

PATTERSON COMPANIES, INC.

Form 10-Q

December 07, 2006

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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 OCTOBER 28, 2006.

.. **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)

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)

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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 139,156,276 shares of common stock as of December 4, 2006.

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<u>Safe Harbor Statement Under The Private Securities Litigation Reform Act Of 1995:</u>	

This Form 10-Q for the period ended October 28, 2006, 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", "believe", "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 2006 Annual Report on Form 10-K filed July 13, 2006 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**

(Dollars in thousands)

	October 28, 2006 (Unaudited)	April 29, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 181,558	\$ 224,392
Receivables, net	335,970	350,299
Inventory	235,733	244,709
Prepaid expenses and other current assets	25,206	27,974
Total current assets	778,467	847,374
Property and equipment, net	141,267	141,541
Long-term receivables, net	72,638	49,277
Goodwill	657,167	656,206
Identifiable intangibles, net	105,191	108,008
Distribution agreement	100,000	100,000
Other	7,510	9,312
Total assets	\$ 1,862,240	\$ 1,911,718
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 136,517	\$ 173,957
Accrued payroll expense	49,107	34,111
Other accrued expenses	94,968	85,396
Income taxes payable	1,447	26,156
Current maturities of long-term debt	90,021	90,027
Total current liabilities	372,060	409,647
Long-term debt	200,007	210,014
Deferred taxes	48,094	49,536
Total liabilities	620,161	669,197
STOCKHOLDERS EQUITY		
Common stock	1,391	1,388
Additional paid-in capital	160,419	146,807
Accumulated other comprehensive income	14,959	13,837
Retained earnings	1,190,075	1,100,254
Notes receivable from ESOP	(124,765)	(19,765)
Total stockholders equity	1,242,079	1,242,521
Total liabilities and stockholders equity	\$ 1,862,240	\$ 1,911,718

See accompanying notes.

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

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended October 28,		Six Months Ended October 28,	
	2006	October 29, 2005	2006	October 29, 2005
Net sales	\$ 694,273	\$ 641,697	\$ 1,349,761	\$ 1,237,544
Cost of sales	458,644	422,483	891,718	811,086
Gross profit	235,629	219,214	458,043	426,458
Operating expenses	157,608	146,388	311,485	284,118
Operating income	78,021	72,826	146,558	142,340
Other income and (expense):				
Finance income, net	2,120	1,479	4,067	3,575
Interest expense	(3,830)	(3,109)	(7,636)	(6,186)
Gain on currency exchange	208	243	226	212
Income before taxes	76,519	71,439	143,215	139,941
Income taxes	28,282	26,719	53,394	52,339
Net income	\$ 48,237	\$ 44,720	\$ 89,821	\$ 87,602
Earnings per share:				
Basic	\$ 0.35	\$ 0.33	\$ 0.65	\$ 0.64
Diluted	\$ 0.35	\$ 0.32	\$ 0.65	\$ 0.63
Weighted average common shares:				
Basic	137,757	137,554	137,983	137,427
Diluted	138,728	139,249	138,948	139,183

See accompanying notes.

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

(Dollars in thousands)

(Unaudited)

	Six Months Ended	
	October 28, 2006	October 29, 2005
Operating activities:		
Net income	\$ 89,821	\$ 87,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,000	7,672
Amortization of intangibles	2,856	3,256
Stock-based compensation	4,065	390
Excess tax benefits from share-based compensation	(504)	
Bad debt expense	1,153	1,171
Change in assets and liabilities, net of acquired	(24,916)	(32,187)
 Net cash provided by operating activities	 82,475	 67,904
Investing activities:		
Additions to property and equipment, net	(9,726)	(27,166)
Acquisitions, net	(8,665)	(32,728)
Distribution agreement		(100,000)
Sale of short-term investments, net		9,369
 Net cash used in investing activities	 (18,391)	 (150,525)
Financing activities:		
Payments and retirement of long-term debt and obligations under capital leases	(10,013)	(10,014)
Loan to ESOP	(105,000)	
Excess tax benefits from share-based compensation	504	
Common stock issued, net	7,698	8,644
 Net cash used in financing activities	 (106,811)	 (1,370)
Effect of exchange rate changes on cash	(107)	(511)
 Net decrease in cash and cash equivalents	 (42,834)	 (84,502)
Cash and cash equivalents at beginning of period	224,392	232,549
 Cash and cash equivalents at end of period	 \$ 181,558	 \$ 148,047

See accompanying notes.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and share amounts in thousands except per share data)

(Unaudited)

October 28, 2006

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 October 28, 2006 and the results of operations and the cash flows for the periods ended October 28, 2006 and October 29, 2005. Such adjustments are of a normal recurring nature. The results of operations for the periods ended October 28, 2006 and October 29, 2005, 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 2006 Annual Report on Form 10-K filed on July 13, 2006.

The condensed consolidated financial statements of Patterson Companies, Inc. include the assets and liabilities of PDC Funding Company, LLC (PDC Funding), a wholly owned subsidiary and a separate legal entity under Minnesota law. PDC Funding is a fully consolidated special purpose entity 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 would be available first and foremost to satisfy the claims of its creditors. There are no known creditors of PDC Funding.

Fiscal Year End

The fiscal year end of the Company is the last Saturday in April. The second quarter and first six months of fiscal 2007 and 2006 represent the 13 and 26 weeks ended October 28, 2006 and October 29, 2005, respectively.

Comprehensive Income

Total comprehensive income was \$50,090 and \$90,943 for the three and six months ended October 28, 2006, respectively, and \$46,800 and \$88,760 for the three and six months ended October 29, 2005, respectively. Other than net income, comprehensive income also includes foreign currency translation effects and unrealized gains and losses on cash flow hedging instruments.

Distribution Agreement

In the first quarter of fiscal 2006, the Company extended its exclusive North American distribution agreement with Sirona Dental Systems GmbH (Sirona) for Sirona s CEREC[®] dental restorative

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system. The Company paid a \$100 million distribution fee to extend the agreement for a 10-year period that begins in October 2007. The distribution fee is reflected as a non-current asset in the condensed consolidated balance sheet. The amortization of this fee will occur over the 10-year period and will reflect the pattern in which the economic benefits of the fee are realized.

Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	October 28, 2006	October 29, 2005	October 28, 2006	October 29, 2005
Denominator:				
Denominator for basic earnings per share - weighted-average shares	137,757	137,554	137,983	137,427
Effect of dilutive securities:				
Stock options	739	1,392	765	1,480
Restricted stock	9		8	
Employee Stock Purchase Plan	38	37	39	37
Capital Accumulation Plan	185	207	153	180
Convertible debentures		59		59
Dilutive potential common shares	971	1,695	965	1,756
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	138,728	139,249	138,948	139,183

Options to purchase 849 and 807 shares of common stock during the three and six months ended October 28, 2006, respectively, and 59 and 30 shares during the three and six months ended October 29, 2005, respectively, are excluded from the calculation of diluted earnings per share because the effect would have been anti-dilutive. Unvested restricted stock awards outstanding, including performance unit awards, excluded from the calculation of diluted earnings per share were 76 and 77 shares during the three and six months ended October 28, 2006, respectively, and 13 and 59 shares during the three and six months ended October 29, 2005, because the effect would have been anti-dilutive.

Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective at the beginning of our fiscal year 2008. We are currently evaluating the impact of FIN 48 on our results of operations and financial position.

In September 2006, the SEC staff published Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 requires analysis of misstatements using both an income statement

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(rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. We are currently evaluating the impact of SAB No. 108 on our results of operations and financial position.

In September 2006, FASB issued Statement of Accounting Standards (SFAS) No. 157 *Fair Value Measurement*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective at the beginning of our fiscal year 2008. We are currently evaluating the impact of SFAS No. 157 on our results of operations and financial position.

NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS

The goodwill balances and related activity by business segment as of April 29, 2006 and October 28, 2006 is as follows:

			Translation	
	Balance at	Acquisition	And Other	Balance at
	April 29, 2006	Activity	Activity	October 28, 2006
<hr/>				