

PATTERSON COMPANIES, INC.

Form 10-Q

September 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JULY 31, 2010.**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

Commission File No. 0-20572

PATTERSON COMPANIES, INC.

(Exact name of registrant as specified in its charter)

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Minnesota
(State of incorporation)

41-0886515
(I.R.S. Employer Identification No.)

1031 Mendota Heights Road, St. Paul, Minnesota 55120

(Address of principal executive offices, including zip code)

(651) 686-1600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Patterson Companies, Inc. had outstanding 123,986,874 shares of common stock as of September 2, 2010.

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This Form 10-Q for the period ended July 31, 2010, contains certain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, which may be identified by the use of forward-looking terminology such as may, will, expect, anticipate, estimate, be, goal, or continue, or comparable terminology that involves risks and uncertainties that are qualified in their entirety by cautionary language set forth herein under the caption Factors That May Affect Future Operating Results, in the Company's 2010 Annual Report on Form 10-K filed June 23, 2010 and other documents previously filed with the Securities and Exchange Commission.

Table of Contents**PART I - FINANCIAL INFORMATION****PATTERSON COMPANIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

| | July 31, 2010 | April 24, 2010 |
|---|--------------------------|---------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 298,427 | \$ 340,591 |
| Receivables, net | 454,941 | 452,746 |
| Inventory | 336,382 | 288,725 |
| Prepaid expenses and other current assets | 44,700 | 51,696 |
| Total current assets | 1,134,450 | 1,133,758 |
| Property and equipment, net | 178,721 | 169,598 |
| Long-term receivables, net | 78,086 | 75,073 |
| Goodwill | 804,746 | 782,083 |
| Identifiable intangibles, net | 220,007 | 223,594 |
| Other | 31,942 | 38,863 |
| Total assets | \$ 2,447,952 | \$ 2,422,969 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 180,472 | \$ 193,626 |
| Accrued payroll expense | 27,869 | 67,809 |
| Other accrued expenses | 105,657 | 86,916 |
| Income taxes payable | 15,312 | 0 |
| Current maturities of long-term debt | 0 | 0 |
| Total current liabilities | 329,310 | 348,351 |
| Long-term debt | 525,000 | 525,000 |
| Other long-term liabilities | 107,761 | 108,107 |
| Total liabilities | 962,071 | 981,458 |
| STOCKHOLDERS EQUITY | | |
| Common stock | \$ 1,240 | \$ 1,234 |
| Additional paid-in capital | 49,851 | 41,703 |
| Accumulated other comprehensive income (loss) | 15,979 | 23,291 |
| Retained earnings | 1,535,779 | 1,493,885 |
| Notes receivable from ESOP | (116,968) | (118,602) |
| Total stockholders equity | 1,485,881 | 1,441,511 |

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Total liabilities and stockholders' equity

\$ 2,447,952

\$ 2,422,969

See accompanying notes.

Table of Contents**PATTERSON COMPANIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

(Unaudited)

| | Three Months Ended | |
|-------------------------------------|---------------------------|--------------------------|
| | July 31, 2010 | July 25, 2009 |
| Net sales | \$ 849,787 | \$ 789,579 |
| Cost of sales | 569,587 | 530,895 |
| Gross profit | 280,200 | 258,684 |
| Operating expenses | 191,176 | 181,894 |
| Operating income | 89,024 | 76,790 |
| Other income and (expense): | | |
| Interest income | 2,643 | 2,460 |
| Interest expense | (6,890) | (6,619) |
| Other gain (loss) | 990 | (199) |
| Income before taxes | 85,767 | 72,432 |
| Income taxes | 31,842 | 27,375 |
| Net income | \$ 53,925 | \$ 45,057 |
| Earnings per share: | | |
| Basic | \$ 0.45 | \$ 0.38 |
| Diluted | \$ 0.45 | \$ 0.38 |
| Weighted average common shares: | | |
| Basic | 119,022 | 118,119 |
| Diluted | 119,784 | 118,643 |
| Dividends declared per common share | \$ 0.10 | \$ 0.00 |

See accompanying notes.

Table of Contents**PATTERSON COMPANIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

(Unaudited)

| | Three Months Ended | |
|--|---------------------------|--------------------------|
| | July 31, 2010 | July 25, 2009 |
| Operating activities: | | |
| Net income | \$ 53,925 | \$ 45,057 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 6,409 | 5,754 |
| Amortization | 3,114 | 3,103 |
| Share-based compensation | 2,669 | 2,230 |
| Excess tax benefits from share-based compensation | (875) | (105) |
| Bad debt expense | 1,022 | 992 |
| Change in assets and liabilities, net of acquired | (43,506) | (10,195) |
| Net cash provided by operating activities | 22,758 | 46,836 |
| Investing activities: | | |
| Additions to property and equipment, net | (9,130) | (8,008) |
| Acquisitions, net | (46,682) | (28,113) |
| Net cash used in investing activities | (55,812) | (36,121) |
| Financing activities: | | |
| Dividends paid | (11,916) | 0 |
| Payments on credit facility | 0 | (8,000) |
| ESOP activity | 1,611 | 0 |
| Common stock issued, net | 5,502 | 3,120 |
| Excess tax benefits from share-based compensation | 875 | 105 |
| Net cash used in financing activities | (3,928) | (4,775) |
| Effect of exchange rate changes on cash | (5,182) | 11,372 |
| Net (decrease) increase in cash and cash equivalents | (42,164) | 17,312 |
| Cash and cash equivalents at beginning of period | 340,591 | 158,065 |
| Cash and cash equivalents at end of period | \$ 298,427 | \$ 175,377 |

See accompanying notes.

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PATTERSON COMPANIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data, unless otherwise indicated)

(Unaudited)

July 31, 2010

NOTE 1 GENERAL

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of July 31, 2010 and the results of operations and the cash flows for the periods ended July 31, 2010 and July 25, 2009. Such adjustments are of a normal recurring nature. The results of operations for the periods ended July 31, 2010 and July 25, 2009, are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the financial statements included in the 2010 Annual Report on Form 10-K filed on June 23, 2010.

The condensed consolidated financial statements of Patterson Companies, Inc. include the assets and liabilities of PDC Funding Company, LLC (PDC Funding) and PDC Funding Company II, LLC (PDC Funding II), wholly owned subsidiaries and separate legal entities under Minnesota law. PDC Funding and PDC Funding II are fully consolidated special purpose entities of the Company established to sell customer installment sale contracts to outside financial institutions in the normal course of business. The assets of PDC Funding and PDC Funding II would be available first and foremost to satisfy the claims of its creditors. There are no known creditors of PDC Funding or PDC Funding II.

Fiscal Year End

The fiscal year end of the Company is the last Saturday in April. The first quarter of fiscal 2011 represents the 14 weeks ended July 31, 2010 and the first quarter of fiscal 2010 represents the 13 weeks ended July 25, 2009. Fiscal 2011 will include 53 weeks of operations, while fiscal 2010 was comprised of 52 weeks.

Comprehensive Income

Total comprehensive income was \$46,613 and \$67,984 for the three months ended July 31, 2010 and July 25, 2009, respectively. Other than net income, comprehensive income also includes foreign currency translation adjustments. Foreign currency translation adjustments do not include a provision for income tax because earnings from foreign operations are considered to be indefinitely reinvested outside the U.S. During the three months ended July 25, 2009, comprehensive income was positively affected by approximately \$23 million due to the effect of changes in exchange rates on foreign currency translation.

Table of Contents*Earnings Per Share*

The following table sets forth the computation of basic and diluted earnings per share (shares in thousands):

| | Three Months Ended | |
|---|---------------------------|----------------------|
| | July 31, 2010 | July 25, 2009 |
| Denominator: | | |
| Denominator for basic earnings per share - weighted-average shares | 119,022 | 118,119 |
| Effect of dilutive securities - stock options, restricted stock, and stock purchase plans | 762 | 524 |
| | | |
| Denominator for diluted earnings per share - adjusted weighted average shares | 119,784 | 118,643 |

Options to purchase 615 and 1,368 shares of common stock during the three months ended July 31, 2010 and July 25, 2009, respectively, were excluded from the calculation of diluted earnings per share because the effect would have been anti-dilutive. Unvested restricted stock awards excluded from the calculation of diluted earnings per share were 362 and 231 shares during the three months ended July 31, 2010 and July 25, 2009, respectively, because the effect would have been anti-dilutive.

Table of Contents*Recently Issued Accounting Pronouncements*

In June 2009, the FASB issued guidance codified into ASC Topic No. 860, *Transfers and Servicing* (ASC 860) which amends the derecognition guidance in former FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. Also in June 2009, the FASB issued guidance codified into ASC Topic No. 810, *Consolidation* (ASC 810) which amends the consolidation guidance applicable to variable interest entities. The Company adopted ASC 860 and ASC 810 at the beginning of fiscal 2011. The related guidance did not have a material impact on its financial condition, results of operations and cash flows.

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). This update amends ASC Topic 605-25, *Revenue Recognition - Multiple-Deliverable Revenue Arrangements* to remove the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The update also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables' relative selling price. The provisions will be effective for revenue arrangements entered into or materially modified in the Company's fiscal year 2012 and must be applied prospectively. The Company is currently evaluating the impact of the provisions of ASU 2009-13.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, (ASU 2010-20) which amends ASC 310, *Receivables*, to require further disaggregated disclosures that improve financial statement users understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of ASU 2010-20 will only impact disclosures and is not expected to have a material impact on the Company's consolidated financial statements

NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS

The goodwill balances and related activity by business segment as of April 24, 2010 and July 31, 2010 are as follows:

| | Balance at April 24, 2010 | Acquisition Activity | Translation And Other Activity | Balance at July 31, 2010 |
|-----------------------|--------------------------------------|---------------------------------|---|-------------------------------------|
| Dental Supply | \$ 131,370 | \$ 0 | \$ 197 | \$ 131,567 |
| Rehabilitation Supply | 530,904 | 21,984 | 147 | 553,035 |
| Veterinary Supply | 119,809 | 0 | 335 | 120,144 |
| Total | \$ 782,083 | \$ 21,984 | \$ 679 | \$ 804,746 |

The increase in the acquisition activity column during the three month period ended July 31, 2010 primarily reflects the purchase price allocations of the rehabilitation businesses of DCC Healthcare, a division of DCC plc. The purchase price allocations of these businesses are preliminary and are subject to adjustment for changes in the preliminary assumptions pending additional information, including final asset valuations from a third party firm.

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Balances of other intangible assets excluding goodwill are as follows:

| | July 31, 2010 | April 24, 2010 |
|--|-------------------|-------------------|
| Unamortized - indefinite lived: | | |
| Copyrights, trade names and trademarks | \$ 76,464 | \$ 76,464 |
| Amortized: | | |
| Distribution agreement, customer lists and other | 208,606 | 209,050 |
| Less: Accumulated amortization | (65,063) | (61,920) |
| Net amortized other intangible assets | 143,543 | 147,130 |
| Total identifiable intangible assets, net | \$ 220,007 | \$ 223,594 |

NOTE 3 DERIVATIVE FINANCIAL INSTRUMENTS

The Company is a party to certain offsetting and identical interest rate cap agreements. The cap agreements are not designated for hedge accounting treatment and were entered into to fulfill certain covenants of a sale agreement between a commercial paper conduit managed by JPMorgan Chase Bank, N.A. and PDC Funding. The cap agreements provide a credit enhancement feature for the financing contracts sold by PDC Funding to the commercial paper conduit, and replace a minimum interest rate margin previously required under the sale agreement.

The cap agreements are cancelled and new agreements entered into periodically to maintain consistency with the dollar maximum of the sale agreements and the maturity of the underlying financing contracts. PDC Funding has purchased three interest rate caps from banks with combined notional amounts of \$550 million and maturity dates of April 2016 (\$425 million) and May 2016 (\$125 million). Patterson Companies, Inc. sold three identical interest rate caps to the same banks. Similarly to the above agreements, PDC Funding II and Patterson Companies, Inc. entered into offsetting and identical interest rate swap agreements. These agreements have a notional amount of \$110 million and a maturity date of July 2015.

In addition to the identical purchased and sold interest rate contracts described above, the Company has entered into two interest rate swap agreements with banks to economically hedge the interest rate risk associated with our finance contracts. As of July 31, 2010, the agreements have notional amounts of approximately \$16 million and \$17 million, respectively, and maturity dates of November 2011 and February 2012, respectively.

None of the Company's interest rate contracts qualify for hedge accounting treatment and, accordingly, the Company records the fair value of the agreements as an asset or liability and the change in any period as income or expense of the period in which the change occurs.

In the first quarter of fiscal 2011, the Company entered into a foreign currency forward contract that was settled in the same quarter. This contract served as an economic hedge and was not designated as a hedge for accounting purposes. The total gain on the contract was \$0.1 million.

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The following table presents the fair value of the Company's interest rate contracts:

| Derivative type | Classification | July 31, 2010 | April 24, 2010 | July 25, 2009 |
|-------------------------|------------------------------|------------------|-------------------|------------------|
| Assets: | | | | |
| Interest rate contracts | Other noncurrent assets | \$ 4.9 | \$ 11.7 | \$ 12.6 |
| Liabilities: | | | | |
| Interest rate contracts | Other noncurrent liabilities | \$ 5.5 | \$ 12.6 | \$ 14.2 |

The following table presents the effect of interest rate and foreign currency contracts on the consolidated statements of income:

| Derivative type | Location of gain(loss) recognized on derivative | Three Months Ended July 31, 2010 | Three Months Ended July 25, 2009 |
|----------------------------|--|-------------------------------------|-------------------------------------|
| Interest rate contracts | Other income(expense), net | \$ (0.0) | \$ (0.4) |
| Foreign currency contracts | Other income(expense), net | \$ 0.1 | \$ 0.0 |

NOTE 4 FAIR VALUE MEASUREMENTS

Fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. The fair value hierarchy of measurements is categorized into one of three levels based on the lowest level of significant input used:

- Level 1** - Quoted prices in active markets for identical assets and liabilities at the measurement date.
- Level 2** - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3** - Unobservable inputs for which there is little or no market data available. These inputs reflect management's assumptions of what market participants would use in pricing the asset or liability.

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The Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of July 31, 2010 is as follows:

| | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|------------------------|---------------|---|---|--|
| | (in millions) | | | |
| Assets: | | | | |
| Cash equivalents | \$ 86.6 | \$ 86.6 | 0 | 0 |
| Derivative instruments | 4.9 | 0 | \$ 4.9 | 0 |
| Total assets | \$ 91.5 | \$ 86.6 | \$ 4.9 | \$ 0 |
| Liabilities: | | | | |
| Derivative instruments | \$ 5.5 | \$ 0 | \$ 5.5 | \$ 0 |

The Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of April 24, 2010 is as follows:

| | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|------------------------|---------------|---|---|--|
| | (in millions) | | | |
| Assets: | | | | |
| Cash equivalents | \$ 141.3 | \$ 141.3 | 0 | 0 |
| Derivative instruments | 11.7 | 0 | \$ 11.7 | 0 |
| Total assets | \$ 153.0 | \$ 141.3 | \$ 11.7 | \$ 0 |
| Liabilities: | | | | |
| Derivative instruments | \$ 12.6 | \$ 0 | \$ 12.6 | \$ 0 |

The Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of July 25, 2009 is as follows:

| | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|------------------------|---------------|---|---|--|
| | (in millions) | | | |
| Assets: | | | | |
| Cash equivalents | \$ 8.4 | \$ 8.4 | 0 | 0 |
| Derivative instruments | 12.6 | 0 | \$ 12.6 | 0 |
| Total assets | \$ 21.0 | \$ 8.4 | \$ 12.6 | \$ 0 |
| Liabilities: | | | | |

| | | | | |
|------------------------|---------|------|---------|------|
| Derivative instruments | \$ 14.2 | \$ 0 | \$ 14.2 | \$ 0 |
|------------------------|---------|------|---------|------|

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Cash equivalents The Company values cash equivalents at current market rates. The carrying value of cash equivalents, including government securities and money market funds, approximates fair value. Maturities of cash equivalents are less than three months.

Derivative instruments The Company's derivative instruments consist of interest rate contracts. These instruments are valued using inputs such as interest rates and credit spreads.

Certain assets are measured at fair value on a consolidated basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments under certain circumstances, such as when there is evidence of impairment. There were no fair value adjustments to such assets in fiscal years 2010, 2009 and 2008.

The carrying amounts of receivables, net of allowances, accounts payable, and certain accrued and other current liabilities approximate fair value at July 31, 2010.

NOTE 5 CUSTOMER FINANCING

As a convenience to its customers, the Company offers several different financing alternatives including both a Company sponsored program and a third party program. For the third party program, the Company acts as a facilitator between the customer and the third party financing entity with no on-going involvement in the financing transaction. Under the Company sponsored program, equipment purchases by customers with strong credit are financed to a maximum of \$0.4 million for any one customer. The Company generally sells the customers' financing contracts to outside financial institutions in the normal course of its business. The Company currently has two arrangements under which it has sold these contracts.

In fiscal 2003, the Company initiated an agreement to sell its equipment finance contracts to a commercial paper conduit managed by JPMorgan Chase Bank N.A. To participate in the commercial paper conduit, the Company was required to establish a special purpose entity (SPE), PDC Funding Company, LLC, a consolidated, wholly owned subsidiary. The Company transfers financing contracts to the SPE and in turn, the SPE sells the contracts to the commercial paper conduit. The SPE does not issue any debt. While there is no recourse to the Company by the commercial paper conduit on the sale of contracts, the Company receives only 84% of the principal amount of the contracts upon the sale. The remaining 16% of the proceeds is held by the conduit as security against the eventual performance of the portfolio. The holdback receivable from the conduit is recorded as a non-current asset, which is carried at its estimated fair market value. The capacity of this arrangement with the conduit was amended in the fourth quarter of fiscal 2010 from \$367 million to a maximum of \$550 million.

The Company also maintains an agreement with U.S. Bank National Association, as agent, whereby the U.S. Bank group purchased customers' financing contracts. The Company has established another SPE, PDC Funding LLC II (PDC II), as a consolidated, wholly owned subsidiary, which sold financing contracts to the U.S. Bank group. The Company received 88% of the principal amounts of the contracts upon sale with the remaining 12% of the proceeds held by the banks as security against the eventual performance of the portfolio. The holdback receivable from the banks is recorded as a non-current asset, which is carried at its estimated fair market value. The capacity under the agreement was \$110 million. In the fourth quarter of fiscal 2010, this agreement was amended such that no additional contracts will be sold, but the remaining contracts previously sold and outstanding under the agreement will continue under the agreement. Approximately \$71 million of such contracts were outstanding as of July 31, 2010.

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These financing arrangements are accounted for as a sale of assets under the provisions of ASC Topic No. 860, Transfers and Servicing. During the three months ended July 31, 2010 and July 25, 2009, the Company sold \$71.5 million and \$43.6 million, respectively, of its contracts under these arrangements. The Company retains servicing responsibilities under both agreements, for which it is paid a servicing fee. The servicing fees received by the Company are considered adequate compensation for services rendered. Accordingly, no servicing asset or liability has been recorded. The agreements require the Company to maintain a minimum current ratio and maximum leverage ratio. The Company was in compliance with the covenants at July 31, 2010.

Included in current receivables in the consolidated balance sheets are approximately \$100.3 million, net of unearned income of \$2.6 million, and \$116.7 million, net of unearned income of \$4.2 million, as of July 31, 2010 and April 24, 2010, respectively, of finance contracts not yet sold by the Company. A total of \$444.1 million of finance contracts receivable sold under the agreements was outstanding at July 31, 2010. The residual receivable under the arrangements was approximately \$66.2 and \$65.2 million as of July 31, 2010 and April 24, 2010, respectively. Since the internal financing program began in 1994, bad debt write-offs have amounted to less than one-percent of the loans originated.

NOTE 6 SEGMENT REPORTING

Patterson Companies, Inc. is comprised of three reportable segments: dental, veterinary, and rehabilitation supply. The Company's reportable business segments are strategic business units that offer similar products and services to different customer bases. The dental supply segment provides a virtually complete range of consumable dental products, clinical and laboratory equipment and value-added services to dentists, dental laboratories, institutions and other dental healthcare providers throughout North America. The veterinary supply segment provides consumable supplies, equipment, diagnostic products, biologicals (vaccines) and pharmaceuticals to companion-pet veterinary clinics in the majority of regions throughout the United States. The rehabilitation supply segment provides a comprehensive range of distributed and self-manufactured rehabilitation medical supplies and non-wheelchair assistive products to acute care hospitals, long-term care facilities, rehabilitation clinics, dealers and schools.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to the consolidated financial statements included in the Company's 2010 Annual Report on Form 10-K filed June 23, 2010. The Company evaluates segment performance based on operating income. The corporate office general and administrative expenses are included in the dental supply segment and consist of home office support costs in areas such as informational technology, finance, human resources and facilities. The cost to operate the distribution centers are allocated to the operating units based on the through-put of the unit.

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The following table presents information about the Company's reportable segments:

| | Three Months Ended | |
|--------------------------------------|---------------------------|--------------------------|
| | July 31, 2010 | July 25, 2009 |
| Net sales | | |
| Dental supply | \$ 542,678 | \$ 510,991 |
| Rehabilitation supply | 127,474 | 109,407 |
| Veterinary supply | 179,635 | 169,181 |
| Consolidated net sales | \$ 849,787 | \$ 789,579 |
| Operating income | | |
| Dental supply | \$ 60,963 | \$ 55,983 |
| Rehabilitation supply | 17,233 | 13,287 |
| Veterinary supply | 10,828 | 7,520 |
| Consolidated operating income | \$ 89,024 | \$ 76,790 |

The following table presents sales information by product for the Company:

| | Three Months Ended | |
|---------------------------------|---------------------------|--------------------------|
| | July 31, 2010 | July 25, 2009 |
| Net sales | | |
| Consumable and printed products | \$ 586,603 | \$ 546,740 |
| Equipment and software | 192,221 | 177,654 |
| Other | 70,963 | 65,185 |
| Total | \$ 849,787 | \$ 789,579 |

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

OVERVIEW

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our 2010 Annual Report on Form 10-K filed June 23, 2010, for important background information regarding, among other things, an overview of the markets in which we operate and our business strategies.

The fiscal year end of the Company is the last Saturday in April. The quarter ended July 31, 2010 included an extra, or fourteenth week and fiscal year 2011 ending April 30, 2011 will include 53 weeks, while fiscal 2010 was comprised of 52 weeks.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage of net sales represented by certain operational data.

| | Three Months Ended | |
|----------------------------|---------------------------|--------------------------|
| | July 31, 2010 | July 25, 2009 |
| Net sales | 100.0% | 100.0% |
| Cost of sales | 67.0% | 67.2% |
| Gross margin | 33.0% | 32.8% |
| Operating expenses | 22.5% | 23.0% |
| Operating income | 10.5% | 9.7% |
| Other expense, net | (0.4%) | (0.6%) |
| Income before taxes | 10.1% | 9.2% |
| | | |
| Net income | 6.3% | 5.7% |

QUARTER ENDED JULY 31, 2010 COMPARED TO QUARTER ENDED JULY 25, 2009.

Net Sales. Consolidated net sales for the three months ended July 31, 2010 (Current Quarter) increased 7.6% to \$849.8 million, compared to \$789.6 million for the three months ended July 25, 2009 (Prior Quarter). Acquisitions contributed 1.6% to sales growth and changes in foreign currency translation rates increased sales by 0.5%. Sales for the Current Quarter included the impact of an extra or fourteenth week. It is difficult to quantify the exact impact of this additional week, but estimates have been provided in those areas where it is possible to make reasonable approximations. We estimate that the impact of the extra week on consolidated sales was approximately five percentage points.

Dental segment sales were \$542.7 million, an increase of 6.2% from \$511.0 million in the Prior Quarter. Consumable sales grew 6.7% in the Current Quarter and were essentially unchanged from the Prior Quarter after excluding the impact of the additional week. The consumables business continues to be affected by uneven patient demand for dental services as a result of the weak economy.

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Dental equipment and software sales increased 4.7%. Basic equipment and software sales were 13.0% higher and were led by sales of cone beam and panoramic imaging systems, but sales in all major categories, including chairs, units, cabinetry and lighting, grew in the Current Quarter. Sales of CEREC dental restorative systems declined 28.3%, reflecting the strong comparable sales levels in the Prior Quarter. CEREC sales were impacted in the Prior Quarter by strong customer interest in an initial trade-up program following the introduction of the CEREC AC® imaging unit early in calendar 2009.

Sales of other services and products in the Dental segment rose 7.6% in the Current Quarter.

Veterinary segment sales rose 6.2% to \$179.6 million. While the extra selling week positively impacted sales for this segment, the effect was offset by a number of factors that affected comparability of Veterinary sales in the Current Quarter. These factors include a shift in mix toward more agency sales of flea & tick and heartworm products and our decision to exit the production animal business that was part of the operations of the Columbus Serum Company prior to its acquisition. In addition, as a result of various pharmaceutical mergers over the past two years, certain products previously sold through distribution are now being sold direct by the manufacturer. The above factors are expected to continue to impact the comparability of Veterinary segment sales for the next two quarters.

Current Quarter Rehabilitation segment sales were \$127.5 million, an increase of 16.5% from \$109.4 million in the Prior Quarter. We believe the additional week accounted for approximately five percentage points of sales growth. Acquisitions contributed 10.0% to sales growth and unfavorable changes in foreign currency translation rates reduced sales in the Current Quarter sales by 1.2%. The acquisition contribution was mostly from the June 2010 acquisition of the rehabilitation businesses of DCC Healthcare and Empi Therapy Solutions, which was acquired in June 2009. The businesses acquired from DCC Healthcare had combined sales of approximately \$70 million for their fiscal year ended March 31, 2010.

Gross Margins. Consolidated gross margin increased 20 basis points in the Current Quarter to 33.0%. Dental gross margin declined 30 basis points due mostly to product mix. Gross margin of the Veterinary and Rehabilitation segments increased 130 and 30 basis points, respectively. The higher gross margins in these segments were due to product mix and higher levels of rebates. In addition, the gross margin of the Veterinary segment reflects a higher proportion of agency sales in the Current Quarter as well as the decision to exit the low margin production animal business at Columbus Serum.

Operating Expenses. The consolidated operating expense ratio improved 50 basis points from the Prior Quarter to 22.5% due to expense control measures taken over the past two years, and the benefit of the additional week of revenues relative to fixed costs.

The operating expense ratio of the Dental and Veterinary segments was 50 and 40 basis points lower than in the Prior Quarter, respectively. Both segments benefitted from expense control initiatives and the extra week. In addition, in the Prior Quarter the Veterinary segment's results included costs related to the integration of Columbus Serum, which is now complete.

The Rehabilitation segment's operating expenses as a percent of sales improved by 110 basis points. In addition to leverage from sales growth, integration activities over the past year have reduced the cost structure of the Mobilis operations, which were acquired in April 2009. Due diligence and other acquisition costs related to the DCC Healthcare businesses of approximately \$1.5 million partly offset the improvement in the Current Quarter.

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Operating Income. Current Quarter operating income was \$89.0 million, or 10.5% of net sales. In the Prior Quarter, operating income was \$76.8 million, or 9.7% of net sales. The operating margin improvement was driven by the 20 basis points increase in gross margin and 50 basis points decrease in the operating expense ratio as described above.

Other (Expense) Income, Net. Net other expense was \$3.3 million in the Current Quarter compared to net other expense of \$4.4 million in the Prior Quarter. Net other expense is comprised primarily of interest expense reduced by interest income.

Income Tax Expense. The effective income tax rate for the Current Quarter was 37.1%. In the Prior Quarter, the rate was 37.8%. The decrease in the rate was due primarily to the deductibility of the portion of our cash dividends paid on allocated shares owned by the Employee Stock Ownership Plan. We began the cash dividend program in the fourth quarter of our fiscal 2010 so there was no benefit from this aspect of the dividend program in the Prior Quarter.

Net Income and Earnings Per Share. Net income increased 19.7% to \$53.9 million, compared to \$45.1 in the Prior Quarter. Earnings per diluted share were \$0.45 in the Current Quarter compared to \$0.38 in the Prior Quarter.

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LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flows from operating activities were \$22.8 million in the Current Quarter, compared to \$46.8 million in the Prior Quarter. The decrease in operating cash flows is due primarily to an increase in inventory, including a temporary incremental increase in CEREC inventory to meet anticipated sales generated by our current trade-up program and CEREC 25th anniversary events scheduled to occur in the second quarter. The Current Quarter cash flow was also negatively impacted by the timing of payments on accounts payable and accrued expenses this period compared to the prior period.

Net cash used in investing activities in the Current Period was \$55.8 million compared to \$36.1 million in the Prior Period. Current Period activity is primarily related to the acquisition of the rehabilitation businesses of DCC Healthcare. The acquired businesses provide assistive living products and rehabilitation equipment and supplies to customers primarily in the UK, continental Europe and Australia, with combined sales of approximately \$70 million for their fiscal year ended March 31, 2010. The Prior Period use of cash included the purchase of Empi Therapy Solutions. In addition, cash used for capital expenditures was \$9.1 million in the Current Quarter. Total capital expenditures for fiscal 2011 are expected to approximate \$35 to \$40 million.

Net cash used in financing activities was \$3.9 million in the Current Period compared to \$4.8 million in the Prior Period. The Company, which paid its first dividend in the fourth quarter of fiscal 2010, paid a dividend of \$11.9 million in the Current Quarter. In the Prior Quarter, the Company repaid \$8.0 million outstanding under its revolving credit facility. No amounts under this facility were outstanding in the Current Quarter. \$300 million is available under the facility, which expires in November 2012.

During the Current Period, foreign currencies of the Company's Canadian and overseas operations weakened against the U.S. Dollar, while in the Prior Period these foreign currencies strengthened against the U.S. Dollar. The effect of these exchange rate changes on cash was to reduce cash balances by \$5.2 million in the Current Period and increase cash balances by \$11.4 million in the Prior Period.

The Company expects funds generated by operations, existing cash balances and credit availability under existing debt facilities will be sufficient to meet the Company's working capital needs and finance anticipated expansion plans and strategic initiatives over the next twelve months.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes in the Company's Critical Accounting Policies and Estimates, as disclosed in its 2010 Annual Report on Form 10-K filed June 23, 2010.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued guidance codified into ASC Topic No. 860, *Transfers and Servicing* (ASC 860) which amends the derecognition guidance in former FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. Also in June 2009, the FASB issued guidance codified into ASC Topic No. 810, *Consolidation* (ASC 810) which amends the consolidation guidance applicable to variable interest entities. The Company adopted ASC 860 and ASC 810 at the beginning of fiscal 2011. The related guidance did not have a material impact on its financial condition, results of operations and cash flows.

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). This update amends ASC Topic 605-25, *Revenue Recognition - Multiple-Deliverable Revenue Arrangements* to remove the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The update also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables' relative selling price. The provisions will be effective for revenue arrangements entered into or materially modified in the Company's fiscal year 2012 and must be applied prospectively. The Company is currently evaluating the impact of the provisions of ASU 2009-13.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, (ASU 2010-20) which amends ASC 310, *Receivables*, to require further disaggregated disclosures that improve financial statement users understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of ASU 2010-20 will only impact disclosures and is not expected to have a material impact on the Company's consolidated financial statements.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

Certain information of a non-historical nature contains forward-looking statements. Words such as *believes*, *expects*, *plans*, *estimates*, *intends* and variations of such words are intended to identify such forward-looking statements. These statements are not guaranties of future performance and are subject to certain risks, uncertainties or assumptions that are difficult to predict; therefore, the Company cautions shareholders and prospective investors that the following important factors, among others, could cause the Company's actual operating results to differ materially from those expressed in any forward-looking statements. The statements under this caption are intended to serve as cautionary statements within the meaning of the Private Securities Litigation Reform Act of 1995. The following information is not intended to limit in any way the characterization of other statements or information under other captions as cautionary statements for such purpose. The order in which such factors appear

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below should not be construed to indicate their relative importance or priority. The Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Economic conditions and volatility in the financial markets could adversely affect our operating results and financial condition. The ability to predict the demand for capital goods by customers is extremely difficult in the current economic environment, which could lead to increased volatility in the Company's revenues for these types of products.

The Company's ability to meet increased competition from national, regional and local full-service distributors and mail-order distributors of dental, veterinary and rehabilitation and assistive living products, while maintaining current or improved profit margins.

The ability of the Company to effectuate modifications to the business models of its three operating units to address changes in the individual markets of those business units.

The ability of the Company to consolidate the distribution, information systems, human resources, financial and other administrative functions of its three business units into jointly shared services which meet the needs of the individual business units.

The ability of the Company to manage rapidly changing energy and commodity prices.

The ability of the Company to retain its base of customers and to increase its market share.

The ability of the Company to provide for an orderly management succession, including the ability to recruit skilled personnel for the business, and then identify and train our personnel for their transition into key roles to support the long-term growth of the business.

The ability of the Company to maintain satisfactory relationships with qualified and motivated sales personnel.

The continued ability of the Company to maintain satisfactory relationships with key vendors and the ability of the Company to create relationships with additional manufacturers of quality, innovative products.

Changes in the economics of dentistry affecting dental practice growth and the demand for dental products, including the ability and willingness of dentists to invest in high-technology diagnostic and therapeutic products.

Reduced growth in expenditures for dental services by private dental insurance plans.

The accuracy of the Company's assumptions concerning future per capita expenditures for dental services, including assumptions as to population growth and the demand for preventive dental services such as periodontic, endodontic and orthodontic procedures.

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The rate of growth in demand for infection control products currently used for prevention of the spread of communicable diseases such as AIDS, hepatitis and herpes.

Changes in the economics of the veterinary supply market, including reduced growth in per capita expenditures for veterinary services and reduced growth in the number of households owning pets.

The effects of healthcare related legislation and regulation, which may affect expenditures or reimbursements for rehabilitation and assistive products.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since April 24, 2010 in the Company's market risk. For further information on market risk, refer to Item 7A in the Company's 2010 Annual Report on Form 10-K filed June 23, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer (CEO) and its Chief Financial Officer (CFO), management evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of July 31, 2010. Based upon their evaluation of these disclosure controls and procedures, the CEO and CFO concluded that the disclosure controls and procedures were effective as of July 31, 2010.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act) that occurred during the quarter ended July 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) In September 2004, the Company's Board of Directors approved a stock repurchase program under which the Company could have repurchased up to six million shares of common stock. In December 2007, the Company's Board of Directors expanded this authorization to allow for the purchase of up to twenty five million shares of common stock. As of July 31, 2010, 5,905,430 shares remain available for purchase under the authorization, which expires on December 31, 2012.

ITEM 6. EXHIBITS

The exhibits listed in the accompanying exhibit index are filed as part of this Quarterly Report on Form 10-Q.

All other items under Part II have been omitted because they are inapplicable or the answers are negative, or were previously reported in the 2010 Annual Report on Form 10-K filed June 23, 2010.

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SIGNATURES

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

PATTERSON COMPANIES, INC.
(Registrant)

Dated: September 9, 2010

By: /s/ R. Stephen Armstrong
R. Stephen Armstrong
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

| Exhibit Number | Exhibit Description |
|-----------------------|---|
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a), under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | Financials in XBRL format |