

PATTERSON COMPANIES, INC.

Form 10-Q

September 06, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JULY 28, 2007.**

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

Commission File No. 0-20572

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**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)

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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 139,947,863 shares of common stock as of September 3, 2007.

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Safe Harbor Statement Under The Private Securities Litigation Reform Act Of 1995:	

This Form 10-Q for the period ended July 28, 2007, 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 2007 Annual Report on Form 10-K filed June 27, 2007 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)

	July 28, 2007 (Unaudited)	April 28, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 294,232	\$ 241,791
Receivables, net	333,642	361,401
Inventory	280,878	250,207
Prepaid expenses and other current assets	34,589	33,091
Total current assets	943,341	886,490
Property and equipment, net	132,179	131,952
Long-term receivables, net	49,829	52,019
Goodwill	663,285	660,573
Identifiable intangibles, net	101,161	102,357
Distribution agreement	100,000	100,000
Other	7,005	6,929
Total assets	\$ 1,996,800	\$ 1,940,320
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 171,403	\$ 182,761
Accrued payroll expense	41,423	54,101
Other accrued expenses	82,032	86,348
Income taxes payable	14,946	4,245
Current maturities of long-term debt	50,008	50,014
Total current liabilities	359,812	377,469
Long-term debt	130,077	130,010
Deferred taxes	68,020	53,627
Total liabilities	557,909	561,106
<b>STOCKHOLDERS EQUITY</b>		
Common stock	1,396	1,395
Additional paid-in capital	180,479	174,420
Accumulated other comprehensive income	24,445	18,372
Retained earnings	1,356,134	1,308,590
Notes receivable from ESOP	(123,563)	(123,563)
Total stockholders equity	1,438,891	1,379,214
Total liabilities and stockholders equity	\$ 1,996,800	\$ 1,940,320

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>July 28,</b>	<b>July 29,</b>
	<b>2007</b>	<b>2006</b>
Net sales	\$ 701,403	\$ 655,488
Cost of sales	464,269	433,074
Gross profit	237,134	222,414
Operating expenses	161,927	153,877
Operating income	75,207	68,537
Other income and (expense):		
Finance income, net	2,348	1,947
Interest expense	(2,497)	(3,806)
Other	754	18
Income before taxes	75,812	66,696
Income taxes	28,268	25,112
Net income	\$ 47,544	\$ 41,584
Earnings per share:		
Basic	\$ 0.35	\$ 0.30
Diluted	\$ 0.35	\$ 0.30
Weighted average common shares:		
Basic	135,785	138,208
Diluted	136,745	139,168

See accompanying notes.

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

(Dollars in thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>July 28,</b>	<b>July 29,</b>
	<b>2007</b>	<b>2006</b>
<b>Operating activities:</b>		
Net income	\$ 47,544	\$ 41,584
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	4,836	4,859
Amortization of intangibles	1,247	1,385
Share-based compensation	1,969	2,068
Excess tax benefits from share-based compensation	(248)	(489)
Bad debt expense	482	262
Change in assets and liabilities, net of acquired	(2,690)	2,853
<b>Net cash provided by operating activities</b>	<b>53,140</b>	<b>52,522</b>
<b>Investing activities:</b>		
Additions to property and equipment, net	(5,007)	(6,665)
Acquisitions, net	(2,828)	(4,064)
<b>Net cash used in investing activities</b>	<b>(7,835)</b>	<b>(10,729)</b>
<b>Financing activities:</b>		
Payments and retirement of long-term debt and obligations under capital leases	(8)	(5,002)
Common stock issued, net	3,487	4,118
Excess tax benefits from share-based compensation	248	489
<b>Net cash provided by (used in) financing activities</b>	<b>3,727</b>	<b>(395)</b>
Effect of exchange rate changes on cash	3,409	(566)
<b>Net increase in cash and cash equivalents</b>	<b>52,441</b>	<b>40,832</b>
Cash and cash equivalents at beginning of period	241,791	224,392
<b>Cash and cash equivalents at end of period</b>	<b>\$ 294,232</b>	<b>\$ 265,224</b>

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 28, 2007**

**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 28, 2007 and the results of operations and the cash flows for the periods ended July 28, 2007 and July 29, 2006. Such adjustments are of a normal recurring nature. The results of operations for the periods ended July 28, 2007 and July 29, 2006, 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 2007 Annual Report on Form 10-K filed on June 27, 2007.

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 2008 and 2007 represent the 13 weeks ended July 28, 2007 and July 29, 2006, respectively.

*Comprehensive Income*

Total comprehensive income was \$53,617 and \$40,853 for the three months ended July 28, 2007 and July 29, 2006, respectively. Other than net income, comprehensive income includes foreign currency translation effects and changes in 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® 3D dental restorative 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.



**Table of Contents***Income Taxes*

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) on April 29, 2007, the first day of fiscal 2008. The adoption required no adjustment to the opening balance of retained earnings on April 29, 2007. On the date of adoption, the gross amount of the liability for unrecognized tax benefits in our consolidated balance sheet was approximately \$20 million. If recognized, this amount, net of a \$6 million deferred tax asset related to the federal and state deductibility of the gross liability, would decrease our effective tax rate. These amounts have been reclassified from the current to the non-current section of our consolidated balance sheet in accordance with FIN 48.

In accordance with our accounting policy, we include accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. This policy did not change as a result of the adoption of FIN 48.

We file income tax returns, including returns for our subsidiaries, with federal, state, local and foreign jurisdictions. We are not currently under audit by the Internal Revenue Service (IRS). The IRS has either examined or waived examination of all periods prior to our fiscal year ended April 28, 2007. Periodically, state, local, and foreign income tax returns are examined by various taxing authorities. We do not believe the outcome of these various examinations would have a material adverse impact on our financial statements.

*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>July 28,</b>	<b>July 29,</b>
	<b>2007</b>	<b>2006</b>
<b>Denominator:</b>		
Denominator for basic earnings per share - weighted-average shares	135,785	138,208
<b>Effect of dilutive securities:</b>		
Stock options	786	790
Restricted stock	43	7
Employee Stock Purchase Plan	36	40
Capital Accumulation Plan	95	123
Dilutive potential common shares	960	960
Denominator for diluted earnings per share	136,745	139,168

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Options to purchase 496 and 807 shares of common stock and 0 and 77 shares of restricted stock outstanding during the three months ended July 28, 2007 and July 29, 2006, respectively, were excluded from the calculation of diluted shares because the effect would be antidilutive.

**NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS**

The goodwill balances and related activity by business segment as of April 28, 2007 and July 28, 2007 are as follows:

	Balance at April 28, 2007	Acquisition Activity	Translation And Other Activity	Balance at July 28, 2007
Dental Supply	\$ 92,529	\$	\$ 261	\$ 92,790
Rehabilitation Supply	479,835	1,928		481,763
Veterinary Supply	88,209	523		88,732
Total	\$ 660,573	\$ 2,451	\$ 261	\$ 663,285

The increase in the goodwill balance during the three-month period ended July 28, 2007 primarily reflects the preliminary purchase price allocation of acquisitions in the rehabilitation supply and veterinary supply segments. The preliminary purchase price allocations are subject to adjustment for changes in the preliminary assumptions pending additional information, including final asset valuations.

Balances of acquired intangible assets excluding goodwill are as follows:

	July 28, 2007	April 28, 2007
Copyrights, trade names and trademarks - unamortized	\$ 76,402	\$ 76,402
Customer lists and other amortizable intangible assets	59,689	59,638
Less: Accumulated amortization	(34,930)	(33,683)
Net amortizable	24,759	25,955
Total identifiable intangible assets, net	\$ 101,161	\$ 102,357

**NOTE 3 DERIVATIVE FINANCIAL INSTRUMENTS**

In fiscal 2006, the Company entered into certain offsetting and identical interest rate cap agreements. These 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 installment contracts sold by PDC Funding to the commercial paper conduit, and replace a minimum interest rate margin previously required under the sale agreement.

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PDC Funding purchased two interest rate caps from banks with combined amortizing notional amounts of \$400 million. At the same time, Patterson Companies, Inc. sold two identical interest rate caps to the same banks. Later in fiscal 2006, these caps were amended to adjust the notional amounts to a combined amortizing total of \$440 million. The fair value of the two purchased interest rate caps at July 28, 2007 and April 28, 2007 were \$0.6 million and \$0.3 million, respectively. At each date, these amounts were completely offset by the fair value of the two sold interest rate caps of (\$0.6) million and \$0.3 million, respectively. Accordingly, the impact to consolidated earnings of the Company is zero.

In fiscal 2006, the Company entered into an interest rate swap agreement with a bank under which the Company pays a fixed rate and receives a floating rate based on an amortizing notional amount. This agreement does not qualify for hedge accounting treatment and, accordingly, the Company records the fair value (estimated unrealized gain or loss) of the agreement as an asset or liability and the change in any period as income or expense of the period in which the change occurs. As of July 28, 2007 this agreement had a notional amount of approximately \$8 million and a nominal estimated unrealized gain. As of April 28, 2007, this agreement had a notional amount of approximately \$14 million and an estimated unrealized gain of less than \$0.1 million. In fiscal 2007, the Company entered into a similar interest rate swap agreement that, as of July 28, 2007, had a notional amount of approximately \$50 million and an estimated unrealized loss of (\$0.4) million. As of April 28, 2007, this agreement had a notional amount of approximately \$52 million and an estimated unrealized loss of (\$0.7) million.

The total net unrealized gain recognized in the statement of income under these interest rate swaps during the three months ended July 28, 2007 was \$0.2 million. There was a nominal net unrealized loss recognized during the three months ended July 29, 2006.

The Company does not use financial instruments or derivatives for any trading or other speculative purposes.

**NOTE 4 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 2007 Annual Report on Form 10-K filed June 27, 2007. The Company evaluates

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

	Three Months Ended	
	July 28,	July 29,
	2007	2006
Net sales		
Dental supply	\$ 499,727	\$ 472,709
Rehabilitation supply	91,262	82,665
Veterinary supply	110,414	100,114
<b>Consolidated net sales</b>	<b>\$ 701,403</b>	<b>\$ 655,488</b>
Operating income		
Dental supply	\$ 57,626	\$ 49,378
Rehabilitation supply	12,827	14,016
Veterinary supply	4,754	5,143
<b>Consolidated operating income</b>	<b>\$ 75,207</b>	<b>\$ 68,537</b>

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

	Three Months Ended	
	July 28,	July 29,
	2007	2006
Net sales		
Consumable and printed products	\$ 463,541	\$ 433,815
Equipment and software	180,860	169,445
Other	57,002	52,228
<b>Total</b>	<b>\$ 701,403</b>	<b>\$ 655,488</b>

**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 2007 Annual Report on Form 10-K filed June 27, 2007, for important background information regarding, among other things, an overview of the markets in which we operate and our business strategies.

**Table of Contents****RESULTS OF OPERATIONS**

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

	<b>Three Months Ended</b>	
	<b>July 28, 2007</b>	<b>July 29, 2006</b>
Net sales	100.0%	100.0%
Cost of sales	66.2%	66.0%
<b>Gross margin</b>	<b>33.8%</b>	<b>34.0%</b>
Operating expenses	23.1%	23.5%
<b>Operating income</b>	<b>10.7%</b>	<b>10.5%</b>
Other expense, net	0.1%	(0.3)%
<b>Income before income taxes</b>	<b>10.8%</b>	<b>10.2%</b>
Net income	6.8%	6.3%

**QUARTER ENDED JULY 28, 2007 COMPARED TO QUARTER ENDED JULY 29, 2006.**

**Net Sales.** Net sales for the three months ended July 28, 2007 ( Current Quarter ) were \$701.4 million, which is an increase of 7.0% from \$655.5 million reported for the three months ended July 29, 2006 ( Prior Quarter ). Acquisitions and foreign currency exchange rate changes contributed approximately 1.0% of growth.

Dental segment sales increased 5.7% to \$499.7 million in the Current Quarter compared to \$472.7 million in the Prior Quarter. Sales of consumable dental supplies and printed office products increased 5.7% in the Current Quarter. Dental equipment and software sales grew 3.9%, paced by strong sales of digital radiography and related software, which more than offset reduced sales of CEREC 3D® dental restorative systems. Sales of other services and products rose 11.4%. These sales consist primarily of technical service parts and labor, software support services and artificial teeth.

Sales of the Veterinary segment increased 10.3% from \$100.1 million in the Prior Quarter to \$110.4 million in the Current Quarter. Sales of equipment and software increased 31% over the Prior Quarter, primarily reflecting of the unit's strategic emphasis on equipment and including the IntraVet software product line.

The Rehabilitation unit reported sales growth of 10.4% to \$91.3 million compared to \$82.6 in the Prior Quarter. This unit has opened six branch offices through acquisitions and internal start-ups since the second quarter of fiscal 2007.

**Gross Margins.** Consolidated gross margin decreased from 34.0% in the Prior Quarter to 33.8% in the Current Quarter.

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The dental segment experienced a 40 basis point increase primarily as a result of better freight management. In addition, a special financing promotion had a negative impact on the Prior Quarter.

Gross margins of the veterinary segment decreased 90 basis points in the Current Quarter. This decline was largely due to the decision to terminate an agency relationship with a strategic partner at the beginning of calendar year 2007, which reduced agency commissions quarter-over-quarter. Since agency commissions sales are recorded on a net basis, their impact on gross margins of the segment are significant as compared to distributed sales. In addition, vendor rebates were modestly lower in the Current Quarter.

The rehabilitation segment saw gross margin decline 150 in the Current Quarter. This decline resulted from increased freight costs.

**Operating Expenses.** In the Current Quarter, operating expenses as a percent of sales were 23.1%, a decrease of 40 basis points from the Prior Quarter.

The operating expense ratio for the dental segment decreased 70 basis points from the Prior Quarter. This expense ratio improvement reflects the leverage of infrastructure investments over the past two years, elimination of duplicate costs from the distribution system, and expense management throughout the segment.

The veterinary segment also lowered its operating expense ratio, which declined 20 basis points. While this segment continues to invest in the expansion and strengthening of its equipment and technical service capabilities, it has benefited from the distribution system realignment which allowed for the closing of a stand alone warehouse in the past year.

Operating expenses as a percentage of sales increased 140 basis points over Prior Quarter for the rehabilitation segment. Acquisitions and greenfield branch start-ups during the past year are contributing expense that, in the short-term, is increasing its operating expense ratio.

**Operating Income.** Operating income was \$75.2 million, or 10.7% of net sales in the Current Quarter. In the Prior Quarter, operating income was \$68.5 million, or 10.5% of net sales. As discussed above, the improvement in operating margin by 20 basis points reflects an operating expense improvement of 40 basis points partially offset by a 20 basis point decline in consolidated gross margins.

**Other Expense, Net.** Net other income was approximately \$0.6 million for the Current Quarter compared to a net other expense of \$1.8 million for the Prior Quarter. This change results from \$1.4 million less interest expense in the Current Quarter due to debt payments made in the prior year as well as increases in foreign currency exchange gains and finance income.

**Income Taxes.** The effective income tax rate for the Current Quarter was 37.3%, down slightly than the Prior Quarter rate of 37.7%.

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**Earnings Per Share.** Current Quarter net income increased 14.3% over prior year to \$47.5 million. Net income in the Prior Quarter was \$41.6 million. Earnings per diluted share was \$0.35 in the Current Quarter and \$0.30 in the Prior Quarter.

***LIQUIDITY AND CAPITAL RESOURCES***

The Company generated \$53.1 million of cash flow from operating activities in the Current Period, compared to \$52.5 million of cash flow from operating activities in the Prior Quarter.

Net cash used in investing activities in the Current Period was \$7.8 million compared to \$10.7 million in the Prior Quarter. Capital expenditures of \$5.0 million in the Current Quarter were down from \$6.7 in the year-earlier quarter. The Company expects to invest approximately \$30 million in capital expenditures during fiscal year 2008, including the expansion of an existing distribution center to accommodate multiple business units, and the continuing expansion of information systems.

A \$50 million payment on fixed-rate debt becomes due in November 2007. A \$200 million revolving credit facility is available until November 2008. No amounts are currently outstanding under the revolving credit facility.

The Company expects funds generated by operations, existing cash balances and 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.

***CRITICAL ACCOUNTING POLICIES AND ESTIMATES***

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) on April 29, 2007. The adoption required no adjustment to the opening balance of retained earnings on April 29, 2007. On the date of adoption, the gross amount of the liability for unrecognized tax benefits in our consolidated balance sheet was approximately \$20 million. If recognized, this amount, net of a \$6 million deferred tax asset related to the federal and state deductibility of the gross liability, would decrease our effective tax rate. These amounts have been reclassified from the current to the non-current section of our consolidated balance sheet in accordance with FIN 48.

Except for the adoption of FIN 48, there has been no material change in the Company's Critical Accounting Policies and Estimates, as disclosed in its 2007 Annual Report on Form 10-K filed June 27, 2007.

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***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 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.

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 retain its base of customers and to increase its market share.

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.

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.



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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes since April 28, 2007 in the Company's market risk. For further information on market risk, refer to Item 7A in the Company's 2007 Annual Report on Form 10-K filed June 27, 2007.

**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 28, 2007. 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 28, 2007.

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 28, 2007 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 1. LEGAL PROCEEDINGS**

Commencing in August 2005, five purported class action lawsuits were filed in the United States District Court for the District of Minnesota, naming the Company and certain officers and directors and alleging certain violations of the federal securities laws. On August 31, 2005, the Court entered an order consolidating the cases into a single action captioned *In Re Patterson Companies, Inc. Securities Litigation* docketed as File No. 05cv1757 DSD/NMJ. On September 16, 2005, a derivative lawsuit was filed in the United States District Court for the District of Minnesota captioned *Vance Cadd, Derivatively On Behalf of Patterson Companies, Inc. vs. James W. Wiltz, et al.*, docketed as File No. 05-cv-02155 RHK/AJB. This lawsuit named certain officers and directors of the Company as defendants and alleged breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. On October 11, 2005, a class action lawsuit was filed in the United States District Court for the District of Minnesota captioned *Tamara Dolliver, On Behalf of Herself and All Others Similarly Situated vs. Patterson Companies, Inc., et al* docketed as File No. 05-cv-02383 JNE/SRN. This class action lawsuit was brought on behalf of the participants in the Company's Employee Stock Ownership Plan against the Company and certain officers and directors, and alleged violations of the federal Employee Retirement Income Security Act. The *Cadd* and *Dolliver* cases were predicated on essentially the same factual allegations alleged in, and are related cases to, the class action lawsuits consolidated as *In Re Patterson Companies, Inc. Securities Litigation*.

In March 2006, pursuant to the Court's order, lead plaintiffs were selected in *In Re Patterson Companies, Inc. Securities Litigation* and Amended Complaints were filed in all three cases. On May 30, 2006, the Company filed its Motion to Dismiss all three cases. On March 20, 2007, the Court granted the Company's Motion to Dismiss with prejudice in the Securities and ERISA cases, and granted the Motion to Dismiss without prejudice in the Derivative case (the *Cadd* case). A notice of appeal was timely filed only in the *Cadd* case. On July 13, 2007 the appeal in the *Cadd* case was voluntarily dismissed.

**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 may repurchase up to six million shares of common stock in open market transactions. The Company did not repurchase any shares under the program during the quarter ended July 28, 2007 and has not made any repurchases since the program's approval in September 2004. As of July 28, 2007, the Company had authority to repurchase six million shares under that program. The repurchase authorization expires on September 30, 2009.

**ITEM 6. EXHIBITS**

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

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All other items under Part II have been omitted because they are inapplicable or the answers are negative, or were previously reported in the 2007 Annual Report on Form 10-K filed June 27, 2007.

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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 6, 2007

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**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
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