

PATTERSON COMPANIES, INC.

Form 10-Q

December 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 OCTOBER 30, 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 122,757,302 shares of common stock as of December 2, 2010.

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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 30, 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", "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 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)**

	<b>October 30, 2010 (Unaudited)</b>	<b>April 24, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 328,744	\$ 340,591
Receivables, net	427,276	452,746
Finance contracts receivable, sold	122,348	0
Inventory	306,675	288,725
Prepaid expenses and other current assets	50,855	51,696
Total current assets	1,235,898	1,133,758
Property and equipment, net	182,830	169,598
Long-term receivables, net	82,687	75,073
Goodwill	786,718	782,083
Identifiable intangibles, net	233,370	223,594
Other	28,544	38,863
Total assets	\$ 2,550,047	\$ 2,422,969
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 164,342	\$ 193,626
Advances on finance contracts	122,348	0
Accrued payroll expense	36,166	67,809
Other accrued expenses	95,577	86,916
Income taxes payable	1,993	0
Current maturities of long-term debt	0	0
Total current liabilities	420,426	348,351
Long-term debt	525,000	525,000
Other long-term liabilities	103,219	108,107
Total liabilities	1,048,645	981,458
<b>STOCKHOLDERS' EQUITY</b>		
Common stock	\$ 1,228	\$ 1,234
Additional paid-in capital	17,405	41,703
Accumulated other comprehensive income (loss)	22,529	23,291
Retained earnings	1,577,208	1,493,885
Notes receivable from ESOP	(116,968)	(118,602)
Total stockholders' equity	1,501,402	1,441,511

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Total liabilities and stockholders' equity	\$ 2,550,047	\$ 2,422,969
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See accompanying notes.

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

(In thousands, except per share amounts)

(Unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 30,</b>	<b>October 24,</b>	<b>October 30,</b>	<b>October 24,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales	\$ 857,414	\$ 814,951	\$ 1,707,201	\$ 1,604,530
Cost of sales	578,213	548,414	1,147,800	1,079,309
Gross profit	279,201	266,537	559,401	525,221
Operating expenses	189,049	182,051	380,225	363,945
Operating income	90,152	84,486	179,176	161,276
Other income and (expense):				
Interest income	2,898	1,909	5,541	4,369
Interest expense	(6,229)	(6,358)	(13,119)	(12,977)
Other gain (loss)	(1,467)	689	(477)	490
Income before taxes	85,354	80,726	171,121	153,158
Income taxes	31,997	31,383	63,839	58,758
Net income	\$ 53,357	\$ 49,343	\$ 107,282	\$ 94,400
Earnings per share:				
Basic	\$ 0.45	\$ 0.42	\$ 0.90	\$ 0.80
Diluted	\$ 0.45	\$ 0.41	\$ 0.90	\$ 0.79
Weighted average common shares:				
Basic	118,616	118,336	118,819	118,228
Diluted	119,373	119,216	119,579	118,929
Dividends declared per common share	\$ 0.10	\$ 0.00	\$ 0.20	\$ 0.00

See accompanying notes.



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

(Dollars in thousands)

(Unaudited)

	Six Months Ended	
	October 30, 2010	October 24, 2009
Operating activities:		
Net income	\$ 107,282	\$ 94,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,853	11,928
Amortization	8,200	6,741
Share-based compensation	5,289	4,397
Finance contracts receivable, sold	(122,348)	0
Excess tax benefits from share-based compensation	(1,031)	(255)
Bad debt expense	2,099	1,962
Change in assets and liabilities, net of acquired	(26,787)	(63,721)
Net cash (used in) provided by operating activities	(14,443)	55,452
Investing activities:		
Additions to property and equipment, net	(20,046)	(13,133)
Acquisitions, net	(46,682)	(28,151)
Net cash used in investing activities	(66,728)	(41,284)
Financing activities:		
Dividends paid	(23,734)	0
Repurchases of common stock	(36,947)	0
Advances on finance contracts	122,348	0
Payments on credit facility	0	(22,000)
ESOP activity	1,246	0
Common stock issued, net	7,735	5,620
Excess tax benefits from share-based compensation	1,031	255
Net cash provided by (used in) financing activities	71,679	(16,125)
Effect of exchange rate changes on cash	(2,355)	14,043
Net (decrease) increase in cash and cash equivalents	(11,847)	12,086
Cash and cash equivalents at beginning of period	340,591	158,065
Cash and cash equivalents at end of period	\$ 328,744	\$ 170,151

See accompanying notes.



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

*(Unaudited)*

**October 30, 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 October 30, 2010 and the results of operations and the cash flows for the periods ended October 30, 2010 and October 24, 2009. Such adjustments are of a normal recurring nature. The results of operations for the periods ended October 30, 2010 and October 24, 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 second quarter of fiscal 2011 and fiscal 2010 represent the 13 weeks ended October 30, 2010 and October 24, 2009, respectively. Because the first quarter of fiscal 2011 included an additional week, the six months ended October 30, 2011 included 27 weeks, while the six months ended October 24, 2009 included 26 weeks. Fiscal 2011 will include 53 weeks of operations, while fiscal 2010 was comprised of 52 weeks.

*Comprehensive Income*

Total comprehensive income was \$59,907 and \$106,520 for the three months and six months ended October 30, 2010, respectively, and \$54,777 and \$122,761 for the three and six months ended October 24, 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 six months ended October 24, 2009, comprehensive income was positively affected by approximately \$28 million due to the effects 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):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 30, 2010</b>	<b>October 24, 2009</b>	<b>October 30, 2010</b>	<b>October 24, 2009</b>
Denominator:				
Denominator for basic earnings per share weighted-average shares	118,616	118,336	118,819	118,228
Effect of dilutive securities stock options, restricted stock, and stock purchase plans	757	880	760	701
Denominator for diluted earnings per share adjusted weighted average shares	119,373	119,216	119,579	118,929

Options to purchase 607 and 611 shares of common stock during the three and six months ended October 30, 2010, respectively, and 936 and 1,152 shares during the three and six months ended October 24, 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 328 and 345 shares during the three and six months ended October 30, 2010, respectively, and 9 and 120 shares during the three months and six months ended October 24, 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. See Note 5 to the condensed consolidated financial statements for a discussion of the impact of this guidance.

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 October 30, 2010 are as follows:

	Balance at April 24, 2010	Acquisition Activity	Translation And Other Activity	Balance at October 30, 2010
Dental Supply	\$ 131,370	\$ 0	\$ 299	\$ 131,669
Rehabilitation Supply	530,904	3,640	361	534,905
Veterinary Supply	119,809	0	335	120,144
Total	\$ 782,083	\$ 3,640	\$ 995	\$ 786,718

The increase in the acquisition activity column during the six month period ended October 30, 2010 primarily reflects the purchase price allocations of the rehabilitation businesses of DCC Healthcare, which was acquired in June 2010. During the second quarter of fiscal 2011, the valuation of the DCC businesses was completed with the assistance of a third party firm and amounts initially recorded as goodwill in the first quarter of fiscal 2011 were reclassified to other intangible assets based on the final valuation.

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The other intangibles acquired in the DCC Healthcare acquisition had a fair value of approximately \$17.3 million and a weighted average useful life of 9.9 years.

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Balances of other intangible assets excluding goodwill are as follows:

	October 30, 2010	April 24, 2010
Unamortized - indefinite lived:		
Copyrights, trade names and trademarks	\$ 76,464	\$ 76,464
Amortized:		
Distribution agreement, customer lists and other	227,088	209,050
Less: Accumulated amortization	(70,182)	(61,920)
Net amortized other intangible assets	156,906	147,130
Total identifiable intangible assets, net	\$ 233,370	\$ 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 manage the interest rate risk associated with our finance contracts. As of October 30, 2010, the agreements have notional amounts of approximately \$13 million and \$12 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 to manage the foreign currency exchange risk associated with a short-term intercompany loan and was not designated as a hedge for accounting purposes. The gain on the contract was \$0.1 million.

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In the second quarter of fiscal 2011, the Company entered into a foreign currency forward contract that served to manage foreign exchange risk on a short-term intercompany loan. The forward contract and intercompany loan were both settled during the quarter. The loss on the contract was \$2.0 million.

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

Derivative type	Classification	October 30, 2010	April 24, 2010	October 24, 2009
<b>Assets:</b>				
Interest rate contracts	Other noncurrent assets	\$ 2.9	\$ 11.7	\$ 10.6
<b>Liabilities:</b>				
Interest rate contracts	Other noncurrent liabilities	\$ 3.3	\$ 12.6	\$ 11.9

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

		Three Months Ended		Six Months Ended	
		October 30, 2010	October 24, 2009	October 30, 2010	October 24, 2009
<b>Derivative type</b>	<b>Location of gain(loss) recognized on derivative</b>				
Interest rate contracts	Other income(expense), net	\$ 0.0	\$ (0.2)	\$ 0.0	\$ (0.6)
Foreign currency contracts	Other income(expense), net	(2.0)	0.0	(1.9)	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 October 30, 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)				
<b>Assets:</b>				
Cash equivalents	\$ 166.6	\$ 166.6	0	0
Derivative instruments	2.9	0	\$ 2.9	0
Total assets	\$ 169.5	\$ 166.6	\$ 2.9	\$ 0
<b>Liabilities:</b>				
Derivative instruments	\$ 3.3	\$ 0	\$ 3.3	\$ 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)				
<b>Assets:</b>				
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
<b>Liabilities:</b>				
Derivative instruments	\$ 12.6	\$ 0	\$ 12.6	\$ 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 or 2009.

The carrying amounts of receivables, net of allowances, accounts payable, and certain accrued and other current liabilities approximate fair value at October 30, 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 \$61 million of such contracts were outstanding as of October 30, 2010.



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Prior to fiscal 2011, these financing arrangements were accounted for as a sale of assets, whereby the finance contracts transferred to the commercial paper conduit were derecognized. Under the revised accounting standards of ASC Topic No. 860, *Accounting for the Transfers of Financial Assets*, transfers under the agreement with the commercial paper conduit are accounted for as secured borrowings. Accordingly, the assets transferred during fiscal 2011 have not been derecognized and a liability for the cash advances received is included on the balance sheet as of October 30, 2010. During the prior year period of the six months ended October 24, 2009, the Company transferred approximately \$93.1 million of its contracts, which were accounted for as sales.

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 October 30, 2010.

In the condensed consolidated balance sheet as of October 30, 2010, the line finance contracts receivable, sold, reflects those contracts transferred to the commercial paper conduit in fiscal 2011. Included in the line receivables, net in the consolidated balance sheets are approximately \$85.6 million, net of unearned income of \$3.6 million, and \$116.7 million, net of unearned income of \$4.2 million, as of October 30, 2010 and April 24, 2010, respectively, of finance contracts not yet transferred by the Company to the commercial paper conduit. A total of \$461.9 million of finance contract receivables transferred under the agreements were outstanding at October 30, 2010. The residual receivable under the arrangements was approximately \$69.3 and \$65.2 million as of October 30, 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.

On December 3, 2010, the Company amended and restated the agreement with a commercial paper conduit. Under the terms of the amended and restated agreement, the Company believes that it has met all the conditions necessary to again derecognize the finance contract receivables when they are transferred and will qualify for sale accounting under ASC 860.

## **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

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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		Six Months Ended	
	October 30, 2010	October 24, 2009	October 30, 2010	October 24, 2009
Net sales				
Dental supply	\$ 563,210	\$ 537,167	\$ 1,105,888	\$ 1,048,158
Rehabilitation supply	132,626	117,130	260,100	226,537
Veterinary supply	161,578	160,654	341,213	329,835
Consolidated net sales	\$ 857,414	\$ 814,951	\$ 1,707,201	\$ 1,604,530
Operating income				
Dental supply	\$ 63,589	\$ 62,277	\$ 124,552	\$ 118,260
Rehabilitation supply	18,302	16,471	35,535	29,758
Veterinary supply	8,261	5,738	19,089	13,258
Consolidated operating income	\$ 90,152	\$ 84,486	\$ 179,176	\$ 161,276

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

	Three Months Ended		Six Months Ended	
	October 30, 2010	October 24, 2009	October 30, 2010	October 24, 2009
Net sales				
Consumable and printed products	\$ 547,332	\$ 538,653	\$ 1,133,935	\$ 1,085,393
Equipment and software	243,557	210,001	435,778	387,655
Other	66,525	66,297	137,488	131,482
Total	\$ 857,414	\$ 814,951	\$ 1,707,201	\$ 1,604,530

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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 six months ended October 30, 2010 included an extra, or twenty-seventh 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**

**Six Months  
Ended**