantified it upwards of four or five or so potentially this year, maybe that's a number I got somewhere else, but still see the M&A environment as favorable at this point?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

I would characterize it that we're very active in that area, we -- acquisitions is a key part of our strategy and a primary focus for our cash flow. We're hopeful that we'll have some transactions this year, but there's always timing risks to that. And I would say our focus is consistent with what it has been in the past.

Jeff Johnson - *Robert Baird - Analyst*

Fair enough. Thanks, guys.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Thanks, Jeff.

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Thanks, Jeff.

Operator

And we'll take our next question from Derek Leckow with Barrington Research.

Derek Leckow - *Barrington Research - Analyst*

Thank you, good morning.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Good morning, Derek.

Derek Leckow - *Barrington Research - Analyst*

Bret, your comments in the early part of your presentation, the overall more stability, more stable industry conditions worldwide. I think you had said the dental in North America was only negative 1.9 and I think you said that the specialty businesses were flat. I wonder if you could talk more about the specialty businesses and the dental in North America and what you are seeing now in the current quarter?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

You mean in the third quarter?

Derek Leckow - *Barrington Research - Analyst*

Yes.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Well, I don't want to comment on the third quarter, because we're not even through the first month yet, but -- but what I will say regarding that is that although we would characterize the global dental market as stable or stabilizing, there are signs of improvement in certain markets, you've identified one of them. In the US we saw some improvement in certain areas of the business, including the chair-side consumables, which improved on an organic basis from the first quarter reasonably nicely. And so we see that as a very positive sign for the US market, because that's kind of the bread and butter products.

Derek Leckow - *Barrington Research - Analyst*

Okay.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

I would say in Europe, the Western European countries, the developed countries things didn't get any worse than they were in the first quarter and some of the broader economic signals we're seeing now out of Germany are more positive and so we hope that is a turning point as well. In the specialty businesses, in aggregate, their internal growth was -- was flat. If you kind of think about that, I would say orthodontics was the strongest business we had in that category, implants was next, and endodontics was third. We had positive constant currency growth in both ortho and implants. And on an internal growth basis ortho would have been positive and implants would have been just -- just negative.

And if you breakout implants between the developed world and the developing world, the developed world implants grew for us on an organic basis, which was a good sign, and it was negative, of course, in the developing countries where currencies have hit so hard. So that -- I hope that provides some additional color as to what we are seeing, we see pockets of improvement, overall stability in the whole dental market, and I think the signs we see make us more optimistic that the recover we had -- recovery we had hoped to see in the second half, in fact, will emerge.

Derek Leckow - *Barrington Research - Analyst*

So Bret, are you surprised by the strength of your specialty businesses, because I would have thought those would be sort of weaker at this point in time? But it sounds like you are taking market share because I think you are exceeding market growth by a pretty good amount here?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Yes, I'm not surprised by the strength of those businesses. We got some very good products in those segments. You might recall when we kind of entered this global recession we said those products, the growth rate on those products would probably decline the most. But the fact that they are still growing means that people are still spending money on some of these premium procedures and I think that's a good -- a good sign for the overall market.

Derek Leckow - *Barrington Research - Analyst*

All right. And then -- thank you -- and one more question for Bill on the gross margin impact here. If I'm looking at my model and -- are you suggesting that the gross margin gets better from the second quarter or gets worse as we go through the third and fourth quarters?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Well, I think -- I think the notable point there on the gross margin side of the equation is a couple of factors. One, acquisitions had an impact. Part of that acquisition in this quarter was because of the roll-off, which is what we classified as a non-GAAP. There was still a slight drag from the acquisitions associated with gross margin, but the majority of the gross margin impact in the second quarter really came from the changes that we have seen over the past three to nine months to a year on FX rates and the impact that they have between the different locations, as well as the lower production volume that we had as we took inventory out and had less absorption on the inventory -- or on the overhead side of the equation. So I think those two or three areas are probably going to continue through the back half of this year.

Derek Leckow - *Barrington Research - Analyst*

And I think you quantified it as a 50 basis point impact from the recent acquisitions. Is that -- is that the right number?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

It was 50 basis points for the quarter, but there was probably about 20 basis points of that was actually related to the step-up related issues that completed in this period.

Derek Leckow - *Barrington Research - Analyst*

So that's not going to be repeated in Q3 and going forward?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Not to that level, that's correct.

Derek Leckow - *Barrington Research - Analyst*

And does your price increase that is coming up, does that alleviate some of that as well? Are we going to see an improvement because of the -- on a sequential basis from the price increase?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Yes, I think -- .

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Price increases will be effective in Q4 not Q3.

Derek Leckow - *Barrington Research - Analyst*

Oh, they go into -- okay, got it. Okay. Thank you very much.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

You bet.

Operator

We'll now go to our next question from Jon Wood with Banc of America.

Jon Wood - *Banc of America - Analyst*

Good morning, everyone.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Good morning, Jon.

Jon Wood - *Banc of America - Analyst*

Hey, so, Bill, cash flow from ops still expected to be flattish for the year for 2009?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Yes, I mean keep in mind the first half of the year we're down on that both because of the earning side of the equation, but then also because of some of the higher taxes that were paid. But I would say, yes, in the second half of the year we would expect at least a continuation maybe of second quarter level where it might be a little bit -- a little bit less but we should still have very solid cash flow in the second half.

Jon Wood - *Banc of America - Analyst*

Okay. And the CapEx, I mean it's -- I think you guided or you mentioned down modestly in '09 from '08, but I mean you are running considerably below that level in the first half. So can you give us some updated thoughts on CapEx this year?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Yes. I mean I would say that kind of what you saw in the first half of the year is -- is a reasonable expectation that we're going to be better than we were from a CapEx spending level in 2009 than 2008, primarily because keep in mind a fairly good chunk of our overall CapEx in any one year is based on continued capacity related needs that we have and in a -- in a softer or flatter market environment that's not as heavy. So I would say that it's reasonable to expect that it is going to be down and maybe -- maybe not down quite as much as what you saw in the first half, relatively. But I would say it still should be down and probably down a little bit more than what we were originally stating.

Jon Wood - *Banc of America - Analyst*

Okay. So a little bit ahead of the $25 million run rate, but not significantly?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

That's right.

Jon Wood - *Banc of America - Analyst*

Okay. And then it looks like you paid a big chunk of debt down in the second quarter, right, over $60 million? Is that right?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Well, it's -- it's really -- you got to look at the net differential between the two areas. We have got additional cash in that period and we have got some lower -- some lower debt because we generated about 100 -- we generated about $105 million of cash flow within that period.

Jon Wood - *Banc of America - Analyst*

Okay.

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

So, yes, that's -- I mean, it's a mix of both, both the increased cash and a slight paydown on the debt, but that's just under our revolver.

Jon Wood - *Banc of America - Analyst*

But I mean that the debt did decrease quite a bit sequentially and I'm just wondering the rationale for paying down debt right now rather than building cash, if you are active on the M&A front? I mean, is it just a decision of the variances between income and expense?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Yes, I mean this is -- this is only within our revolving credit facility, which goes up and down, really, on a daily basis. So as we have got cash here, we have paid down locally. Generally a lot of the cash that we end up holding is European cash and that's because we don't have the debt within Europe to paydown and/or we don't use those funds directly for stock buyback, so as we generate cash in the US or get additional cash in the US and as we have debt under, let's say, our commercial paper and revolving credit agreement, then that is paid down as that cash is generated.

Jon Wood - *Banc of America - Analyst*

Okay. Understood. So then on the P&L the acquisitions you mentioned negative 50 basis points to the operating margin in the quarter. Is that the kind of level we should expect for the back half of the year, the same -- the similar level or magnitude of impact?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Well, you are talk -- the entire impact on the operating margin level was 1 percentage point, not 50 basis points in aggregate.

Jon Wood - *Banc of America - Analyst*

I think you said -- half of it was acquisition-related.

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Oh, yes, half of that -- within the quarter, about half of that, a little bit less than half of that was acquisition related at the operating margin level on a non-GAAP basis, because part of that acquisition impact was acquisitions. But that's probably -- that's probably about the right amount. Between SG&A and the gross margin area, that's about -- that's about correct. We are expecting some continued drag from the acquisition side and, as I mentioned, on the gross profit side I think you'll see still some negative drag both from the FX side, along with any absorption levels. But our SG&A is an area that we are continuing to monitor and track as well, too.

Jon Wood - *Banc of America - Analyst*

Okay. Understood. And then last one, Bret, you did mention that the chair-side, the US chair-side consumables business improved quite a bit in the second quarter. Is that a -- do you think that's a function of restocking or is it just the -- the elimination of destocking, if you will, at the distributor level?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

I don't think it's -- I don't think it's restocking. For instance, if I thought about inventory activity and dealer inventories this year versus last year in the second quarter, I don't think there's more stocking going on now than there was a year ago. It is possible -- it is possible that the -- that there was more destocking in the first quarter than the second quarter. Although, I think -- I think retail-wise we're seeing some improvement as well. So I think that -- that looks real to us. I think that looks -- we -- inclusive of dealer inventories, that's end users buying more.

Jon Wood - *Banc of America - Analyst*

Okay. Okay. Great. Thanks a lot.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Okay. Thank you.

Operator

Moving along, we'll take our next question from Jason Rodgers with Great Lakes Review.

Jason Rodgers - *Great Lakes Review - Analyst*

Good morning.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Good morning.

Jason Rodgers - *Great Lakes Review - Analyst*

You mentioned a few of the new products that you have come out with in the quarter and I was just wondering, given the ongoing focus in emerging technologies in the dental area, I was wondering if there is anything in the way of a major new, I guess, breakthrough product that you could potentially introduce in the next six months or a year, or are those types of introductions still several -- several years out?

Chris Clark - *DENTSPLY International Inc. - President & COO*

Yes, Jason, it is Chris. I guess I would characterize our product pipeline as really being as full as it has ever been, including what I would characterize as big products or big new products that will have a pretty significant impact, we think, on our overall sales, as well as what I would characterize as more characteristic of line extent or brand support, if you will, of really ongoing improvements to existing solid brands. We typically don't provide guidance in the context of tipping of any major introductions before they come, mainly for competitive reasons. But I guess I would characterize the overall pipeline as really being about as robust as it has ever been. So we're real pleased in terms of what we are seeing in our innovation efforts, both in terms of the products that we are just now launching and have already launched this year, as well as what we have got in the stable yet to come later this year and also next year.

Jason Rodgers - *Great Lakes Review - Analyst*

Okay. And I haven't heard too much about Oraqix lately, I was just wondering to get an update there.

Chris Clark - *DENTSPLY International Inc. - President & COO*

Oraqix was launched, I don't know, four year ago, five years ago now, so it's part of our pharmaceutical portfolio. It's selling well. Growing in certain regions and there are several countries, yet, where we haven't introduced it. We're waiting for regulatory approval. I would say it's a solid product and a meaningful product to us.

Jason Rodgers - *Great Lakes Review - Analyst*

Okay, that's helpful. And just finally, do you have the accounts payable, what that was in the quarter?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Oh, hold on one sec. Accounts payable were $93.4 million.

Jason Rodgers - *Great Lakes Review - Analyst*

Thank you very much.

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

You bet.

Operator

And we'll take our next question from [Adam Poussard] with Barclays Capital.

Adam Poussard - *Barclays Capital - Analyst*

Good morning, guys.

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Good morning, Adam.

Adam Poussard - *Barclays Capital - Analyst*

Bret, first question, obviously healthcare reform has become front and center and I guess there has been discussion around funding for community health centers on the educational side. I guess, is there anything that you have seen in ideas have been thrown out there that gets you guys excited? And then on the flip side of that, anything that kind of worries you guys?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

There has been some discussion about getting -- covering dental or preventive dental procedures as part of the healthcare reform, which we think -- it's a mixed -- it's a mixed message. We think on balance, better preventive dentistry will help -- help the community -- the population quite a bit. It also helps us in the long-term, because the more preventive dentistry we do the healthier the teeth are and the longer they last. And that means we continue to do work on them. That's on the one hand. On the other hand, I would say government reimbursement has never been a strong driver for dentistry, when the markets that we see as the best growth markets are those that are privately reimbursed. And as long as the government healthcare initiative stays with the preventative side, I think that could be positive for us. If it -- if it migrated into restorative dentistry, I'm not so sure, because in other markets where we have seen that there has been restriction on care and so forth that has not been positive. But we don't see dental being a major driver in this healthcare reform. It hasn't -- it hasn't really gotten much press and much attention at this point.

Adam Poussard - *Barclays Capital - Analyst*

Okay, great. And then, I guess, obviously, Eastern Europe has been affected significantly. I guess, do you have like the growth Eastern versus Western Europe's and then, I guess, how much does -- how much is Eastern Europe of the 40% that's in Europe?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Of the 40%, it's a pretty small number. I don't have it at my fingertips, but I would say kind of 15%-ish.

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Percent.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

And if you bifurcate it out, we said Europe is -- was down 6.6% including Eastern Europe, and down 2% excluding Eastern Europe. So as you can see, the Eastern European countries, or I'll call it the currency crises, economic recession, the Eastern European countries actually had a pretty big impact on not only our European growth but our overall dental growth in the quarter. And getting that back to zero would have a pretty positive affect on our internal growth mix going forward.

Adam Poussard - *Barclays Capital - Analyst*

And then lastly for Chris, I guess maybe if you could elaborate, I guess, what are some of the initiatives that you guys are specifically taking to kind of take down your fixed cost?

Chris Clark - *DENTSPLY International Inc. - President & COO*

Sure. I mean I guess the way to describe it, Adam, is each of our businesses are looking at it in the context of the structures they have in terms of their overhead structure, the people they have in place, the number of bodies in some places, and looking at ways to streamline. And quite frankly, I think we have had a number of restructuring efforts across a wide range of businesses, most of them pretty modest, a couple of them a little bit more major, and, again, each of our folks, each of our General Managers are proactively looking at ways to make their cost basis as flexible as possible in this environment. And overall we're real pleased with the way they are going about it. What I would characterize it as is, as I mentioned, typically more in the -- a fair amount in the G&A area, as we really want to leave sales and R&D in particular as untouched as possible, and I think we have been very successful so far in going about it in that approach. So, again, overall we're real pleased. I wouldn't characterize it as necessarily one or two businesses, but really a pretty solid commitment across all of our wide range of businesses.

Adam Poussard - *Barclays Capital - Analyst*

And then one last quick question. I guess the price increase you are expecting end of Q3, is that -- would that be similar magnitude to last year?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

My guess, we haven't finalized that yet, but my guess is that it will be slightly less in percentage terms than last year. And, again, I -- because of dealer's focused on inventories, I think there will be less dealer stocking in advance of it than we saw last year.

Adam Poussard - *Barclays Capital - Analyst*

All right. Thanks a lot.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Okay, thank you.

Operator

(Operator instructions). And we'll take our next question from Michael Jungling with Banc of America.

Michael Jungling - *Banc of America - Analyst*

Great. Thank you very much, gentlemen, for taking my questions. I really have three and they are very much focused your dental implant business.

And I was hoping you can give us some more clarity on what you are seeing in the dental implant market both in the US and in Europe? And also whether you can make some comments with respect to patient mix for single-tooth patients versus the more expensive cases, which may have multiple teeth replacements. Secondly, maybe on the pricing environment. And then thirdly, the ability to collect receivables from your customer base, that would be very helpful. Thank you.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Okay. And that's actually four -- for those counting, that was four questions. I'll start with US and European dental implant markets and this -- I'm going to characterize it from our perspective, our sales, but I would say that we see those markets kind of flattish. I don't -- for us, they are not growing robustly and they are not contracting significantly, although we know from our competitor -- from competitor press releases that we have seen thus far, and of course there's a few to come yet, that perhaps we're taking share in those markets because we see them contracting at a -- a substantial rate. But for our business, I would say both US and Europe are reasonably -- are reasonably stable. Patient mix, single tooth versus more expensive, we only had -- have anecdotal evidence of that. I would say there's more -- I would say that the large restorations involving many implants are -- are down and single-tooth restorations are probably what is holding up the market at this point the most. On pricing I haven't seen other than isolated countries and only a few. We haven't seen much change in pricing in this environment, certainly not for our sales, and we have not experienced any significant collection problems with regard to our implant sales at this point. So Michael, does that cover the points that you had?

Michael Jungling - *Banc of America - Analyst*

Perfect. Thanks, Bret.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Okay, thank you.

Operator

We will go do our next question from [Vivia Vincat] with [Arevnet Financial].

Vivia Vincat - *Arevnet Financial - Analyst*

Hi, good morning.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Good morning.

Vivia Vincat - *Arevnet Financial - Analyst*

I have a follow-up on the dental implant question. Can you -- can you give the growth number for the US and for US dental implants per group numbers?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Growth numbers for US dental implants?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

We just -- in the previous comment we said they are both, US and Europe, were kind of flattish for the developed -- the developed part of Europe and U.S.

Vivia Vincat - *Arevnet Financial - Analyst*

Okay.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

That's on a -- that's on an organic growth basis, not constant currency. Constant currency they would have been positive.

Vivia Vincat - *Arevnet Financial - Analyst*

All right. Okay. And I have a couple of other questions. Can you -- can you talk about the CAD/CAM business change and of which what is a proportion of capital improvement and consumables and probably what -- what will growth take for this business in Q2 '09?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

I would say -- I would say the dental CAD/CAM business, which is large equipment, is under a little pressure just because of the amount -- amount of capital required to buy the equipment and probably also concerns about collecting receivables for that equipment. And we commented on our lab business being down in particular in equipment, so that's an indicator of that business being under a little pressure. Ours might be under a little bit more pressure because we have shown a new CAD/CAM unit at the IDS in March, which we're going to launch in July or August this year. So there's probably -- our results are probably depressed a little bit more while people wait for the new unit. But I think that the large equipment segment is one that is under more pressure than the consumable segment. I think consumables for lab products, although down, are not down nearly as much as the equipment is.

Vivia Vincat - *Arevnet Financial - Analyst*

All right. Can you give us proportion of how much of [you feel is gendering] it by capital equipment and how much is from consumables?

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

No, we don't break that down publicly.

Vivia Vincat - *Arevnet Financial - Analyst*

All right. Thank you.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Okay. Thank you.

Vivia Vincat - *Arevnet Financial - Analyst*

Thank you.

Operator

And we'll take a follow-up question from Jeff Johnson with Robert Baird.

Jeff Johnson - *Robert Baird - Analyst*

Hey, guys, sorry, just one follow-up here and Chris, going back to the new products that you were talking about, I'm not sure if it is the same as Surefil here that you mentioned, but I'm staring at something on my screen here that launches in 32 days, 15 hours, 33 minutes and 23 seconds right now, code name Amazing.

Chris Clark - *DENTSPLY International Inc. - President & COO*

That would be Surefil and it is amazing.

Jeff Johnson - *Robert Baird - Analyst*

Sorry, I didn't realize I was on speaker there. Can you hear me okay?

Chris Clark - *DENTSPLY International Inc. - President & COO*

Yes, got you fine.

Jeff Johnson - *Robert Baird - Analyst*

All right. So, yes, just as I look at this on the screen here and all that with SDR technology and all of that, it seems to me you are -- you are promoting this a little more than I see other new products ahead of launch and that. So is there a reason to believe this may be something that incrementally we even should add to the model or anything, or is it just kind of another one of those products that drive forward the business, but not necessarily we try to break out.

Chris Clark - *DENTSPLY International Inc. - President & COO*

Yes. Obvious, we think it is going to be successful and I don't want to downplay the impact it's going to have on the business, but I would put it in the former category -- the latter category, not the former. I mean I guess would look at it, Jeff, and say we're excited about this product because it, frankly, changes the -- really in our mind the relevant discussion on flow of on composites from shrinkage to stress, which we think is a -- a really key factor in terms of really the clinical acceptance of -- of composite restorations and really what one of the major problems today is. So we're -- we're pretty excited about, quite excited in terms of the product and obviously that's what you see in terms of the prelaunch sizzle, if you will, behind it. But in reality, we've got -- this is similar to many other products that we launch during the year that we think will have a pretty -- can be a pretty positive impact on our business.

Jeff Johnson - *Robert Baird - Analyst*

Okay. So the $150 million I put in my model I should probably pull out? Thanks, guys, I appreciate it.

Chris Clark - *DENTSPLY International Inc. - President & COO*

Appreciate it.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

All right.

Operator

And there are no further questions at time. Mr.Wise, I'd like to turn the conference back over to you for any additional or closing remarks.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Okay, thank you, Rae Ann. And I think we would like to make one clarifying statement -- Bill would like to make one clarifying statement about our response to one earlier question. Bill, do you want to clear that up?

Bill Jellison - *DENTSPLY International Inc. - SVP & CFO*

Sure. Yes, Jon -- Jon Wood, in a -- in a response to your question on the -- on the change in the reduction of the debt, which may not be as clear on the press release because long-term debt on the press release looks like it dropped off significantly. But the amount that you don't see on the press release itself is that there's about $250 million that's moved into the current portion, the current liability portion. So we still have that much additional debt, it's just shifted from the long-term to the current portion. The reason for that is that both our revolving credit agreement will now be due within a year and so we have shifted that. Our expectation right now is that our revolving credit will probably be renewed or put into place sometime maybe early to mid-fourth quarter of this year, but that might have been some of your confusion there.

Bret Wise - *DENTSPLY International Inc. - Chairman & CEO*

Okay. Thank you, Bill, for clarifying that. And thank you, everyone, for joining us this morning and your continued interest in DENTSPLY. As noted today, we have begun to see and sense some stability in the global dental markets and now believe that we will see modest improvement in the late last half of this year. That, of course, is subject to the broader economic conditions and always subject to currency movements, which have been quite severe over the past couple years. But overall, I would characterize it as we feel good about our markets and our prospects. We look forward to updating you on the progress we have throughout the year and in particular in the back half of this year. So thank you.

Operator

And that concludes today's conference call. We appreciate your participation.