

PATTERSON COMPANIES, INC.

Form 10-Q

March 05, 2009

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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 JANUARY 24, 2009.**

.. **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 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 121,961,233 shares of common stock as of March 2, 2009.

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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 January 24, 2009, 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 2008 Annual Report on Form 10-K filed June 25, 2008 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>January 24, 2009</b>	<b>April 26, 2008</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 161,884	\$ 308,164
Receivables, net	436,574	364,050
Inventory	285,297	281,238
Prepaid expenses and other current assets	33,315	31,589
<b>Total current assets</b>	<b>917,070</b>	<b>985,041</b>
Property and equipment, net	158,591	148,932
Long-term receivables, net	52,283	54,392
Goodwill	769,505	681,352
Identifiable intangibles, net	193,678	200,398
Other	5,830	6,258
<b>Total assets</b>	<b>\$ 2,096,957</b>	<b>\$ 2,076,373</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 173,278	\$ 194,405
Accrued payroll expense	43,924	51,560
Other accrued expenses	85,948	90,092
Income taxes payable	2,093	
Current maturities of long-term debt	63,006	130,010
<b>Total current liabilities</b>	<b>368,249</b>	<b>466,067</b>
Long-term debt	525,040	525,024
Other long-term liabilities	82,429	80,495
<b>Total liabilities</b>	<b>975,718</b>	<b>1,071,586</b>
Stockholders' equity:		
Common stock, \$.01 par value: Authorized shares 600,000; Issued and outstanding shares 121,947 and 122,357, respectively	1,219	1,224
Additional paid-in capital	16,356	
Accumulated other comprehensive (loss) income	(14,221)	31,352
Retained earnings	1,239,648	1,093,974
Notes receivable from ESOP	(121,763)	(121,763)
<b>Total stockholders' equity</b>	<b>1,121,239</b>	<b>1,004,787</b>

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Total liabilities and stockholders' equity

\$ 2,096,957    \$ 2,076,373

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>Nine Months Ended</b>	
	<b>January 24, 2009</b>	<b>January 26, 2008</b>	<b>January 24, 2009</b>	<b>January 26, 2008</b>
Net sales	\$ 811,023	\$ 776,946	\$ 2,314,343	\$ 2,220,341
Cost of sales	541,914	507,808	1,539,929	1,461,770
Gross profit	269,109	269,138	774,414	758,571
Operating expenses	177,567	172,024	520,676	500,637
Operating income	91,542	97,114	253,738	257,934
Other income and (expense):				
Finance income, net	1,048	2,813	4,840	7,871
Interest expense	(7,000)	(2,383)	(23,235)	(7,479)
(Loss) gain on currency exchange	(793)	(28)	(1,776)	1,370
Income before taxes	84,797	97,516	233,567	259,696
Income taxes	31,990	37,152	87,893	98,047
Net income	\$ 52,807	\$ 60,364	\$ 145,674	\$ 161,649
Earnings per share:				
Basic	\$ 0.45	\$ 0.45	\$ 1.24	\$ 1.20
Diluted	\$ 0.45	\$ 0.45	\$ 1.23	\$ 1.19
Weighted average common shares:				
Basic	117,624	134,050	117,645	135,247
Diluted	118,134	134,935	118,391	136,201

See accompanying notes.

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

(Dollars in thousands)

(Unaudited)

	<b>Nine Months Ended</b>	
	<b>January 24, 2009</b>	<b>January 26, 2008</b>
<b>Operating activities:</b>		
Net income	\$ 145,674	\$ 161,649
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	16,327	14,527
Amortization	5,188	4,970
Share-based compensation	5,800	5,954
Excess tax benefits from share-based compensation	(317)	(585)
Bad debt expense	3,136	2,396
Change in assets and liabilities, net of acquired	(103,274)	(20,778)
<b>Net cash provided by operating activities</b>	<b>72,534</b>	<b>168,133</b>
<b>Investing activities:</b>		
Additions to property and equipment, net	(22,838)	(16,344)
Acquisitions, net	(109,942)	(12,967)
<b>Net cash used in investing activities</b>	<b>(132,780)</b>	<b>(29,311)</b>
<b>Financing activities:</b>		
Payments and retirement of long-term debt and obligations under capital leases	(130,008)	(50,024)
Borrowings from credit facility	63,000	60,000
Repurchases of common stock		(236,732)
Common stock issued, net	10,275	10,306
Excess tax benefits from share-based compensation	317	585
<b>Net cash used in financing activities</b>	<b>(56,416)</b>	<b>(215,865)</b>
Effect of exchange rate changes on cash	(29,618)	6,480
<b>Net decrease in cash and cash equivalents</b>	<b>(146,280)</b>	<b>(70,563)</b>
Cash and cash equivalents at beginning of period	308,164	241,791
<b>Cash and cash equivalents at end of period</b>	<b>\$ 161,884</b>	<b>\$ 171,228</b>
<b>Supplemental noncash flow disclosure:</b>		
Repurchases of common stock with liability due to broker	\$	\$ 26,754

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)*

**January 24, 2009**

**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 January 24, 2009 and the results of operations and the cash flows for the periods ended January 24, 2009 and January 26, 2008. Such adjustments are of a normal recurring nature. The results of operations for the periods ended January 24, 2009 and January 26, 2008, 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 2008 Annual Report on Form 10-K filed on June 25, 2008.

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 third quarter and the first nine months of fiscal 2009 and 2008 represent the 13 and 39 weeks ended January 24, 2009 and January 26, 2008, respectively.

*Comprehensive Income*

Total comprehensive income was \$51,735 and \$100,101 for the three and nine months ended January 24, 2009, respectively, and \$52,732 and \$173,977 for the three and nine months ended January 26, 2008. Other than net income, comprehensive income also includes foreign currency translation effects and unrealized gains on cash flow hedging instruments. During the nine months ended January 24, 2009, comprehensive income was negatively affected by approximately \$45 million due to the effect of changes in exchange rates on foreign currency translations.



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### *Fair Value Measurements*

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for assets and liabilities measured at fair value. SFAS 157 applies to existing accounting pronouncements that require fair value measurements, but it does not require any new fair value measurements. In February 2008, the FASB issued Staff Position FAS 157-2, which deferred the effective date of SFAS 157 as it relates to nonfinancial assets and liabilities.

SFAS 157 establishes the following hierarchy which prioritizes the inputs used to measure fair value from market based assumptions to entity specific assumptions as follows:

- 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. The Company's derivative contracts are financial assets and liabilities reflected at fair value and are considered to be Level 2 within the fair value hierarchy.
- 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.

The Company adopted the footnote disclosure requirements of the effective portions of SFAS 157 on April 27, 2008, the first day of fiscal 2009. The Company is currently evaluating the impact of the remaining portions of SFAS 157, which will be effective at the beginning of our fiscal year 2010.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ), which permits entities to choose to measure many financial instruments and certain other items at fair value. The Company adopted SFAS 159 beginning the first quarter of fiscal 2009, but did not elect the fair value option for any of its financial assets or liabilities.

**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>Nine Months Ended</b>	
	<b>January 24, 2009</b>	<b>January 26, 2008</b>	<b>January 24, 2009</b>	<b>January 26, 2008</b>
<b>Denominator:</b>				
Denominator for basic earnings per share weighted-average shares	117,624	134,050	117,645	135,247
Effect of dilutive securities stock options, restricted stock, and stock purchase plans	510	885	746	954
Denominator for diluted earnings per share adjusted weighted average shares	118,134	134,935	118,391	136,201

Options to purchase 1,606 and 989 shares of common stock during the three and nine months ended January 24, 2009, respectively, and 679 and 540 shares during the three and nine months ended January 26, 2008, respectively, were excluded from the calculation of diluted earnings per share because the effect would have been anti-dilutive. Unvested restricted stock awards outstanding excluded from the calculation of diluted earnings per share were 337 and 248 shares during the three and nine months ended January 24, 2009, because the effect would have been anti-dilutive.

**Table of Contents***Recently Issued Accounting Pronouncements*

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, pre-acquisition contingencies, transaction costs, in-process research and development and restructuring costs. SFAS 141R will be effective at the beginning of our fiscal year 2010 and will change our accounting treatment for business combinations on a prospective basis.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133* ( SFAS 161 ). SFAS 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 will be effective at the beginning of our fourth quarter of fiscal year 2009. The Company is evaluating the impact the adoption of SFAS 161 will have on the disclosures in our consolidated financial statements.

**NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS**

The goodwill balances and related activity by business segment as of April 26, 2008 and January 24, 2009 are as follows:

	<b>Balance at April 26, 2008</b>	<b>Acquisition Activity</b>	<b>Translation And Other Activity</b>	<b>Balance at January 24, 2009</b>
Dental Supply	\$ 99,580	\$ 45,944	\$ (1,866)	\$ 143,658
Rehabilitation Supply	490,614	1,132		491,746
Veterinary Supply	91,158	42,943		134,101
Total	\$ 681,352	\$ 90,019	\$ (1,866)	\$ 769,505

The increase in the goodwill balance during the nine month period ended January 24, 2009 primarily reflects the preliminary purchase price allocations of acquisitions. The purchase price allocations of certain acquisitions are preliminary and are subject to adjustment for changes in the preliminary assumptions pending additional information, including final asset valuations. The acquisition activity amounts above are primarily associated with the Dental segment's acquisition of Dolphin Imaging Systems, LLC and Dolphin Practice Management, LLC and the Veterinary segment's acquisition of Columbus Serum Company.

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Balances of other intangible assets excluding goodwill are as follows:

	January 24, 2009	April 26, 2008
Unamortized - indefinite lived:		
Copyrights, trade names and trademarks	\$ 77,377	\$ 76,402
Amortized:		
Distribution agreement, customer lists and other	161,915	165,182
Less: Accumulated amortization	(45,614)	(41,186)
Net amortized other intangible assets	116,301	123,996
Total identifiable intangible assets, net	\$ 193,678	\$ 200,398

**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 two interest rate caps from banks with combined amortizing notional amounts of \$440 million. Patterson Companies, Inc. has sold two identical interest rate caps to the same banks. At January 24, 2009, the outstanding caps have a maturity date of March 2014. The fair values of the purchased interest rate caps outstanding at January 24, 2009 and April 26, 2008 were \$0.2 million and \$0.8 million, respectively. At each date, these amounts were completely offset by the fair value of the two sold interest rate caps of (\$0.2) million and (\$0.8) million, respectively. Accordingly, the impact to consolidated earnings of the Company is zero.

Similar to the above agreements, PDC Funding II and Patterson Companies, Inc. entered into offsetting and identical interest rate swap agreements in fiscal 2008. These agreements have an amortizing notional amount of \$110 million and a fair value of \$0.7 million and (\$0.7) million, respectively, as of January 24, 2009. As of April 26, 2008, the fair value of the agreements was \$1.6 million and (\$1.6) million, respectively. The impact of these swap agreements to consolidated earnings of the Company is zero.

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In fiscal 2006, the Company entered into an interest rate swap agreement with a bank under which the Company paid a fixed rate and received a floating rate based on an amortizing notional amount. This agreement did not qualify for hedge accounting treatment and, accordingly, the Company recorded 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 occurred. This agreement matured in fiscal 2008. In fiscal 2007, 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, which matures in November 2011, 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 January 24, 2009, the agreement had a notional amount of approximately \$33 million and an estimated unrealized loss of \$1.9 million. As of April 26, 2008, the agreement had a notional amount of approximately \$42 million and an estimated unrealized loss of \$1.6 million.

For the three and nine months ended January 24, 2009, the total net loss recognized in the statements of income related to the non-offsetting interest rate swap agreements was \$0.6 million and \$0.8 million, respectively. During the three and nine months ended January 26, 2008, the total net loss was \$1.2 million and \$1.5 million, respectively.

**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 2008 Annual Report on Form 10-K filed June 25, 2008. 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.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 24, 2009</b>	<b>January 26, 2008</b>	<b>January 24, 2009</b>	<b>January 26, 2008</b>
Net sales				
Dental supply	\$ 584,140	\$ 584,942	\$ 1,640,862	\$ 1,619,174
Rehabilitation supply	81,611	84,384	281,346	274,209
Veterinary supply	145,272	107,620	392,135	326,958
<b>Consolidated net sales</b>	<b>\$ 811,023</b>	<b>\$ 776,946</b>	<b>\$ 2,314,343</b>	<b>\$ 2,220,341</b>
Operating income				
Dental supply	\$ 73,747	\$ 80,246	\$ 196,028	\$ 203,977
Rehabilitation supply	11,676	11,199	40,196	38,213
Veterinary supply	6,119	5,669	17,514	15,744
<b>Consolidated operating income</b>	<b>\$ 91,542</b>	<b>\$ 97,114</b>	<b>\$ 253,738</b>	<b>\$ 257,934</b>

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 24, 2009</b>	<b>January 26, 2008</b>	<b>January 24, 2009</b>	<b>January 26, 2008</b>
Net Sales				
Consumable and printed products	\$ 476,196	\$ 449,721	\$ 1,468,110	\$ 1,395,097
Equipment and software	271,384	262,200	653,642	641,173
Other	63,443	65,025	192,591	184,071
<b>Total</b>	<b>\$ 811,023</b>	<b>\$ 776,946</b>	<b>\$ 2,314,343</b>	<b>\$ 2,220,341</b>

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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 2008 Annual Report on Form 10-K filed June 25, 2008, for important background information regarding, among other things, an overview of the markets in which we operate and our business strategies.

**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		Nine Months Ended	
	January 24, 2009	January 26, 2008	January 24, 2009	January 26, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	66.8%	65.4%	66.5%	65.8%
Gross margin	33.2%	34.6%	33.5%	34.2%
Operating expenses	21.9%	22.1%	22.5%	22.5%
Operating income	11.3%	12.5%	11.0%	11.6%
Other (expense) income, net	(0.8)%	0.1%	(0.9)%	0.1%
Income before taxes	10.5%	12.6%	10.1%	11.7%
Net income	6.5%	7.8%	6.3%	7.3%

**QUARTER ENDED JANUARY 24, 2009 COMPARED TO QUARTER ENDED JANUARY 26, 2008.**

**Net Sales.** Consolidated net sales for the three months ended January 24, 2009 ( Current Quarter ) increased 4.4% to \$811.0 million as compared to \$776.9 million for the three months ended January 26, 2008 ( Prior Quarter ). Current Quarter sales results of all three of the Company's business units were negatively affected by the worldwide general economic environment. The contribution from acquisitions added 5.9% to sales growth, while changes in foreign currency translation rates reduced sales in the by 2.1%.

Dental segment sales were virtually unchanged at \$584.1 million in the Current Quarter as compared to \$584.9 million the Prior Quarter. Movement in foreign currency translation rates negatively affected Current Quarter sales by 2.0%, while acquisitions added 1.1% to sales growth. Consumable sales were down 2.4%, including a 2.1% negative impact of foreign currency translations and a contribution from acquisitions of 1.2%.

Dental equipment and software sales increased 3.3% compared to the Prior Quarter. Basic dental equipment sales, including chairs, units and lighting, grew approximately 3.0%. Sales of CEREC® dental restorative systems and components rose 4.7% from the Prior Quarter. Approximately 25% of the Prior Quarter CEREC sales included the fulfillment of backlogged orders of the MC XL milling chamber introduced earlier in calendar year 2007.

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Sales of other services and products in the Dental segment were flat with the Prior Quarter.

The Veterinary segment reported sales of \$145.3 million, an increase of 35.0% from \$107.6 million in the Prior Quarter. This sales growth was driven primarily by the acquisition of Columbus Serum Company, a full-service distributor of companion-pet veterinary supplies earlier in fiscal 2009. Excluding acquisitions, sales were flat with the Prior Quarter.

Current Quarter Rehabilitation segment sales of \$81.6 million were 3.3% lower than sales of \$84.4 million in the Prior Quarter. Unfavorable changes in foreign currency translation rates reduced Current Quarter sales by 5.4%.

**Gross Margins.** Consolidated gross margin of 33.2% represents a decline of 140 basis points from the Prior Quarter. Since the Veterinary segment contributed to Current Quarter sales growth at a higher rate than the other two segments, and produces a lower gross margin, there is a dilutive effect on the consolidated gross margin. Another factor in the lower consolidated gross margin was a decline of 70 basis points in the Dental segment.

Dental gross margin was reduced in part because of the decision to begin providing its practice management software to dentists free of charge in fiscal 2009. Another factor was the cost of a CEREC financing promotion that began in the second quarter of fiscal 2009 and ran throughout the Current Quarter. Finally, the sales mix in the Current Quarter was weighted less to consumables and more toward equipment. On average, the consumable sales carry a higher gross margin than equipment and, therefore, the mix change in the Current Quarter had a dilutive effect on gross margin.

Gross margin of the Veterinary segment decreased 210 basis points in the Current Quarter due primarily to the effect of the Columbus Serum acquisition. A portion of Columbus Serum sales were generated from distributed nutritional products and production animal business, both of which carry a lower gross margin than the Veterinary segment's core companion animal business. The Rehabilitation segment's gross margin was 100 basis points higher in the Current Quarter due to product mix, including software revenues, as well as improved freight management.

**Operating Expenses.** The consolidated operating expense ratio improved 20 basis points to 21.9% from 22.1% in the Prior Quarter. The lower ratio is due primarily to the relative sales contribution from the Veterinary segment, which has the lowest operating expense ratio of the three business units. Due to challenging economic conditions, the Company began taking action to reduce expenses in the Current Quarter, including a hiring freeze, except in the area of sales representatives, a wage freeze, and reductions and restrictions on travel. An initial impact was realized in the Current Quarter; however, the Company expects the impact to be more apparent in the fourth quarter of fiscal 2009. While the existing cost structure will be streamlined where prudent, the Company also plans to continue making strategic investments such as acquisitions and the consolidation of distribution facilities.

The operating expense ratio of the Dental segment was 40 basis points higher than in the Prior Quarter, reflecting the effects of new program expenses and increased fixed costs with no sales growth.



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The Veterinary segment's operating expense ratio decreased 110 basis points from the Prior Quarter as a result of higher revenues and the continued consolidation of distribution with the other two segments. Operating expenses as a percentage of sales at the Rehabilitation segment were unchanged in the Current Quarter.

**Operating Income.** Operating income was \$91.5 million, or 11.3% of net sales in the Current Quarter. In the Prior Quarter, operating income was \$97.1 million, or 12.5% of net sales. As discussed above, there was a 140 basis point decrease in consolidated gross margin in the Current Quarter while the consolidated operating expense ratio improved 20 basis points.

**Other (Expense) Income, Net.** Net other expense was \$6.7 million in the Current Quarter compared to net other income of \$0.4 million in the Prior Quarter. The Current Quarter includes incremental interest expense of \$6.5 million associated with the \$525 million of long-term debt financing completed in the fourth quarter of fiscal 2008, and foreign currency exchange losses of \$0.8 million.

**Income Taxes.** The effective income tax rate for the Current Quarter was 37.7%. In the Prior Quarter, the rate was 38.1%.

**Earnings Per Share.** Earnings per share were \$0.45 in both the Current and Prior Quarters. Although net income was approximately \$7.6 million less in the Current Quarter, a lower number of shares outstanding due to share repurchase activity in the second half of fiscal 2008 resulted in a flat earnings per share.

### ***NINE MONTHS ENDED JANUARY 24, 2009 COMPARED TO NINE MONTHS ENDED JANUARY 26, 2008.***

**Net Sales.** Consolidated net sales for the nine months ended January 24, 2009 ( Current Period ) totaled \$2,314.3 million, an increase of 4.2% from \$2,220.3 million during the nine months ended January 26, 2008 ( Prior Period ). Acquisitions contributed 3.1% to sales growth, while changes in foreign currency rates reduced sales by 0.7%.

Sales of Patterson Dental increased 1.3% to \$1,640.9 million in the Current Period compared to \$1,619.2 million in the Prior Period. Sales of consumable dental supplies and printed office products rose 1.1%. In the first quarter of fiscal 2009, consumables grew 5.8%, but have since been negatively affected by general economic conditions.

Dental equipment and software sales increased 1.3% compared to the Prior Period. Basic dental equipment and software sales grew 2.4%, while sales of CEREC 3D® dental restorative systems declined 3.9%. As discussed above, CEREC sales in the Prior Period were favorably impacted by shipments of backlogged MC XL milling chambers.

Veterinary segment sales of \$392.1 million were 19.9% higher than sales of \$327.0 million in the Prior Period. Acquisitions contributed 15.0% to sales growth.

Current Period Rehabilitation segment sales of \$281.3 million rose 2.6% from \$274.2 million in the Prior Period. Acquisitions contributed 2.2% to sales growth, while changes in foreign currency rates, reduced sales by 1.9%.

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**Gross Margins.** Consolidated gross margin decreased 70 basis points to 33.5% in the Current Period.

Dental segment gross margin decreased 40 basis points in the Current Period. The decision to provide its practice management software to dentists free of charge and a financing promotion on CEREC during the Current Period lowered gross margins.

Gross margin of the Veterinary segment fell 70 basis points to 19.2% in the Current Period, primarily due to the impact of the Columbus Serum acquisition as described in the three month comparison above. The Rehabilitation segment gross margin increased by 50 basis points due to improved freight management and the contribution of the higher margin PTOS practice management software sales.

**Operating Expenses.** Current Period operating expenses as a percent of sales of 22.5% were the same as the Prior Period.

The operating expense ratio of the Dental segment was 30 basis points higher than in the Prior Period, reflecting the incremental expense from the roll-out of sales and marketing strategy changes at the beginning of fiscal 2009 and lower sales growth against higher fixed costs in the year.

The Veterinary segment operating expense ratio decreased 30 basis points from the Prior Period. Increased overall sales revenues and the continued consolidation of distribution with the Dental and Rehabilitation segments were the main factors behind the improvement.

Operating expenses as a percentage of sales increased 10 basis points over the Prior Period in the Rehabilitation segment. In the earlier part of the Current Period, the infrastructure costs of newer branch locations and costs related to the conversion onto Patterson information systems negatively affected the operating expense ratio.

**Operating Income.** Operating income was \$253.7 million, or 11.0% of net sales in the Current Period. In the Prior Period, operating income was \$257.9 million, or 11.6% of net sales. As discussed above, consolidated gross margins declined by 70 basis points in the Current Period, while the operating expense ratio was flat.

**Other (Expense) Income, Net.** Net other expense was \$20.2 million in the Current Period compared to net other income of \$1.8 million in the Prior Period. The change between periods is due primarily to interest expense associated with the \$525 million issuance of long-term debt in March 2008. In addition, lower interest rates on investments caused interest income to decline and the strengthening of the U.S. dollar resulted in a loss from foreign currency transactions.

**Income Taxes.** The effective income tax rate for the Current Period was 37.6%. In the Prior Period, the rate was 37.8%.

**Earnings Per Share.** Earnings per share were \$1.23 in the Current Period, compared to \$1.19 in the Prior Period. The number of shares outstanding during the Current Period were approximately 18 million shares lower than the Prior Period due to share repurchase activity in the second half of fiscal 2008.

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***LIQUIDITY AND CAPITAL RESOURCES***

The Company generated \$72.5 million of cash flow from operating activities in the nine months ending January 24, 2009 ( Current Period ), compared to \$168.1 million for the nine months ending January 26, 2008 ( Prior Period ). The most significant factor in the lower cash flow from operating activities in the Current Period is related to the cash flow around the Company's customer financing business. During the second and third quarters of fiscal 2009, the Company offered a financing promotion on CEREC products. One financing option allowed qualified customers to defer payments for one year. Since the Company generally cannot sell a contract to one of its funding sources until the first payment is received, these contracts were not eligible to be sold as of the end of the Current Period. The result of the program activity is a temporary increase in the Company's accounts receivable and a decrease in cash flow from operations. In addition, Current Period net income is \$16.0 million less than the Prior Period, due primarily to interest expense associated with the \$525 million of long-term debt issued in March 2008, thus reducing cash flow.

Net cash used in investing activities in the Current Period was \$132.8 million compared to \$29.3 million in the Prior Period. Current Period activity is primarily related to acquisition activity of \$109.9 million, including the acquisitions of Columbus Serum, a full service distributor of companion-pet veterinary supplies, equipment and pharmaceuticals, and of Dolphin Imaging Systems, LLC and Dolphin Practice Management, LLC, providers of 3D imaging and practice management software for specialized dental practitioners. Current Period capital expenditures of \$22.8 million include the completion of the expansion of an existing distribution facility in Dinuba, California, the beginning of the expansion of an existing distribution facility in Jacksonville, Florida, and the renovation and expansion of the Company's corporate headquarters in Saint Paul, Minnesota.

Net cash used by financing activities was \$56.4 million in the Current Period compared to \$215.9 million used in the Prior Period. In November 2008, the Company made a scheduled payment on its long-term debt of \$130 million. Partially offsetting that cash usage in the Current Period were \$63 million of borrowings on the Company's revolving credit facility. As of January 24, 2009, the Company has \$237 million of available funding under the \$300 million credit facility, which is available until November 2012. In the Prior Period, the Company repurchased \$236.7 million of its common stock.

During the Current Period, the U.S. dollar has strengthened against the foreign currencies of the Company's Canadian and overseas operations. The negative effect of these exchange rate changes on cash was \$29.6 million in the Current Period. In the Prior Period, exchange rate changes increased cash by \$6.5 million.

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.

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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 2008 Annual Report on Form 10-K filed June 25, 2008.

***RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS***

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, pre-acquisition contingencies, transaction costs, in-process research and development and restructuring costs. SFAS 141R will be effective at the beginning of our fiscal 2010 year and will change our accounting treatment for business combinations on a prospective basis.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133* (SFAS 161). SFAS 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects on an entity's financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 will be effective at the beginning of our fourth quarter of fiscal year 2009. The Company is evaluating the impact the adoption of SFAS 161 will have on our 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 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.

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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 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.

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 26, 2008 in the Company's market risk. For further information on market risk, refer to Item 7A in the Company's 2008 Annual Report on Form 10-K filed June 25, 2008.

**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 January 24, 2009. 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 January 24, 2009.

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 January 24, 2009 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 January 24, 2009, 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 2008 Annual Report on Form 10-K filed June 25, 2008.

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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: March 5, 2009

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