PATTERSON COMPANIES, INC.
Form 10-K
June 25, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended April 26, 2014

OR

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

For the transition period from _________ to _________

Commission File No. 0-20572

PATTERSON COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Minnesota	**41-0886515**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

1031 Mendota Heights Road

St. Paul, Minnesota 55120

(Address of principal executive offices including Zip Code)

Registrant s telephone number, including area code: (651) 686-1600

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $.01

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act Yes ¨ No x

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, and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K x

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	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 x

The aggregate market value of voting stock held by non-affiliates of the registrant, computed by reference to the closing sales price as quoted on the NASDAQ Global Select Market on October 26, 2013, was approximately $4,317,000,000 (For purposes of this calculation all of the registrant s officers, directors and presidents of operating units are deemed affiliates of the registrant.)

As of June 19, 2014, there were 103,927,562 shares of Common Stock of the registrant issued and outstanding.

Documents Incorporated By Reference

Portions of the registrant s definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the registrant s fiscal year-end of April 26, 2014 are incorporated by reference into Part III.

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PART I

Item 1. BUSINESS

Certain information of a non-historical nature contained in Items 1, 2, 3 and 7 of this Form 10-K includes forward-looking statements. Reference is made to Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Factors that May Affect Future Operating Results, for a discussion of certain factors that could cause our Company s actual operating results to differ materially from those expressed in any forward-looking statements.

General

Patterson is a value-added distributor serving three major markets:

- North American dental supply;
- U.S. and U.K. veterinary supply; and
- The worldwide rehabilitation and assistive products supply market.

Patterson began distributing dental supplies in 1877. The modern history of the business dates to May 1985, when management and certain investors purchased the dental supply business of a subsidiary of The Beatrice Companies, Inc. Patterson became a publicly traded company in October 1992 and is a corporation organized under the laws of the state of Minnesota.

We had historically reported one operating segment, dental supply. In July 2001, the veterinary supply assets of J.A. Webster, Inc., were purchased and became a reportable business segment. Then in September 2003, AbilityOne Products Corp. was acquired, creating a third business segment which serves the rehabilitation supply market.

In June 2004, we changed our corporate name from Patterson Dental Company to Patterson Companies, Inc. (Patterson or the Company). Patterson retained its existing NASDAQ stock symbol PDCO. The corporate name change was adopted to reflect Patterson s expanded base of business in the veterinary and rehabilitation supply markets, as well as its traditional base of operations in the dental supply market. Patterson s operating units include Patterson Dental, Patterson Veterinary and Patterson Medical.

Our three reportable segments, dental supply, veterinary supply and rehabilitation supply, are strategic business units that offer similar products and services to different customer bases. Each business is a market leader with a strong competitive position, serves a fragmented market that offers consolidation opportunities and offers relatively low-cost consumable supplies, making our value-added business proposition highly attractive to customers.

Dental Supply

Overview

As Patterson s largest business, Patterson Dental is one of the two largest distributors of dental products in North America. Our dental business has operations in the United States and Canada. Patterson Dental, a full-service, value-added supplier to dentists, dental laboratories, institutions, and other healthcare professionals, provides consumable products (including x-ray film, restorative materials, hand instruments and sterilization products); basic and advanced technology dental equipment; practice management and clinical software; patient education systems; and office forms and stationery. Patterson Dental offers our customers a broad selection of dental products including more than 105,500 stock keeping units (SKUs) of which approximately 4,700 are private-label products sold under the Patterson brand. Patterson Dental also offers customers a full range of related services including dental equipment installation, maintenance and repair, dental office design and equipment financing. We market our dental products and services through more than 1,500 direct sales representatives, of which approximately 300 are equipment specialists.

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Patterson Dental has over 130 years of experience providing quality products and services to dental professionals. Net sales of this segment have increased from $165.8 million in fiscal 1986 to approximately $2.4 billion in fiscal 2014 and profitability has increased from an operating loss in fiscal 1986 to operating income of $249.1 million in fiscal 2014.

We estimate the dental supply market we serve to be approximately $7 billion annually and that our share of this market is approximately 33%. The underlying structure of the dental supply market consists of a sizeable geographically dispersed number of fragmented dental practices and is attractive for our Company s role as a value-added, full-service distributor. According to the American Dental Association, there are over 186,000 dentists practicing in the United States. According to the Canadian Dental Association, there are approximately 20,000 licensed dentists in Canada. The average general practitioner generated approximately $728,000 in annual revenue in 2009, while the average specialty practitioner produces about $1,005,000. We believe that most dentists use between 5% and 7% of their annual revenue to purchase consumable supplies used in the daily operations of their practice. This translates into between $36,000 and $51,000 of supplies purchased by the average practice each year. We believe the average dental practitioner purchases about 40% of their supplies from their top supplier.

Total expenditures for dental services in the United States increased from $31 billion in 1990 to $104.8 billion in 2010. We believe that the demand for dental services, equipment and supplies will continue to be influenced by the following factors:

Demographics. The U.S. population grew from 235 million in 1980 to 309 million in 2010, and is expected to reach 335 million by 2020. The median age of the population is also increasing, and we believe that older dental patients spend more on a per capita basis for dental services.

Dental products and techniques. Technological developments in dental products continue to contribute to advances in dental techniques and procedures, including cosmetic dentistry and dental implants.

Demand for certain dental procedures. Demand is growing for preventive dentistry and specialty services such as periodontic (the treatment of gums), endodontic (root canals), orthodontic (braces), and other dental procedures that enable patients to keep their natural teeth longer and improve their appearance.

Increased dental office productivity. The number of dentists per 100,000 persons in the U.S. is forecasted to decline over the next two decades. As a result, the number of patients per dental practice is expected to rise. For this reason, dentists are showing an increased willingness to invest in dental equipment and office infrastructure that can strengthen the productivity of their practices.

Demand for infection control products. Greater public awareness as well as regulations and guidelines instituted by OSHA, the American Dental Association and state regulatory authorities have resulted in increased use of infection control (asepsis) products such as protective clothing, gloves, facemasks, and sterilization equipment to prevent the spread of communicable diseases such as AIDS, hepatitis and herpes.

Coverage by dental plans. An increasing number of dental services are being funded by private dental insurance. In 2009, over 55% of the U.S. population had some form of dental coverage.

Strategy

Our objective is to remain a leading national distributor of supplies, equipment and related services in the market while continuing to improve our profitability and enhance our value to customers. To achieve this objective, we have adopted a strategy of emphasizing our value-added, full-service capabilities, using technology to enhance customer service, continuing to improve our own operating efficiencies, and growing through internal expansion and acquisitions.

Emphasizing Value-Added, Full-Service Capabilities. Patterson Dental is positioned to meet virtually all of the needs of dental practitioners by providing a full range of consumable supplies, equipment and software, and value-added services. We believe that our customers value full service and responsive delivery of quality supplies and equipment. Customers also increasingly expect suppliers to be knowledgeable about products and services, and generally, a superior sales representative can create a special relationship with the practitioner by providing an informational link to the overall industry. Our knowledgeable sales representatives assist customers in the selection and purchase of supplies and equipment. In addition, our high quality sales force allows us to offer broader product lines. Because most dental practices lack a significant degree of back office support, the convenience of our full-service capabilities enables dentists to spend more time with patients and, thus, generate additional revenues.

We meet our customers requirements by delivering frequent, small quantity orders rapidly and reliably from our strategically located distribution centers. Equipment specialists, service technicians and technology advisors also support our value-added strategy. Equipment specialists offer consultation on office design, equipment requirements and financing. Our experienced service technicians perform equipment installation, maintenance and repair services, including services on products purchased from others. Technology advisors from our sales branches provide guidance on integrating technology solutions, including practice management and clinical software, digital radiography, custom hardware and networking into the dental practice.

Using Technology to Enhance Customer Service. As part of Patterson Dental s commitment to providing superior customer service, we offer our customers easy order placement. We have offered electronic ordering capability to our dental supply segment since 1987, when we first introduced Remote Order Entry (REMO^{SM}). Over the years, Patterson Dental has continued to introduce new order entry systems designed to meet the varying needs of our customers. We believe that computerized order entry systems help establish relationships with new customers and increase loyalty among existing customers by permitting customers to place orders from their offices directly to Patterson Dental 24 hours a day, seven days a week.

Today we offer four convenient ordering systems to the dental supply segment, eMAGINE®, REMO^{SM}, PDXpress® and www.pattersondental.com, which we re-launched in fiscal 2012 to provide our customers with better search capabilities, easier access to their order history, customized purchase reports, and fingertip access to Patterson Advantage, the segment s customer loyalty program. Customers, as well as our sales force, use these systems, although the predominant platform today is www.pattersondental ..com with minimal usage of REMO and PDXpress. Over the years, the number of orders transmitted electronically has grown steadily to approximately 77% of our consumable dental product volume or $1,038 billion in fiscal year 2014. In addition to enhancing customer service by offering electronic order entry systems to our customers, these systems enable our sales representatives to spend more time with existing customers and to call on additional customers.

The goal of Patterson Dental s internet strategy is to distribute information and service related products over the internet to enhance customers practices and to increase sales force productivity. Our internet environment includes order entry, customer support for their digital systems and our proprietary products, customer-loyalty program reports and services, access to *Patterson Today* articles and manufacturers product information. Additionally, Patterson Dental utilizes a tool, InfoSource®, to provide real time customer and sales information to our sales force, managers and vendors via the internet.

Our proprietary practice management and clinical software, EAGLESOFT®, is developed and maintained by our Patterson Technology Center (PTC). This technology, which we expect to be installed in most dental offices, has a current installation base of over 25,000 users. We believe the PTC differentiates Patterson Dental from our competition by positioning Patterson Dental as the only company providing a single-source solution for the high growth area of intra-oral digital radiography. Among our many specialized capabilities, the PTC, in conjunction with specialists from the sales branch, provides system configuration, as well as the seamless integration of all digital operatory components with clinical software, including our EAGLESOFT® products. This integration creates an electronic patient database that combines the patient s front office record, clinical x-ray, intra-oral camera images, CEREC® and other digital equipment records. Patterson Dental offers our EAGLESOFT® practice management software at no cost to customers with a subscription to support services. The local sales branch, in conjunction with the PTC, will network the digital record system throughout the entire office, offers all required custom computer hardware for the system, and provides ongoing customer training. The PTC has a call center that troubleshoots customer problems and arranges for local service when needed.

Software and digital radiography customers also have access to the PTC s support capabilities. The PTC provides support for Patterson s proprietary products as well as select branded product from manufacturers, such as SIRONA and SCHICK. In addition to troubleshooting problems through the PTC s support center, customers can access various service capabilities offered by the PTC including electronic claims and statement processing and system back-up capabilities.

Continuing to Improve Operating Efficiencies. Patterson Dental continues to implement programs designed to improve our operating efficiencies and allow for continued sales growth over time. These programs include a wide variety of initiatives from our continuing investment in management information systems to consolidation of distribution centers and sales branches. More recent initiatives include upgrading our order entry and order management systems.

Patterson Dental has improved operating efficiencies by converting our communications architecture to faster, higher capacity data lines that combine voice and data transmissions. We have developed a new field management tool for our technical service operations, improving our ability to coordinate the actions of service technicians and enhancing customer service while reducing the overall cost of operations.

An integral part of our shared services concept is the consolidation and leveraging of distribution centers between Patterson s segments. As of April 2014, eight distribution centers are shared between two or all three of our operating units. In addition, we have established shared sales branch offices in several locations between multiple segments. Because of these and other efforts, we expect to continue to improve our operating expense leverage and efficiencies going forward.

Growing Through Internal Expansion and Acquisitions. We intend to continue to grow by opening additional sales offices, hiring established sales representatives, hiring and training skilled sales professionals as territory sales representatives, and acquiring other distributors in order to enter new, or more deeply penetrate existing, geographic markets and expand our customer base. We believe that Patterson Dental is well positioned to take advantage of expected continued consolidation in the dental distribution market. Over the past 25 years Patterson has made a number of acquisitions, including the following:

Dental distribution acquisitions

Since 1987, Patterson has acquired over 30 dental products distributors in the United States and Canada. These acquisitions have included the third largest dental dealer in the United States and the second largest dental dealer in Canada, as well as regional and local dental dealers throughout North America. As a result of these acquisitions, along with internal expansion, we are now one of the two largest full service dental products distributors in both the United States and Canada.

Printed office products acquisitions

In October 1996, we acquired the Colwell Systems division of Deluxe Corporation. Colwell Systems, now known as Patterson Office Supplies, produces and sells a variety of printed office products used in medical, dental and veterinary offices, as well as other clinical based settings.

Software acquisitions

In July 1997, Patterson Dental acquired EagleSoft, Inc., a developer and marketer of Windows®-based practice management and clinical software for dental offices. EagleSoft s operations evolved to become the Patterson Technology Center, which is located in Effingham, Illinois. In December 2001, Patterson purchased Modern Practice Technologies, a company that provided custom computing solutions to the dental industry. This acquisition helped us to position ourselves to provide all of the custom hardware and networking required for interfacing the entire dental office.

In May 2004, Patterson Dental acquired CAESY Education Systems, Inc., the leading provider of electronic patient education services to dental practices in North America. Headquartered in Vancouver, Washington, CAESY provides dental practices with a range of communications media that educate patients about professional dental care, procedures and treatment alternatives with the goal of facilitating patient decisions about dental services and increasing the productivity of the dental professional. Educational materials are communicated through CD/DVD media, software-as-a-service, computer programs and the dentist s web site. These materials can be used within the dental waiting room, at chair side and in the patient s home.

In December 2008, Patterson Dental acquired Dolphin Imaging Systems, LLC and Dolphin Practice Management, LLC, the leading providers of 3D imaging and practice management software for specialized dental practitioners, including orthodontists, oral maxillofacial surgeons and dental radiologists. Dolphin s imaging software maximizes the benefit of cone beam and other digital photography and radiography systems. We believe there are no major competitors for Dolphin s full range of products.

Products and Services

The following table sets forth the percentage of total sales by the principal categories of products and services offered to our dental segment customers:

	2014	**2013**	**2012**
Consumable and printed products	54%	53%	55%
Equipment and software	35	36	34
Other [(1)]	11	11	11
Total	100%	100%	100%

(1) Consists of other value-added products and services including technical service and software maintenance.

Consumable and Printed Products

Dental Supplies. We offer a broad product line of consumable dental supplies such as x-ray film and solutions; impression materials; restorative materials (composites and alloys); hand instruments; sterilization products; anesthetics; infection control products such as protective clothing, gloves and facemasks; paper, cotton and other disposable products; toothbrushes and a full line of dental accessories including hand instruments, burs, and diamonds. In addition to representing a wide array of branded products from numerous manufacturers, we also market our own private label line of dental supplies including anesthetics, instruments, preventive and restorative products, and cotton and paper products. Our private label line complements the branded products for customers seeking a lower cost alternative on products that have become a commodity in the market. Compared to most name brand supplies, the private label line provides lower prices for our customers and higher gross margins for Patterson.

Printed Office Products. Patterson Dental, through Patterson Office Supplies (POS) provides a variety of printed office products, office filing supplies, and practice management systems to office-based healthcare providers including dental, veterinary and medical offices. Products include custom printed products, insurance and billing forms, stationery, envelopes, business cards, labels, file folders, appointment books and other stock office supply products.

These office products are sold through our sales force as well as direct mail catalogs distributed to over 100,000 customers several times per year. A staff of telemarketing personnel located in Champaign, Illinois supports both channels, receiving orders by telephone, through the mail or electronically from the dental, veterinary and medical distribution order processing system.

Equipment and Software

Dental Equipment. Patterson Dental is the largest supplier of dental equipment in the U.S. and Canada. We offer a wide range of dental equipment products including radiography equipment, high and low-speed hand pieces, dental chairs, dental hand piece control units, diagnostic equipment, sterilizers, dental lights and compressors. We also distribute newer technology equipment that provides our customers with tools to improve productivity and patient satisfaction. Examples of such innovative and higher productivity products include the CEREC® family of products, a chair-side restoration system; digital imaging products (including intra-oral, panoramic and 3-D or cone beam x-rays); and inter-oral cameras.

Software. Patterson Dental develops and markets our own proprietary lines (EagleSoft and Dophin) of practice management and clinical software for dental professionals, including software for scheduling, billing, charting and capture/storage/retrieval of digital images. Patterson Dental also sells software products developed by third parties, including SIDEXIS® by Sirona and Dimax2 by Planmeca. These value-added products are designed to help achieve office productivity improvements, which translate into higher profitability for the customer.

Hardware. We offer our dental customers custom hardware and networking solutions required for integrating the entire dental office, which marks another step in our overall strategy of providing customers with the convenience and cost-effectiveness of a virtually complete range of products and value-added services.

Patient Education Services. The CAESY® education systems line of products, now available as software-as-a-service in addition to DVD format, offers patient education products and services. These communication tools are designed to educate patients in an efficient, cost-effective manner.

Other

Software Services. Patterson offers a variety of services to complement our software products, such as service agreements, software training, back-up services, electronic claims processing and billing statement processing. These services provide value to customers by allowing them to keep their software products current or receive payments more rapidly while obtaining greater productivity.

Equipment Installation, Repair and Maintenance. To keep their practices running efficiently, dentists require reliable performance from their equipment. All major equipment sold by Patterson includes installation and our 90-day labor warranty at no additional charge. Patterson also provides complete repair and maintenance services for all dental equipment, whether or not purchased from Patterson, including our 24-hour hand piece repair service. In addition to service technicians, who provide installation and repair services on basic dental equipment, we have also invested in personnel who specialize in installing and troubleshooting issues with technology solutions such as practice management software, digital imaging products, CAD/CAM, hardware and networking. The goal of this group, which is comprised of both local service technicians and the staff at the PTC, is to assist customers in integrating newer technology into their dental practices. The PTC helps our customers minimize costly downtime by offering a single point of contact for post-sale technology related issues.

Dental Office Design. Patterson provides dental office layout and design services using a computer-aided design (CAD) program. Equipment specialists can create original or revise existing dental office designs in a fraction of the time required to produce conventional drawings. Customers purchasing major equipment items receive dental office design services at no additional charge.

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Equipment Financing. Patterson Dental provides a variety of options to fulfill our customers financing needs. For qualified purchasers of equipment, we will arrange customer financing through Patterson or a third party. For non-equipment related needs, such as for working capital or real estate, customers are also referred to a third party. These alternatives allow us to offer our customers convenience while still meeting their diverse financing needs. In fiscal 2014, we originated approximately $320.6 million of equipment finance contracts in the United States. Patterson Dental, or our third party vendor, financed approximately 43% of the equipment purchased by our customers during fiscal 2014.

Since November 1998, Patterson Dental has maintained one or more finance referral agreements with outside finance companies to provide a more extensive selection of finance opportunities to our customers. This might include financing for practice transition transactions, working capital, leasing, real estate and long-term capital. Wells Fargo Practice Finance, a division of Wells Fargo Bank N.A., provides this service currently. Patterson receives referral fees under this agreement, and Wells Fargo extends credit and services the accounts.

To fund the financing that is originated by us, Patterson has created a special purpose entity (SPE), PDC Funding Company, LLC, a wholly-owned and fully consolidated subsidiary, and entered into a Receivables Purchase Agreement in order to participate in a commercial paper conduit. We transfer finance contracts we originate to the SPE. In turn, the SPE sells the contracts to the commercial paper conduit. As of April 26, 2014, the maximum outstanding capacity of this arrangement at any one time is $500 million.

A second SPE, PDC Funding Company II, LLC, sells contracts through a Contract Purchase Agreement to a bank. This agreement operates similarly to the Receivables Purchase Agreement described above, except that the capacity is $100 million.

The SPE s do not issue debt. There is no recourse to Patterson for contracts purchased by either the commercial paper conduit or the bank, but there is a deferred purchase price equal to approximately 13% of the principal of these contracts. Patterson services the customer contracts under both of these arrangements in exchange for a fee that approximates our cost for providing the service.

Sales and Marketing

During fiscal 2014, Patterson Dental sold products or services to approximately 119,000 customers in the U.S. and Canada who made one or more purchases during the year. Patterson Dental s customers include dentists, laboratories, institutions and other healthcare professionals. No single customer accounted for more than 1% of sales during fiscal 2014, and Patterson Dental is not dependent on any single customer or geographic group of customers. Our sales and marketing efforts are designed to establish and improve customer relationships through personal interaction with our sales representatives and frequent direct marketing contact, which underscores our value-added approach.

Patterson Dental has over 100 local offices throughout the U.S. and Canada so that we can provide a presence in the market and decision making near the customer. These offices, or sales branches, are staffed with a complete complement of Patterson Dental capabilities, including sales, customer service and technical service personnel, as well as a local manager who has broad decision making authority with regard to customer related transactions and issues.

A primary component of Patterson Dental s value-added approach is our sales force. Due to the fragmented nature of the dental supply market, we believe that a large sales force is necessary to reach potential customers and to provide full service. Sales representatives provide an informational link to the overall industry; assist practitioners in selecting and purchasing products and help customers efficiently manage their supply inventories. Each sales representative works within an assigned sales territory under the supervision of a location (branch) manager. Sales representatives are all Patterson employees and are generally compensated on a commission basis, with some, less experienced, representatives receiving a base salary and commission.

To assist our sales representatives, Patterson Dental publishes a variety of catalogs and fliers containing product and service information. Dental customers receive a full-line product catalog containing over 37,000 inventoried items. The catalog includes pictures of products, detailed descriptions and specifications of products and is used by practitioners as a reference source. Selected consumable supplies, new products, specially priced items and high demand items such as infection control products, are promoted through merchandise fliers printed and distributed bi-monthly. In addition, dental equipment sold by Patterson is featured in our tri-yearly publication, *Patterson Today,* which also includes articles on dental office design, trends in dental practice, products and services offered by Patterson Dental and information on equipment maintenance.

To enhance the total value we bring to our customers, Patterson Dental offers a value-added benefit program for our preferred customers. The PATTERSON ADVANTAGE^{SM} program enables members to earn Advantage Dollars which can be applied toward future purchases of equipment and technology products. Patterson Advantage also entitles our best customers to priority technical services, automated supply management summary reports, educational materials and a variety of exclusive discount offers.

Distribution

Patterson Dental believes that responsive delivery of quality supplies and equipment is key to customer satisfaction. We ship dental consumable supplies from eight strategically located distribution centers in the U.S. and two in Canada. Orders for consumable dental supplies can be placed by telephone or electronically 24 hours a day, seven days a week. Printed office products are shipped from our manufacturing and distribution facility in central Illinois.

All orders are routed through our centralized computer ordering, shipping and inventory management systems, which are linked to each of our strategically located distribution centers. If an item is not available in the distribution center nearest to the customer, the computer system automatically directs fulfillment of the item from another center. Rapid and accurate order fulfillment is another principal component of our value-added approach. We estimate that 98% of Patterson Dental s consumable goods orders are shipped to the customer on time, which is generally within 24 hours.

In order to assure the availability of Patterson Dental s broad product lines for prompt delivery to customers, we must maintain sufficient inventories at our distribution centers. Purchasing of consumables and standard equipment is centralized, and our purchasing department uses a real-time perpetual inventory system to manage inventory levels. Our inventory consists mostly of consumable supply items. By utilizing computerized inventory management and ordering systems, we are able to accurately predict inventory turns in order to minimize inventory levels for each item.

Patterson Dental s more than 100 dental sales offices are generally configured with display areas where the latest dental equipment can be demonstrated. Dental equipment is generally custom ordered and is staged at our sales branches before delivery to dental offices for installation.

Sources of Supply

Effective purchasing is a key strategy Patterson Dental has adopted in order to achieve our objective of continuing to improve profitability. Utilizing EDI allows us to improve efficiencies and reduce administrative costs.

Patterson Dental obtains products from more than 800 vendors. In June 2012 we entered into an exclusive distribution agreement with Sirona Dental Systems, Inc., the manufacturer of the CEREC® dental restorative systems and Schick® digital x-rays, in addition to sophisticated panoramic and cone beam radiography product. We are the only national dealer for A-dec equipment, including chairs, units and cabinetry. A-dec is the largest manufacturer of dental equipment in the U.S.

While Patterson Dental makes purchases from many suppliers, and there is generally more than one source of supply for most of the categories of products we sell, the concentration of business with key suppliers is considerable. Our top ten supply vendors accounted for approximately 50% and 48% of the cost of dental products sold in fiscal 2014 and fiscal 2013, respectively. Of these ten, the top two vendors accounted for 17% and 8% for fiscal 2014 and 16% and 8% for fiscal 2013 cost of sales, respectively.

Competition

The highly competitive U.S. dental products distribution industry consists principally of national, regional and local full-service and mail-order companies. The dental supply market is extremely fragmented. In addition to Patterson Dental and one other national, full-service firm, Henry Schein Dental, a unit of Henry Schein, Inc., there are at least 15 full-service distributors that operate on a regional level, and hundreds of small local distributors. Also, some manufacturers sell directly to end users.

We approach our markets by emphasizing and delivering a value-added model to the practitioner. To differentiate ourselves from our competition, we deploy a strategy of premium customer service with multiple value-added components, a highly qualified and motivated sales force, highly-trained and experienced service technicians, an extensive breadth and mix of products and services, technology solutions allowing customers to easily access our inventory, accurate and timely delivery of product, strategic location of sales offices and distribution centers, and competitive pricing.

Patterson Dental also experiences competition in Canada in the dental supply market. The principal competitor is a national, full-service dental distributor, Henry Schein Dental, a unit of Henry Schein, Inc. We believe we compete in Canada on essentially the same basis as in the United States.

Veterinary Supply

Overview

Effective January 1, 2013, Webster Veterinary Supply, Inc. changed its name to Patterson Veterinary Supply, Inc. Patterson Veterinary is a leading distributor of veterinary supplies primarily to companion-pet (dogs, cats and other common household pets), equine and large animal veterinarians and veterinary clinics, public and private institutions, and shelters across the United States and now, with the purchase of National Veterinary Services Limited (NVS) in the United Kingdom (UK). Patterson Veterinary, including NVS, has developed a strong brand identity as a value-added, full-service distributor with a comprehensive offering of pharmaceuticals, vaccines, parasiticides, diagnostics, prescription and non-prescription diets, nutritionals, consumable supplies, equipment, and software. Patterson Veterinary s product offering, totaling more than 50,000 items, is sold by approximately 220 field sales representatives.

Net sales by Patterson Veterinary in fiscal 2014 were $1.2 billion and operating income totaled $49.8 million. In addition to our core business of distributing veterinary products, Patterson Veterinary s US operation has a significant agency commission business with several pharmaceutical manufacturers. Under the agency relationships, Patterson Veterinary receives orders for products from customers, transmits these orders to vendors who then pick, pack, and ship the products. These vendors then invoice and collect payment from our customers. Patterson Veterinary receives a commission payment for soliciting the order and for providing other customer service activities. The agency commissions that Patterson Veterinary earns range from 2% to 7%, a portion of which is shared with the field sales and customer service representatives. Patterson Veterinary s agency commissions accounted for less than 1% of our net sales in fiscal 2014.

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US Market

We estimate the market for pharmaceuticals and supplies sold to companion animal and equine veterinarians through distribution is approximately $3.3 billion on an annual basis. Based upon the estimated $3.3 billion market, we believe our share of this market is approximately 21%. Similar to the dental supply market, the veterinary supply market is fragmented and geographically diverse. As of December 31, 2013, according to the American Veterinary Medical Association, or AVMA, there were more than 64,000 veterinarians in private practice nationwide specializing in small animals, predominately companion pets. The average private veterinary practice generates approximately $1,000,000 of annual revenue. These practices purchase between $120,000 and $140,000 of supplies each year, and similar to the dental practitioner, tend not to maintain a large supply of inventory on hand. The typical veterinary practice purchases approximately 80% of its supplies from its top two suppliers. The average purchase of consumables by the veterinary practice is noticeably higher than that of the dental practitioner due predominately to pharmaceutical products, which veterinarians both administer and dispense.

Historically, the demand for veterinary services in the US has grown significantly faster than growth in the overall economy. More recently the market growth has slowed as a result of a decrease in consumer spending. However we anticipate increasing demand for veterinary services due to the following favorable factors:

Number of households with companion animals. The number of households with companion animals is steadily expanding which increases the demand for veterinary services. According to the AVMA 2012 US Pet Ownership & Demographics Sourcebook, the percentages of U.S. households owning dogs, cats or horses are 36.5%, 30.4%, and 1.5%, respectively.

Veterinary expenditures per household. The amount pet owners are willing to spend caring for their pets is increasing substantially. The American Pet Products Association estimates that pet owners will spend $58.5 billion in 2014 to care for the American pet population, a significant increase compared to $41.2 billion spent in 2007.

Veterinary products and techniques. Many new therapeutic and preventive products are being developed for the companion animal market. Technological developments have resulted in new innovative veterinary products and advances in veterinary services.

UK Market

We estimate the UK market for pharmaceuticals and supplies sold to companion, equine and large animal veterinarians through distribution is approximately £1 billion. Based upon the estimated £1 billion market, we believe our share of this market is approximately 42%. The fastest growing segment is the companion animal which represents approximately 65% of the market with large animal and equine segments representing 25% and 10%, respectively. There are approximately 18,000 veterinarians in the UK practicing in veterinary outlets. Customers in this market are classified as independent practices, members of buying groups, corporations, and charities. Similar to the US markets, independent practices are typically small, privately-held businesses that place at least one order per week to avoid storing and managing large volumes of supplies. However, there has been a shift in the UK market towards consolidation of veterinary practices either through outright purchases by corporations or by joint venture whereby the practitioner continues to own a portion of the practice.

US Operations

Strategy

Patterson Veterinary s objective is to build a leading national position in the companion animal veterinary market through internal expansion and acquisitions, while continuing to improve our profitability and enhance our value to customers. Our key strategies and priorities for accomplishing these objectives include growing through internal expansion and acquisitions, emphasizing our value-added full-service capabilities, continuing to improve operating efficiencies, and expanding our service offerings.

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Growing Through Internal Expansion and Acquisitions. We intend to continue to grow by opening additional sales offices, hiring established sales representatives, hiring and training skilled sales professionals as territory sales representatives, and acquiring other distributors in order to enter new, or more deeply penetrate existing, geographic markets and expand our customer base. We believe that Patterson Veterinary is well positioned to take advantage of expected continued consolidation in the veterinary distribution market. Over the past 10 years Patterson Veterinary has made a number of acquisitions, including the following:

Veterinary distribution acquisitions

Since 2004, Patterson Veterinary has acquired several veterinary distributors in the United States. These acquisitions include two regional distributors, ProVet, which was the companion animal veterinary supply division of Lextron, Inc., and Columbus Serum Company, as well as Milburn Distributions, Inc., the largest distributor specializing in the U.S. equine veterinary supply market, and selected local and specialty distributors. In August 2011, Patterson Veterinary acquired American Veterinary Supply Corporation, a full service distributor on Long Island, New York with annualized sales of approximately $25 million that served approximately 2,000 veterinary practices and hospitals in the New York metropolitan area.

In April 2010, Patterson Veterinary made a minority equity investment in Strategic Pharmaceutical Solutions, Inc. dba VetSource, a leading North American provider of integrated specialty pharmacy distribution, including home delivery capabilities.

In December 2012, Patterson Veterinary acquired the assets of Universal Vaporizer Support (UVS) based in Foster City, California with annual sales of approximately $3 million. UVS provides cleaning and calibration services for a variety of anesthetic vaporizers used in veterinary medicine.

Software Acquisitions

In December 2005, Patterson Veterinary acquired Intra Corp., one of the nation s leading developers of veterinary practice management software that is marketed under the INTRAVET® brand name. INTRAVET® had more than 1,600 software installations nationwide.

In October 2008, Patterson Veterinary acquired Odyssey Veterinary Software, LLC, a developer and marketer of DIAGNOSTIC IMAGING ATLAS® (DIA) software. At that time, DIA encompassed over 2,000 3D clinical animations and images, which enable the veterinarian to more fully explain and illustrate the pet s diagnosis and recommend treatment to their clients.

In January 2011, Patterson Veterinary acquired ePet Records, LLC. Rebranded as ePETHEALTH , this innovative communication platform provides practitioners with a secure internet portal for their clients to access 24/7 for their pets medical information plus descriptive, easy-to-understand resources and educational materials with 3D graphics. Through ePETHEALTH , veterinarians can also send their clients automated electronic health service and appointment reminders, eNewsletters and health education articles and videos.

Emphasizing Value-Added, Full-Service Capabilities. Patterson Veterinary believes that veterinary customers value full service and responsive delivery of product, in addition to competitive prices. Customers also increasingly expect suppliers to be knowledgeable about products and services, and, generally, a superior sales representative can create a special relationship with the practitioner by providing an informational link to the overall industry. Patterson Veterinary s knowledgeable sales representatives assist customers in the selection and purchasing of supplies. Most veterinarians are independent, or small unit based, practitioners who are unable to store and manage large volumes of supplies in their offices. We meet our customer s requirements by delivering frequent, small quantity orders rapidly and reliably from strategically located distribution centers.

Equipment specialists, technology specialists and service technicians also support our value-added strategy. Equipment specialists offer consultation on office design, equipment requirements and financing. Technology

specialists provide guidance on integrating technology solutions including practice management software, client education and communication software, and our home delivery service offering. Our experienced service technicians perform equipment installation, maintenance and repair services, including service on products or equipment not purchased through Patterson Veterinary.

Continuing to Improve Operating Efficiencies. Patterson Veterinary continues to implement programs designed to improve our operating efficiencies and allow for continued sales growth over time. These programs include a wide variety of initiatives from our continuing investment in management information systems to consolidation of distribution centers and sales branches.

In January 2013, Patterson Veterinary launched its newly designed website pattersonvet.com with upgraded features from the depth of information available to the ease and efficiency of navigating the site as well as enhanced search capabilities including descriptions with multiple images and product details to assist with product research and purchasing decisions. In fiscal 2014, approximately 36% of the consumable sales were ordered through both our website and eMagine electronic ordering platform.

In June 2011, Patterson Veterinary implemented a centralized return processing center located in Columbus, Ohio. This initiative has allowed us to more efficiently handle customer product returns, improve the customer s experience as well as meet vendor return requirements. As a result of implementing the centralized return processing center, approximately 87% of returns are credited back to the customer within 24 hours of receipt. Centralizing this process has also lead to both operational efficiencies as well as a reduction in shipping costs associated with product returns.

Expanding our Services. Patterson Veterinary continuously seeks to broaden our service offerings to maximize sales opportunities within our existing customer base while strengthening and enhancing practice economics and pet health.

Technical Service. Patterson Veterinary offers onsite preventative maintenance and repair services in most major markets across the United States covering a wide range of equipment. Our experienced service technicians perform equipment installation, maintenance and repair services including services on products not purchased through Patterson Veterinary.

ePetHealth. A leading suite of communication and educational tools designed to help the veterinary clinic increase compliance and pet-owner loyalty to the practice through: clinic eMarketing tools, health service reminders, online medical records, drug home delivery and award winning DIA videos and content.

DIA. A premier client education software for companion animal and equine practices provides over 3,000 illustrations, animations, clinical images, radiographs and other diagnostic images that cover a wide range of medical conditions. Additionally, DIA Reception provides high definition footage and animations to better explain common pet health issues and conditions to pet owners.

VetSource. A leading professional pharmacy providing home delivery service of medications to pet owners which improves client compliance, retains drug revenues within the veterinary practice, and optimizes inventory investments.

Patterson Veterinary University. Patterson Veterinary University (PVU) offers exclusive business courses for veterinarians, hospital managers, technicians, receptionists, and veterinary students. Veterinary students can take advantage of the two credit course Entrepreneurship for Veterinarians during their senior year in veterinary school. Patterson Veterinary University Management offers 4 in-depth courses on human resources, inventory management, marketing and finance. The PVU Communication and Customer Service course for receptionists and technicians helps create a unified health care team within a veterinary hospital. The newest course PVU Executive: Next Level Practice Ownership is designed to help guide veterinary practice owners from where they

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are today to where they want to be in the future by providing practice owners information that helps expand their current hospital performance and fulfill their practice dreams.

Dental Wet Labs. Patterson Veterinary offers dental wet labs throughout the United States providing approved continuing education credits to attendees through lecture and hands-on labs for companion animal dental techniques.

National Handpiece Repair. In February 2012, we launched Patterson s Veterinary dental handpiece repair initiative utilizing Patterson Dental s National Repair Center. Practitioners can now have both their high-speed and slow-speed handpieces cleaned, repaired, and returned within 24 hours from receipt.

Anesthesia Technical Support Hotline. Using our dedicated hotline, with one phone call customers can obtain answers and detail support for their anesthesia and monitoring equipment.

Products and Services

The following table sets forth the percentage of total sales by the principal categories of products and services offered to veterinary segment customers:

	2014	2013	2012
Consumable and printed products	94%	93%	93%
Equipment and software	4	5	5
Other	2	2	2
Total	100%	100%	100%

Consumable and Printed Products

Patterson Veterinary offers our customers a broad selection of veterinary supply products including pharmaceuticals, vaccines, parasiticides, diagnostics, veterinary pet foods, nutritional products and consumable supplies. Our pharmaceutical products typically include anesthetics, analgesics, antibiotics, and ophthalmics. Our biological products are primarily comprised of vaccines and injectibles. Our parasiticides are used for control of external parasites (fleas, ticks, flies, mosquitoes) and internal parasites. Our diagnostics product category includes consumable in-clinic tests for detecting heartworm, lyme disease, feline leukemia and parvovirus, as well as consumable products for measuring blood chemistry, electrolyte balance and cell counts. Veterinary pet foods consist of both specialty diets and premium pet foods. Nutritional products are comprised of dietary supplements, vitamins, dental chews and specialty treats. Consumable supplies include lab supplies, various types and sizes of paper goods, needles and syringes, instruments, gauze and wound dressings, sutures, latex gloves, orthopedic and casting products. Many of the office supply products sold by Patterson Office Supplies are also offered to the veterinary supply market.

Equipment and Software

Veterinary Equipment. Patterson Veterinary sells equipment for hospital, laboratory and general surgical use within the veterinary practice. We also offer innovative, quality equipment that differentiates Patterson Veterinary from the competition including anesthesia machines, surgical monitors, diagnostic equipment, ultrasound, dental power units, cages, lights, digital x-ray systems and x-ray machines.

Practice Management Software. Patterson Veterinary develops and markets our own proprietary line of practice management software, INTRAVET®, for veterinary professionals, including software for scheduling, billing, charting and capture/storage/retrieval of digital images.

Client Education Software. Patterson Veterinary also develops and markets our own proprietary client education software, DIA®, for veterinary professionals. DIA encompasses over 3000 3D clinical animations and images, enabling veterinarians to more fully explain and illustrate a pet s diagnosis and treatment recommendations to their clients.

Client Communication Portal. Patterson Veterinary develops and markets our own innovative web-based client communication platform, ePetHealth, providing practitioners a suite of client offerings such as online medical records, eMarketing tools, client education resources, and a home delivery portal.

Other

Other products and services include commissions earned on agency sales, equipment repair revenues, software maintenance contract revenue and freight recovery on shipments to customers.

Sales, Marketing and Distribution

During fiscal 2014, Patterson Veterinary sold products or services to over 20,000 customers in the U.S. who made one or more purchases during the year. Our customers include veterinarians, laboratories, institutions and other animal health professionals. No single customer accounted for more than 1% of sales during fiscal 2014, and Patterson Veterinary is not dependent on any single customer or geographic group of customers. Our sales and marketing efforts are designed to establish and improve customer relationships through personal interaction with our field sales and customer service representatives and frequent direct marketing contact, which underscores our value-added approach.

Patterson Veterinary currently has 20 local offices throughout the U.S. so that we can provide a presence in the market and decision making near the customer. These offices, or branches, are staffed with a complete complement of Patterson Veterinary s capabilities, including sales, customer service and technical service personnel, as well as a local manager who has broad decision making authority with regard to customer related transactions and issues.

Field Sales Representatives. A primary component of Patterson Veterinary s value-added approach is our sales force. Due to the fragmented nature of the veterinary supply market, we believe that a large sales force is necessary to reach potential customers and to provide full service. Sales representatives provide an informational link to the overall industry; assist practitioners in selecting and purchasing products and help customers efficiently manage their supply inventories. Each sales representative works within an assigned sales territory under the supervision of a location (branch) manager. Sales representatives are all Patterson Veterinary employees and are generally compensated on a commission basis, with some, less experienced, representatives receiving a base salary and commission.

Customer Service Representative. We support our field sales representatives and direct marketing efforts with customer service representatives in nine call centers covering the United States. As of April 26, 2014, we had 127 customer service representatives. Customer service representatives work in tandem with our field sales representatives, providing a dual coverage approach for individual customers. In addition to processing orders, customer service representatives are responsible for assisting customers with ordering, informing customers of monthly promotions, and responding to general inquiries. Customer service representatives utilize our customized order entry system to process customer orders, access pricing, determine product availability, provide promotional information about products, research customer preferences, and review order histories.

Direct Marketing. To assist our sales representatives, Patterson Veterinary publishes a catalog containing product and service information. Patterson Veterinary customers receive a full-line product catalog containing over 14,000 inventoried items. The catalog includes pictures of products, detailed descriptions and specifications of products and is used by practitioners as a reference source. We also promote selected consumable products, our value-added program and services, new products, specially priced items and high demand items through our monthly magazine, *Insight*. Additional direct marketing tools that we utilize include equipment catalogs, customer loyalty programs, specific product and vendor programs, flyers, faxes, eNewsletters, social media, and other promotional materials. In order to extend our customer reach and enhance customer interaction, we also participate in national, regional and local trade shows.

E-Commerce Platform. Patterson Veterinary s newly redesigned website allows customers the ability to order items 24 hours a day, seven days a week. The website also incorporates value-added functions that permit customers to check their invoice, payment and credit history, make a payment, build a shopping list of frequently purchased items and track their order status.

Distribution. Patterson Veterinary believes that responsive delivery of quality supplies and equipment is key to customer satisfaction. We ship veterinary consumable supplies from 11 strategically located distribution centers in the United States. Orders for veterinary consumable supplies can be placed through our field sales force, customer service representatives or electronically 24 hours a day, seven days a week. Printed office products are shipped from Patterson s manufacturing and distribution facility in central Illinois.

All orders are routed through our centralized computer ordering, shipping and inventory management systems, which are linked to each of our strategically located distribution centers. If an item is not available in the distribution center nearest to the customer, the computer system automatically directs fulfillment of the item from another center. Rapid and accurate order fulfillment is another principal component of our value-added approach. We estimate that 97% of Patterson Veterinary s consumable orders are received by the customer the next business day.

In order to assure the availability of Patterson Veterinary s broad product lines for prompt delivery to customers, we must maintain sufficient inventories at our distribution centers. Purchasing of consumables and standard equipment is centralized, and our purchasing department uses a real-time perpetual inventory system to manage inventory levels. Our inventory consists mostly of consumable supply items and pharmaceutical products. By utilizing computerized inventory management and ordering systems, we are able to accurately predict inventory turns in order to minimize inventory levels for each item.

Sources of Supply

Patterson Veterinary s US operations obtain products from nearly 600 vendors. While Patterson Veterinary makes purchases from many vendors and there is generally more than one source of supply for most of the categories of products, the concentration of business with key vendors is considerable. In fiscal 2014 and 2013, Patterson Veterinary s top 10 veterinary supply manufacturers comprised 68% and 70%, respectively, and the single largest supplier comprised 17% and 18%, of the total cost of veterinary supply sales, respectively.

There are two major types of arrangements that account for the flow of transactions between us and our customers. Traditional buy/sell transactions, which account for the vast majority of our business, involve direct purchases of products by us from vendors, which we manage and store in our distribution centers. A customer then places an order with us, and the orders are then picked, packed, shipped and billed by us to our customer.

We also process orders from our customers under agency agreements with some of our vendors, primarily for certain seasonal pharmaceutical products. Under this model, when we receive orders for products from the customer, we transmit the order to the vendor who then picks, packs, and ships the products. The vendor then invoices and collects payment from our customer. We receive a commission payment for soliciting the order and for providing other customer service activities.

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Competition

The distribution and manufacture of veterinary products in the US is highly competitive. In addition to two other national, full-service firms, Henry Schein Animal Health, Inc. and MWI Veterinary Supply, Inc., Patterson Veterinary competes with several full-service distributors that operate on a regional level and numerous smaller local and specialty distributors and to lesser extent, mail order distributors or buying groups. Patterson Veterinary also competes directly with pharmaceutical companies who sell certain products directly to the customer.

Patterson Veterinary approaches its markets by emphasizing and delivering a value-added model to the practitioner. To differentiate ourselves from the competition, we deploy a strategy of premium customer service, a highly qualified and motivated sales force, an extensive breadth and mix of products and services, accurate and timely delivery of product, strategic location of sales offices and competitive pricing.

UK Operations

Strategy

On August 16, 2013 Patterson Companies, Inc. completed the acquisition of all the outstanding stock of National Veterinary Services Limited (NVS) from Dechra Pharmaceuticals, PLC (NVS Acquisition). Headquartered in Stoke-on-Trent, NVS is the largest veterinary products distributor in the United Kingdom serving the companion, equine and large animal markets. Total cash consideration paid for NVS was £91.2 million (approximately $142.7 million).

NVS objective is to grow its presence in the UK and Europe, and to further develop a leading position in the veterinary market through acquisitions while continuing to improve our profitability and enhance our value to customers. Our key strategies and priorities for accomplishing these objectives include growing through acquisitions, emphasizing our value-added full-service capabilities, continuing to improve operating efficiencies, and expanding our service offerings.

NVS has a great opportunity to harness the investments from key initiatives launched by Patterson Veterinary in the US. Such initiatives will include, ePet Health, DIA, technical services and supply of equipment in additional to the recently launched instruments and orthopedic product line. NVS will also look to capitalize on the content developed by Patterson Veterinary University to offer continuing professional education to practices in the UK. The following are a number of value added services offered today in addition to our national distribution network discussed later under the subsection Sales, Marketing and Distribution:

Laboratory services. NVS offers veterinary diagnostic laboratory services to veterinarians including pathology, hematology, chemistry, and microbiology. Samples are accepted from a wide range of species including dogs, cats, horses, birds, reptiles, fish, farm and zoo animals. Veterinary diagnostic laboratory services are approximately 2% of total net sales.

Indicies. NVS provides multi-practice customers with practice benchmarks, two years of purchase history, and group practice data consolidation to help them better manage their network of practices.

Order Platforms. NVS has direct electronic data interchange and interactive website ordering platforms comprise 75% of customer orders containing 90% of total ordered lines.

Vetcom. NVS offers a Windows-based practice management software package that includes an ordering platform.

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Products and Services

The following table sets forth the percentage of total sales by the principal categories of products and services offered to veterinary segment customers:

	2014
Consumable	96%
Equipment and software	1
Other	3
Total	100%

Consumable

NVS offers our customers a broad selection of veterinary supply products including pharmaceuticals, vaccines, parasiticides, diagnostics, veterinary pet foods, nutritional products and consumable supplies. Our pharmaceutical products typically include anesthetics, analgesics, antibiotics, and ophthalmics. Our biological products are primarily comprised of vaccines and injectibles. Our parasiticides are used for control of external parasites (fleas, ticks, flies, mosquitoes) and internal parasites. Our diagnostics product category includes consumable in-clinic tests for detecting heartworm, lyme disease, feline leukemia and parvovirus, as well as consumable products for measuring blood chemistry, electrolyte balance and cell counts. Veterinary pet foods consist of both specialty diets and premium pet foods. Nutritional products are comprised of dietary supplements, vitamins, dental chews and specialty treats. Consumable supplies include lab supplies, various types and sizes of paper goods, needles and syringes, instruments, gauze and wound dressings, sutures, latex gloves, orthopedic and casting products.

Other

Laboratory services. NVS offers veterinary diagnostic laboratory services to veterinarians including pathology, hematology, chemistry, and microbiology. Samples are accepted from a wide range of species including dogs, cats, horses, birds, reptiles, fish, farm and zoo animals.

Sales, Marketing and Distribution

NVS has more than 1,000 customers and is well positioned to service all segments of the veterinary market through its sales and marketing team, national distribution network, and a fully integrated computer system. NVS has the highest percentage of buying groups and corporations compared to its competitors. The corporate relationship with these large customers is managed by the senior management team. The relationship with the individual practices (regardless of whether they are corporately-owned or independent) is serviced by the field sales representatives, the customer service team and the depot delivery drivers. With buying groups and corporations representing a large percentage of revenues as well as the fact that 90% of orders being placed by customers are entered electronically either through the NVS web based ordering platform or via the website, the need for a large dedicated field sales team is greatly reduced. Currently 11 field sales representatives are responsible for each calling on 300-350 customers.

This is an operations driven business which means the burden of maintaining a high level of service with the customer rests with the customer service team and the delivery drivers. Both are highly valued by the customer and work closely with one another to meet customer expectations. NVS maintains a national distribution network which serves as a competitive advantage. NVS offers next day business delivery on a nationwide basis in the UK. Orders are accepted until 8:00 pm in our centralized distribution center and shipped nationwide overnight to one of 10 depots located throughout the country. The depots are essentially small staging warehouses where pre-packed orders are sorted by route for delivery to the customer. A fleet of company owned, fully cold chain compliant vehicles, at each depot, delivers the product to the customer the next business day making the driver of these vehicles an important contact point and part of the sales team. We estimate that 99% of NVS s consumable orders are received by the customer the next business day. NVS also utilizes this distribution network to collect the customer laboratory service samples for onward shipment to the laboratories for analysis. Lab results are available electronically to the veterinarian.

With 90% of order lines being entered electronically by the customer either through their direct ordering platform or via their website, the customer service team is primarily responsible for handling customer inquiries and resolving issues.

Direct Marketing. To assist our sales representatives, NVS publishes a catalog containing product and service information. NVS customers receive a full-line product catalog containing over 13,000 inventoried items. The catalog includes descriptions and specifications of products and is used by practitioners as a reference source. We also promote our specials service where we will procure non-stock items for individual customers. In addition we promote our value-added products and services, new products, specially priced items and high demand items through our quarterly magazine, *The Cube*. Additional direct marketing tools that we utilize include specialist catalogs, customer loyalty programs, specific product and vendor programs, flyers, faxes, eNewsletters, social media, and other promotional materials. In order to extend our customer reach and enhance customer interaction, we also participate in national, regional and local trade shows and specialist veterinary events including supporting continued professional development for vets and nurses.

Sources of Supply

NVS obtains products from nearly 400 vendors. While NVS makes purchases from many vendors and there is generally more than one source of supply for most of the categories of products, the concentration of business with key vendors is considerable. In fiscal 2014, the top 10 veterinary supply manufacturers comprised 77% of the total cost of veterinary supply sales, and the single largest supplier comprised 16% of the total cost of veterinary supply sales.

Competition

Veterinary distribution in the UK market is concentrated primarily with three major distributors; NVS with national coverage, Henry Schein Animal Health, Inc. based in Scotland and MWI Veterinary Supply, Inc. (Centaur) based in Somerset, with coverage mainly in southern England. NVS also competes directly with pharmaceutical companies who sell certain products or services directly to the customer.

Rehabilitation Supply

Overview

Patterson Medical is headquartered in Warrenville, Illinois, and is the world s leading value added distributor of rehabilitation medical supplies and equipment. We believe Patterson Medical offers the most comprehensive range of distributed and self-manufactured rehabilitation products to health care professionals globally. Our mission is to provide health care professionals and their patients with access to products that improve peoples lives by helping them to attain their highest achievable level of independence, safety and comfort. We operate as Patterson Medical globally and are transitioning our acquired catalog brands such as Sammons Preston, Homecraft, and Ausmedic into product brands. Patterson Medical still operates as Medco Sports Medicine in the North American sports medicine market.

Patterson Medical serves as the gateway through which over 30,000 rehabilitation products originating from more than 1,500 suppliers and manufacturers are sold to a diverse customer base with an emphasis on physical therapists (PTs) and occupational therapists (OTs). We offer our customers a one-stop shop through what we believe to be the most comprehensive catalogs in the industry, the largest direct sales force and the category s most efficient customer service and distribution operations. Major channels of distribution are acute care hospitals, long-term care facilities, rehabilitation clinics, dealers and schools. In addition, we believe Patterson Medical s reputation, global market presence and highly transferable business model will facilitate entry into new markets.

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Patterson Medical offers a wide range of differentiated, non-invasive products and expertise to users and their health care providers, while focusing on niches, worldwide, where our capabilities, reputation and customer partnerships can result in a competitive advantage. Patterson Medical s goal is to become our customers first choice for rehabilitation supplies and equipment in each of our chosen markets.

Patterson Medical is highly diversified with no single product, customer or purchasing group representing a significant percentage of total revenue. In addition, given the relatively small average order size (approximately $225), our products often do not represent a major expense category for our customers.

Patterson Medical has been pursuing a strategy of organic growth, complemented by strategic acquisitions in its domestic and international markets. This has included building and buying sales offices in the U.S., and buying and integrating distributors in the U.K., France, Australia and New Zealand. Patterson Medical also uses a robust international dealer network to service customers in countries where we do not have an established direct presence. Approximately 70% of Patterson Medical s revenue originates in North America.

Patterson Medical manufactures or has exclusively manufactured for us products representing approximately 35% of our total revenue. These products carry the Patterson Medical brand, or one of the many brands added through acquisition. Patterson Medical owns manufacturing facilities in the U.S., Australia, and Thailand, and has a China sourcing office. Patterson Medical is a distributor for the other 65% of our product offering, carrying the top brands in the rehabilitation industry. One of Patterson Medical s strengths is our trading relationship with the top manufacturers of rehabilitation products in the U.S. and abroad.

We believe the rehabilitation medical supply and assistive product industry is approximately $5.6 billion worldwide and is expected to grow faster than the overall economy over the next several years. Industry growth is driven by strong growth in the physical and occupational therapy markets and favorable demographic trends associated with the aging of the baby-boom generation. We do not participate in all product segments, so Patterson Medical s addressable market (defined as the collective market for products sold by Patterson Medical) is approximately $3.4 billion worldwide. We believe that Patterson Medical has an industry leading market share of approximately 15% in a highly fragmented rehabilitation and assistive products market.

We believe that the demand for rehabilitation products will continue to be influenced by the following factors:

Favorable Demographics. Favorable demographic trends such as extended life expectancy, active lifestyles and a general willingness to spend discretionary income on health care and well-being, is expected to contribute to increased demand for products distributed by Patterson Medical. Specifically, the aging baby-boomer population, together with their increased disposable income and desire for independence, will fuel product purchases to assist with the frailties associated with old age and provide sustained sales growth.

The U.S. Census Bureau has projected the 85 and older population in the U.S. to increase significantly, from less than 6 million in 2011 to 14 million by 2040 and 19 million by 2050. The 65 to 84 year old population is expected to more than double between 2011 and 2040. Current trends indicate that these age groups represent the majority of home and community-based health care patients.

The aging of the population is a revenue growth driver because approximately 10% of people over the age of 65 and approximately 50% of people over the age of 85 need assistance with everyday activities. Patterson Medical believes we are well positioned to benefit from this trend by providing aids to daily living, namely dressing devices; toileting, dining, bathing aids; and grooming devices, all of which promote greater patient independence, improved patient responsibility and improved responsiveness to treatment.

Increasing Number of PTs and OTs, Patterson Medical s Primary User Groups. According to the U.S. Department of Labor Bureau of Labor Statistics (BLS), there were approximately 199,000 PTs and

109,000 OTs in the U.S. in 2010. Approximately 60 percent of PTs were employed in either hospitals or offices of physical therapists. The remaining 40 percent of PTs was employed in home health agencies, outpatient rehabilitation clinics, physician offices and nursing homes. The majority of OTs work in hospitals, including many in rehabilitation and psychiatric hospitals. The remaining OTs work in outpatient occupational therapy offices and clinics, schools, home health agencies, nursing homes, community mental health centers, adult day care programs, job training services and residential care facilities. The demand for PTs and OTs is expected to remain strong. The BLS estimates a growth of 33.5% for OTs between 2010 and 2020, and a growth of 39% for PTs in that same time period. Both professions are expected to grow much faster than average.

Increasing Frequency of Reconstructive and Implant Surgery. Another important driver of the growth in the PT market is the growing need for rehabilitation products resulting from the increasing frequency of reconstructive implant procedures, including hip and knee replacements. The worldwide reconstructive implant market is currently in excess of $5.0 billion and expected to grow between 7% and 8% annually. This growth trajectory is largely driven by favorable demographics, as patient populations are expanding at both ends of the age spectrum. Among seniors, more active lifestyles and longer life expectancies are responsible for the increasing frequency of reconstructive implants. We believe Patterson Medical is well positioned to benefit from the growth in reconstructive implants, by providing physical therapy and exercise products that help the patients return to a normal level of function.

Volatility in Funding and Regulation. The demographic growth in aged population both in the U.S. and abroad will continue to pose funding challenges for governments. Whether private pay, Medicare, Medicaid or some other funding mechanism, the population need has been outpacing the available funds. This has resulted in governments changing funding methods, allocations, and rules to try and better match supply with demand. Although we do not directly participate in third party reimbursed (patient specific) product, the pressure on healthcare providers can have a pass through effect. Patterson Medical has pursued a diversified strategy so we do not rely too heavily on any one product category.

International Operations

Patterson Medical s Europe, Middle East and Asia (EMEA) operations are based in the United Kingdom (U.K.) and are made up of Patterson Medical Limited in the U.K. and Patterson Medical France and Sacedi in France. Patterson Medical s Australia and New Zealand operations (ANZ) are based in Australia. Our international domestic operations broadly reflect the same business model as used in the North American market. In the U.K., France, Australia and New Zealand, operations include sales and marketing, customer service, distribution, purchasing and administration. Outside of these countries, Patterson Medical uses a network of over 200 distributors to reach its customers.

Patterson Medical is a leading supplier of aids to daily living (ADL) and rehabilitation products in the U.K., and a significant player in the international markets. Having developed and designed many proprietary products, we are the prime source for numerous established and market leading ADL brands, including products sold under the names Homecraft, Days, and Physiomed. The Patterson catalog offers a broad line of ADL, therapy, rehabilitation and pediatric products containing over 10,000 items and is circulated to PTs, OTs, loan equipment stores and private clinics, trade outlets and the general public.

Patterson s central sales and marketing strategy is to provide a one-stop shop proposition to hospitals, local government and trade customers (Dealers) throughout the U.K. Customers are reached through a combination of mail order, a 54 person sales force, telemarketing and in-market promotional and exhibition activity.

In April 2009, Patterson acquired Mobilis Healthcare, increasing our global presence. While the Homecraft catalog has historically been focused on occupational therapy, Mobilis was a complementary addition, given its strong position in the physiotherapy market.

In June 2010, Patterson Medical acquired the rehabilitation business of Empi Therapy Solutions, with sales of approximately $30 million.

In June 2010, Patterson acquired the rehabilitation business of DCC Healthcare. The acquired DCC businesses, Days Healthcare, Physiomed and Ausmedic, rank among the leaders in their overseas markets, providing assistive living products and rehabilitation equipment and supplies to hospitals, physical and occupational therapists, long-term care facilities, dealers and consumers in the U.K., continental Europe, Australia, New Zealand and other international markets.

Patterson Medical France consists of the sale and distribution of Patterson Medical products in France. Products are marketed to customers through product brochures, mailings, telemarketing and a sales force that covers the French rehabilitation market. Sacedi focuses on distribution in the therapy and sports medicine market segments.

Strategy

Our objective is for Patterson Medical to be the customers first choice for rehabilitation medical supplies and equipment in each of its chosen markets. We intend to continue Patterson Medical s growth through internal expansion and acquisitions in both rehabilitation and related products.

Emphasizing Value-Added, Full-Service Capabilities. Patterson Medical currently offers our customers a one-stop shop for products through our industry leading catalog with over 20,000 items, focused primarily on physical and occupational therapy products. Patterson Medical adds new products each year to our ever-expanding catalog and is committed to doing so long-term. Consistent with Patterson Medical s current product offering, some of these new products are branded, exclusive or self-manufactured.

We recognize that different customer groups have very different economic, product, distribution channel requirements and treatment goals. Patterson Medical proactively attempts to anticipate and flexibly respond to the diverse needs of our customers, while focusing on niches, worldwide, where our capabilities, reputation and customer partnerships can result in a competitive advantage. As such, we foresee an on-going evolution of our product offerings to meet the ever-increasing demands of our diverse customer segments.

Improving Operating Efficiencies. Patterson Medical s proprietary products, which consist of self-manufactured products, products manufactured for Patterson Medical and products sold through exclusive distribution arrangements, represent approximately 35% of total revenues. Over the past four years, we have made investments in new sales and marketing programs as a part of our accelerated adoption of Patterson s value-added strategy, including the expansion of our sales force and the establishment of a consolidated delivery and service network. We believe these investments will result in additional sales and operating efficiencies into the future.

As of April 26, 2014, Patterson Medical is distributing products from four shared distribution facilities that distribute products for two or all three of our operating units. As of April 26, 2014, Patterson Medical now shares ten branch facilities with other business units, allowing the two business units to share in certain common expenses.

Growing Through Internal Expansion and Acquisitions. Patterson Medical believes we are well positioned to expand in our core markets. Our market presence, clinical understanding and close customer relationships allow us to anticipate and flexibly respond to the diverse needs of our customers. We believe our market knowledge, strong vendor relationships and manufacturing capabilities will continue to drive the delivery of value-added solutions through the continual enrichment of our product mix. Additionally, we believe our broad portfolio of national accounts and commitment to expand our sales force will enhance Patterson Medical s growth and penetration within our current and new customer base.

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Patterson Medical acquired Homecraft, Mobilis, Physiomed, Days Medical, and other businesses to establish a platform for international expansion. Each business that was added has been integrated and has added to an ever expanding brand and product portfolio. The international business continues to accelerate, in terms of both product lines and geographic regions. Since the Homecraft/Kinetec transaction, Patterson Medical has added over 550 pages of new products to the catalog. The international acquisitions brought with them a proven capability to source products at very favorable costs and at high levels of quality from China, which has resulted in meaningful cost savings. We believe our business model is transferable to other countries, and are using PMI to cultivate new relationships through an enhanced product array, sales effort, distribution capabilities and catalog expertise.

In May 2004, Patterson Medical acquired the assets of Medco Supply Company, Inc., or Medco, from NCH Corporation. With sales of approximately $60 million, Medco is one of the nation s leading sports medicine distributors and is based in Buffalo, New York. In addition to Medco s sports medicine business, Medco sells first aid, safety and medical consumable products to commercial and institutional customers, as well as consumable supplies and equipment to podiatrists. The complete product offering includes approximately 10,000 SKUs that are sold through direct mail catalogs and 11 territory sales people. Medco markets to athletic trainers, schools and school nurses, daycare providers and healthcare professionals including podiatrists, chiropractors and physical therapists.

In November 2007, Patterson Medical acquired PTOS software, a leading line of practice management software for physical therapists.

In April 2009, Patterson Medical acquired Mobilis Healthcare, a U.K.-based business with sales of $28 million. Mobilis serves 12,000 customers in the U.K. and France and owns several leading brands that are sold into its primary markets.

In June 2010, Patterson Medical acquired the rehabilitation business of Empi Therapy Solutions, with sales of approximately $30 million, was purchased in June 2010.

In June 2010, Patterson Medical acquired the rehabilitation business of DCC Healthcare, with combined sales of approximately $70 million.

Products and Services

The following table sets forth the percentage of total sales represented by the principal categories of products and services offered to rehabilitation segment customers:

	2014	2013	2012
Consumables	74%	72%	71%
Equipment and software	21	23	24
Other	5	5	5
Total	100%	100%	100%

Consumables

Patterson Medical offers a large selection of supply products that can be categorized as follows:

Aids to Daily Living dressing devices, toileting, dining, bathing aids and grooming devices

Orthopedic Soft Goods / Splints braces, splints and orthotics for protecting, supporting and positioning

Clinical products that assist in the examination and treatment of patients, such as exercise bands, putty, weights, balls and mats

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Mobility walkers, canes and wheelchair accessories such as gloves, trays and carrying bags

Pediatric Seating and Positioning rolls, wedges, specialty seating and standers, and mobility assistance products for special needs children; category also includes sensory motor stimulation products such as toys, crafts and devices to assist with balance.

Modalities products for heating and cooling therapies, electrical stimulation, laser, ultrasound, paraffin, iontophoresis and therapeutic creams and lotions

Equipment and Software

Rehabilitation equipment consists of exercise, examination, treatment and therapy equipment and furniture. These products include parallel bars, treatment tables, mat platforms, treadmills, and stationary bicycles. The November 2007 acquisition of PTOS software added a line of practice management software to Patterson Medical s wide array of product offerings. In addition, certain acquisitions in the recent past have given us access to premium equipment lines that were previously unavailable to Patterson Medical.

Other

Other products and services include equipment repair revenues, software maintenance contract revenue and freight recovery on shipments to customers.

Sales and Marketing

Patterson Medical has been going through a process of establishing its brand globally to better leverage its international scope. This has led to a catalog branding transition of our acquired businesses (in various stages) including Sammons Preston in the U.S. and Canada, and Homecraft, Days, Physiomed, and Ausmedic in the remainder of the world.

A core element of Patterson Medical s strategy is to maintain the most comprehensive single catalog of rehabilitation products and supplies. The catalog, published for over 50 years, is considered the gold standard of the industry and features the most comprehensive product offering with longstanding industry leading positions and recognized brand names. Our product management group works closely with customers, suppliers and the sales force to evaluate new products for inclusion in Patterson Medical s product offering. We add approximately 2,000 new products to the catalog each year.

Patterson Medical has an experienced sales force, national account contracts with major customer groups, unmatched customer service within the industry and the proven ability to introduce new products each year, allowing us to compete across the entire spectrum of the rehabilitation medical supplies and non-wheelchair assistive products industry.

A key priority has been the expansion of our field sales force, which has grown by more than 100 sales representatives since late in fiscal 2006 and now totals nearly 280 worldwide. New sales representatives are generally hired from the ranks of physical and occupational therapists, manufacturer representatives and others with extensive industry knowledge.

Patterson Medical s U.S. national accounts group collaborates with our sales force to meet the changing needs of our expanding account base. The national accounts program is staffed by seasoned professionals who have developed a comprehensive portfolio of contracts. Furthermore, the integrated Patterson Medical organization has national contracts with major purchasing groups within each submarket, including hospitals, nursing homes and dealers.

The rehabilitation medical supplies and equipment business is highly fragmented. No one manufacturer, distributor or customer represents a significant portion of Patterson Medical s revenue.

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To enhance the total value we bring to our customers, Patterson Medical created a value-added benefit program for its preferred customers. The Patterson Advantage^{sm} program entitles our best customers to discount pricing and cash rebates, priority service scheduling, supply management summary reports and continuing education course discounts.

Distribution

Patterson Medical s distribution process centers on our ability to efficiently fill small dollar amount orders. In the U.S., over 6,000 packages ship daily from six locations. A majority of products are shipped out of three full service, shared Patterson distribution centers, one in Mt. Joy, Pennsylvania, one in Dinuba, California, and another in South Bend, Indiana. Approximately 95% of the small packages in the U.S. ship via UPS.

Patterson Medical uses a branch structure to more effectively distribute equipment to our customers. Large equipment can be shipped to our branches, inspected for damage, and then put on Patterson Medical trucks for consolidated delivery and installation at customers facilities.

Patterson Medical s U.S. call center operates from 7am 7pm Monday through Friday, processing in excess of 5,000 calls per day. In addition, customers can order 24 hours a day through Patterson Medical s websites. The combination of in-house staff and web ordering options provides customers with 24 hours a day, seven days a week ordering capabilities. Approximately 40% of customer orders are through the web or EDI, which has decreased call center activity, allowing Patterson Medical to provide more personalized service to customers.

Sources of Supply

Among Patterson Medical s core strengths is our ability to obtain premier products from vendors. Our products are purchased from over 1,500 suppliers and manufacturers. Although no single supplier accounted for more than 7% of Patterson Medical s total purchases in fiscal 2014, we frequently are the largest single customer of these manufacturers. Suppliers view the ability to distribute their products through our global network positively due to our reputation, longstanding industry leading position, comprehensive catalogs, national account contracts, sales force presence and distribution capabilities. We continually work at strengthening our supplier relationships through the introduction of supplier programs.

Competition

We operate in the highly fragmented rehabilitation medical supplies and equipment industry. Patterson Medical s competition is generally either locally or regionally focused. Patterson Medical intends to pursue expansion opportunities when prudent in order to add products, customers and capabilities, which will further differentiate Patterson Medical from our competition.

We believe Patterson Medical is the only national player to offer one-stop shopping to our customers. Patterson Medical s national and international scale and purchasing power provides us with a favorable cost position and strong pricing trends relative to our competition.

For further information on our three operating segments, and operations by geographic area, see Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this document and Note 13 to the Consolidated Financial Statements.

Shared Services Initiative

We have continued to consolidate our distribution infrastructure and business systems over the past several years. As of April 26, 2014, we have eight facilities that serve two or three of our business units. These strategically located facilities enable us to realize operating efficiencies and improve customer service.

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Our business units also share a number of sales branch office locations, enabling multiple business units to operate at one physical location. As of April 26, 2014, we have 15 shared locations, and we plan to leverage additional branch sharing between two or three business units in select markets in fiscal 2015 and beyond.

The PTC has staff dedicated to support the technology offerings of each of our business units. Such technology product and service offerings have expanded in recent years and we will continue that focus. We support over 80,000 customers nationwide through the PTC, and strive to resolve any situation in one call, whether the question or concern involves hardware, software, computer networking or digital technology. Development of our proprietary practice management and certain of our patient education products takes place at the PTC. In addition to the PTC, technology support is provided to customers through our business unit s sales branches, which provide network installation and customer training.

Patterson Companies, Inc.

Trademarks and Patents

Our products and services are sold under numerous trademarks including PATTERSON®, EAGLESOFT®, CAESY®, SAMMONS PRESTON®, KINETEC®, TUMBLE FORMS®, INTRAVET® and DIA®. Because we believe our trademarks are well-recognized within their respective industries and valuable assets, we protect them against infringement. Some of our proprietary software in the orthodontia field is protected by patents, which have varying terms, generally of 17-20 years.

Employees

As of April 26, 2014, we had approximately 7,000 employees. We have not experienced a shortage of qualified personnel in the past and believe that we will be able to attract such employees in the future. None of our employees are subject to collective bargaining agreements or represented by a union. We believe our relations with employees to be good.

Website

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are made available on our website as soon as reasonably practicable after the material is electronically filed with or furnished to the Securities and Exchange Commissions. This material may be accessed by visiting the Investor Relations section of our website at www.pattersoncompanies.com.

Information relating to our corporate governance, including our Principles of Business Conduct and Code of Ethics, and information concerning executive officers, Board of Directors and Board committees, and transactions in Patterson securities by directors and officers, is available on or through our website www.pattersoncompanies.com in the Investor Relations section.

Information maintained on the website is not being included as a part of our Annual Report on Form 10-K.

Governmental Regulation

The marketing, distribution and sale of certain products we sell are subject to the requirements of various federal, state, and local laws and regulations. We are subject to regulation by the Federal Food and Drug Administration, the Drug Enforcement Administration and the U.S. Department of Transportation. Among the federal laws which impact us are the Federal Food, Drug and Cosmetic Act, which regulates the advertising, recordkeeping, labeling, handling, storage and sale of drugs and medical devices which are distributed by us, and which further requires us to be registered with the Federal Food and Drug Administration; the Safe Medical Devices Act, which imposes certain reporting requirements on us in the event of an incident involving serious illness, injury or death caused by a medical device we have distributed; and the Controlled Substance Act, which regulates the

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recordkeeping, handling, storage and sale of certain drugs sold by us and requires us to be are registered with the Drug Enforcement Administration. In addition, the transportation of certain products we distribute that are considered hazardous materials is subject to regulation by the U.S. Department of Transportation.

We also are required to be licensed as a distributor of drugs and medical devices by each state in which we conduct business. In addition, several state Boards of Pharmacy requires us to be licensed in their state for the sale of animal health products within their jurisdiction. Our Company is also subject to the requirements of foreign laws and regulations, which impact our operations in those foreign countries we conduct business.

While we believe we are in substantial compliance with the laws and regulations, which regulate our business, and that we possess the licenses required in the conduct of our business. Our failure to comply with any of applicable laws or regulations, or the imposition of new laws or regulations, could negatively impact our business.

Executive Officers of the Registrant

Set forth below is the name, age and position of the executive officers of Patterson as of June 25, 2014.

Scott P. Anderson	47	President, Chief Executive Officer, Chairman of the Board Patterson Companies, Inc.
R. Stephen Armstrong	63	Executive Vice President, Chief Financial Officer and Treasurer Patterson Companies, Inc.
Paul A. Guggenheim	54	President Patterson Dental Supply, Inc.
George L. Henriques	53	President Patterson Veterinary Supply, Inc.
Michael J. Orscheln	56	President Patterson Medical Supply, Inc.
Ranell M. Hamm	52	Chief Information Officer Patterson Companies, Inc.
Jerome E. Thygesen	56	Vice President, Human Resources Patterson Companies, Inc.
Ann B. Gugino	42	Vice President , Strategy and Planning Patterson Companies, Inc.
Sean M. Muniz	46	Vice President, Operations Patterson Companies, Inc.
Jonelle R. Burnham	43	Vice President, General Counsel and Secretary Patterson Companies, Inc.

Our officers are elected annually and serve at the discretion of the Board of Directors.

Background of Executive Officers

Scott P. Anderson was elected President and Chief Executive Officer of Patterson in April 2010, and became our Chairman in April 2013. Mr. Anderson has worked with Patterson since 1993. Prior to June 2006 when he became President of Patterson Dental Supply, Inc., Patterson s largest business, Mr. Anderson held senior management positions in the dental unit, including Vice President, Sales, and Vice President, Marketing. Mr. Anderson started his career as a territory sales representative in the dental business before becoming national equipment manager, manager of the San Francisco branch and manager of the Minnesota branch, two of Patterson s largest dental branch offices. Mr. Anderson became one of our directors in June 2010. Mr. Anderson currently serves on the board of directors of the Dental Trade Alliance, the trade association that represents dental manufacturers, distributors and laboratories. He also has served as a director of C.H. Robinson Worldwide, Inc. since January 2012.

R. Stephen Armstrong was elected Executive Vice President, Chief Financial Officer and Treasurer of Patterson effective July 1999. Before joining Patterson, Mr. Armstrong had been an Assurance Partner with Ernst & Young LLP. Ernst & Young LLP is currently Patterson s independent registered public accounting firm. Mr. Armstrong has been a director of Delphax Technologies, Inc. since April 2000 and IMRIS, Inc. since September 2013.

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Paul A. Guggenheim became President of Patterson Dental Supply, Inc. in April 2010. Mr. Guggenheim previously was the southwest region manager of Patterson Dental. Mr. Guggenheim joined us in 2000 following our acquisition of Guggenheim Brothers Dental Supply. Mr. Guggenheim has worked in the dental industry for over 25 years and is former chairman of the American Dental Trade Association (now the Dental Trade Alliance). He also is past president of the Dental Dealers of America and former chairman of the American Dental Cooperative.

George L. Henriques became President of Patterson Veterinary Supply, Inc. in August 2006. Mr. Henriques previously served as Chief Information Officer of Webster since 2000 and is former chairman and board member of the American Veterinary Distributors Association.

Michael J. Orscheln became President of Patterson Medical Holdings, Inc. in August 2013. Prior to joining Patterson, Mr. Orscheln served as President and Chief Executive Officer of Phonak U.S. from January 2009 to April 2012. Throughout over 30 years of healthcare distribution and medical manufacturing experience, Mr. Orscheln has held senior leadership positions with American Hospital Supply Corp., Baxter Healthcare Corp., Moore Corporation, Ltd., and Cardinal Health, Inc.

Ranell M. Hamm became Chief Information Officer in April 2011. Prior to joining Patterson, Ms. Hamm was Senior Director of Clinical Information Delivery for UnitedHealth Group. Prior to UnitedHealth Group she was employed by Assurant, Inc., where she was Senior Vice President of Finance Systems & Services, IT Security; Chief Information Officer/Chief Operating Officer of Shared Business Services; and Senior Vice President of Shared Services Organization.

Jerome E. Thygesen became Vice President, Human Resources in March 2006. Prior to joining Patterson, Mr. Thygesen was Vice President, Organizational Development for Fairview Red Wing Health Services from September 2001 to February 2006, and Director of Human Resources for Red Wing Shoe Company from March 1987 to June 2001.

Ann B. Gugino became Vice President, Strategy & Planning in April 2012. She previously served as Vice President of Finance and Operations Patterson Dental from 2008 until April 2012. She joined Patterson in 2000 as an assistant controller and became Controller-Patterson Dental in 2004. Prior to her career with Patterson, she worked for Ernst & Young, LLP and achieved her Certified Public Accountant designation.

Sean M. Muniz became the Vice President of Operations in November 2012. Mr. Muniz held the position of Director of Facilities and Risk Management since 2007 and, prior to that Mr. Muniz relocated to the Corporate Office where he became the Director of Operations for Patterson Logistics Services, Inc. in 2001. Mr. Muniz began his career with Patterson in 1990.

Jonelle R. Burnham became Vice President, General Counsel and Secretary in April 2014. She previously served as Associate General Counsel from October 2009 to April 2014. From July 2002 to September 2009, Ms. Burnham held various positions as counsel, assistant secretary and senior patent attorney for Kimberly-Clark Corporation, a global consumer brand company. Prior to joining Kimberly-Clark, Ms. Burnham was an associate attorney in the Minneapolis office of the Merchant & Gould law firm.

Item 1A. RISK FACTORS

In addition to the other information set forth in this Annual Report on Form 10-K, you should carefully consider the following factors which could have a material adverse effect on our business, financial condition, results of operations or stock price. The risks below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition, results of operations or stock price.

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General economic conditions and volatility in the financial markets could adversely affect our operating results and financial condition.

Uncertain weak economic conditions in the U.S. or global economy, or an uncertain economic outlook, could materially adversely affect our operating results and financial condition. Current economic conditions may continue to cause customers to reduce, modify, delay, or cancel purchasing our products and services, and a prolonged period of economic instability could reduce their ability to make payments. Furthermore, such conditions could cause our suppliers to reduce their production, decrease their number of product offerings, or change their terms of sale to us. Increasing commodity prices would also increase our cost of operations, either directly through increased energy costs or indirectly through what we are charged by our suppliers. Current economic conditions could also cause changes in our product mix as our customers prioritize established, low-margin products rather than innovative, high-margin products, which could reduce our profit margin.

In addition, volatility and other disruptions in the financial markets could adversely affect the cost and availability of credit to us, as well as the cost of, and ability to sell, finance contracts we receive from customers to outside financial institutions. Reduced access to capital for our customers limits the amount of investment that they can make in their practices, and with limited investment by the customer our revenue from equipment sales would be lower.

The dental supply, veterinary supply, and rehabilitation and assistive products supply markets are highly fragmented and competitive, and we may not be able to compete successfully.

Our competitors include national, regional and local full-service distributors, mail-order distributors and, increasingly, internet-based businesses. Some of our competitors have greater resources than we do, or operate through different sales and distribution models that could allow them to compete more successfully. For example, many of our suppliers are manufacturers, some of whom compete with us by selling directly to customers. Furthermore, internet-based businesses may be able to offer the same product at a lower cost.

Most of our products are available from multiple sources, and our customers tend to have relationships with several different distributors who can fulfill their orders. Our competitors could obtain exclusive rights to market particular products, which we would then be unable to market. Manufacturers also could increase their efforts to sell directly to end-users and thereby eliminate or reduce our role and that of other distributors. Industry consolidation among suppliers, price competition, the unavailability of products, whether due to our inability to gain access to products or to interruptions in supply from manufacturers, or the emergence of new competitors also could increase competition. Our failure to compete effectively may limit and/or reduce our revenue, profitability and cash flow.

Risks inherent in acquiring other businesses could offset the anticipated benefits of such acquisitions and we may face difficulty in efficiently and effectively integrating acquired businesses since we operate in three distinct segments.

As a part of our business strategy, we have acquired businesses in the ordinary course and expect to continue acquiring businesses in the future. These acquisitions can involve a number of risks and challenges, any of which could cause significant operating inefficiencies and adversely affect our growth and profitability, and may not result in the benefits and revenue growth we expect. Such risks and challenges include underperformance relative to our expectations and the price paid for the acquisition; unanticipated demands on our management and operational resources; difficulty in integrating personnel, operations and systems; retention of customers of the combined businesses; assumption of contingent liabilities; and acquisition-related earnings charges.

As we operate in three distinct segments, we need to consolidate the distribution, information technology, human resources, financial and other administrative functions of those business units jointly to meet their needs while addressing distinctions in the individual markets of those segments. We may not be able to do so effectively and efficiently.

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Our ability to continue to make acquisitions will depend upon our success in identifying suitable targets, which requires substantial judgment in assessing their values, strengths, weaknesses, liabilities and potential profitability, as well as the availability of suitable candidates at acceptable prices, and whether restrictions are imposed by anti-trust or other regulations.

Our international operations are subject to inherent risks that could adversely affect our operating results.

There are a number of risks inherent in foreign operations, including complex regulatory requirements, staffing and management complexities, import and export costs, other economic factors and political considerations, all of which are subject to unanticipated changes. Additionally, foreign operations expose us to foreign currency fluctuations. Furthermore, we generally do not hedge translation exposure with respect to foreign operations.

We depend on our relationships with our sales representatives and customers, as well as suppliers of the products that we distribute.

The inability to attract or retain qualified employees, particularly sales representatives who relate directly with our customers, or our inability to build or maintain relationships with suppliers of products that we distribute may have an adverse effect on our business.

We are dependent on our suppliers because we do not manufacture the majority of the products we sell.

Interruptions in supply could adversely affect our operating results. If a supplier is unable to deliver product in a timely and efficient manner, whether due to financial difficulties, natural disasters or other reasons, we could experience lost sales. We generally do not have long-term contracts with our suppliers that commit them to producing products for us.

While there is generally more than one source of supply for most of the categories of products we sell, there is considerable concentration within our veterinary and dental businesses with a few key suppliers. For example, in fiscal 2014 and 2013, Patterson Veterinary s top 10 suppliers comprised of 68% and 70%, respectively, and the single largest supplier comprised 17% and 18%, respectively, of the total cost of veterinary supply sales. In the event that any of our suppliers were to become unable or unwilling to continue to provide the products we sell in the amounts we require, we would need to identify and obtain products from acceptable replacement sources on a timely basis. There is no guarantee that we would be able to obtain such alternative sources of supply on a timely basis, if at all. An extended interruption in the supply of our products would have an adverse effect on our results of operations.

In addition, a portion of our products is sourced, directly or indirectly, from outside the United States. Political or financial instability, increased tariffs, restrictions on trade, currency exchange rates, labor unrest, outbreak of pandemics or other events could slow distribution activities, affect foreign trade beyond our control and adversely affect our results of operations.

The products we sell are subject to market and technological obsolescence.

We carry approximately 210,000 different product stock keeping units (SKUs). Some of these products are subject to technological obsolescence outside of our control, since we do not manufacture the majority of the products we sell. If our customers discontinue purchasing a given product, we might have to record expense related to the diminution in value of inventories we have in stock, and depending on the magnitude, that expense could adversely impact our operating results.

Audits by tax authorities could result in additional tax payments for prior periods.

The amount of income taxes we pay is subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. If these audits result in assessments different from our reserves, our future results may include unfavorable adjustments to our tax liabilities.

We are subject to a variety of litigation that could adversely affect our results of operations and financial condition.

We are subject to a variety of litigation incidental to our business, including product liability claims, intellectual property claims, and employment claims. We also may be subject to securities litigation. Defending these lawsuits may divert our management s attention, may be expensive, and may require that we pay damage awards or settlements or become subject to equitable remedies that could adversely affect our financial condition and results of operations. Any insurance or indemnification rights that we may have may be insufficient or unavailable to protect us against potential loss exposure. A successful claim brought against us in excess of available insurance or not covered by indemnification agreements, or any claim that results in significant adverse publicity against us, could have an adverse effect on our business and our reputation.

Our future success depends on our leadership development and succession planning.

Our success depends, in large part, on our ability to recruit skilled personnel, and then identify and train our personnel to transition into key roles to support the long-term growth of our business. While our Board of Directors and management actively monitor our succession plans and processes, our business could suffer if we lose key personnel unexpectedly. In addition, competition for senior management is intense and we may not be successful in attracting and retaining key personnel.

We may be required to record a significant charge to earnings if our goodwill or other intangible assets become impaired.

Our balance sheet includes goodwill and other identifiable intangible assets. If impairment of our goodwill or other identifiable intangible assets is determined, we may be required to record a significant charge to earnings in the period of such determination under U.S. generally accepted accounting principles (GAAP).

The healthcare industry is experiencing substantial changes, which are causing uncertainty in the market and may adversely affect our dental and rehabilitation and assistive products supply businesses.

The healthcare industry is highly regulated and subject to changing political, economic and regulatory influences. In recent years, the healthcare industry has undergone significant change driven by various efforts to reduce costs, including: trends toward managed care; consolidation of healthcare distribution companies; consolidation of healthcare manufacturers; collective purchasing arrangements and consolidation among office-based healthcare practitioners that may enable purchasing at more favorable prices than we can obtain and may shift purchasing decisions to entities or persons with whom we do not have a historical relationship; and changes in reimbursements to customers. Our profit margins and the profit margins of our suppliers and our customers may be adversely affected by industry changes. If we are unable to react effectively to these and other changes in the healthcare industry, our operating results could be adversely affected.

In particular, recent healthcare related legislation and regulation in the U.S. may affect expenditures or reimbursements for rehabilitation and assistive products or expenditures or reimbursements for dental services by private dental insurance plans. Other new regulatory requirements could subject us to additional reporting and disclosure requirements, taxes, and/or restrictions. Regulations under healthcare reform legislation continue to evolve, resulting in uncertainty surrounding their application and related enforcement, as well as consuming resources necessary to comply.

Healthcare markets are rapidly changing, as well. For example, our assumptions concerning future per capita expenditures for dental services, including assumptions as to population growth and the demand for preventive and specialty dental services such as periodontic, endodontic and orthodontic procedures, may be mistaken. Fluctuations in demand for infection control products currently used for prevention of the spread of communicable diseases such as AIDS, hepatitis and herpes may adversely affect our revenue.

Failure to comply with existing and future U.S. and foreign laws and regulatory requirements could subject us to claims or otherwise harm our business.

The marketing, distribution and sale of certain products we sell are subject to the requirements of various federal, state and local laws and regulations in the U.S. and abroad. Our failure to comply with applicable laws may subject us to claims, additional liabilities, or enforcement actions by an administrative agency, which could require us to make settlement payments, be subject to civil or criminal penalties (including fines or loss of licenses), or damage our reputation, any of which could adversely affect our business, financial condition and results of operations.

In the U.S., we are subject to regulation by the Federal Food and Drug Administration, the Drug Enforcement Administration and the U.S. Department of Transportation. Among the federal laws which impact our business are the Federal Food, Drug and Cosmetic Act, which regulates the advertising, record keeping, labeling, handling, storage and sale of drugs and medical devices we distribute, and which requires us to be registered with the Federal Food and Drug Administration; the Safe Medical Devices Act, which imposes certain reporting requirements on us in the event of an incident involving serious illness, injury or death caused by a medical device we distributed; and the Controlled Substance Act, which regulates the record keeping, handling, storage and sale of certain drugs we sell, and which requires us to be registered with the Drug Enforcement Administration. In addition, the transportation of certain products we distribute, which are considered hazardous materials, is subject to regulation by the U.S. Department of Transportation.

We are also required to be licensed as a distributor of drugs and medical devices by each state in which we conduct business. In addition, several state Boards of Pharmacy require us to be licensed for the sale of animal health products within their jurisdiction. We are also subject to the requirements of foreign laws and regulations, which impact our operations in those foreign countries where we conduct business.

In the course of our business, particularly in providing installation and support relating to our practice management software, we frequently have access to personal financial and health information of our customers and their patients. Because of this access, we are also subject to additional federal and state laws and regulations, such as the Health Insurance Portability and Accounting Act (HIPAA), which, through regulations and rulemaking, impose on us certain requirements to protect the privacy and security of personal health information.

Furthermore, as discussed above, the industries in which we operate have recently experienced an increase in new regulations, which makes compliance increasingly difficult. Costs and resources associated with complying with these increasing regulations can be considerable.

We are exposed to the risk of changes in interest rates.

Our balance sheet includes certain non-current assets that are sensitive to movements in short-term interest rates. The variable rates are comprised of both LIBOR and commercial paper rates plus a spread and reset on certain dates, as set forth in the respective agreements. In addition, our balance sheet includes fixed rate long-term debt, whose fair value could be adversely affected by movements in interest rates. We finance purchases by our customers using finance contracts that are issued at fixed interest rates, and sell these contracts under various funding arrangements that are priced using variable interest rates. Sudden and dramatic changes in the interest rates within relevant markets could adversely affect our results of operations.

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Risks generally associated with our information systems could adversely affect our results of operations.

We rely on information systems (IS) in our business to obtain, rapidly process, analyze and manage data to, among other things:

- facilitate the purchase and distribution of thousands of inventory items through numerous distribution centers;
- receive, process and ship orders on a timely basis;
- accurately bill and collect from thousands of customers;
- process payments to suppliers; and
- provide technical support to our customers.

A cyber-attack that bypasses our IS security causing an IS security breach may lead to a material disruption of our IS and/or the loss of business information, which could adversely affect our business. These risks may include, among others, the following:

- future results could be adversely affected due to the theft, destruction, loss, misappropriation or release of confidential data or intellectual property;
- operational or business delays resulting from the disruption of IS and subsequent clean-up and mitigation activities;
- negative publicity resulting in reputation or brand damage with our customers, suppliers or industry peers; and
- liability for a breach of personal financial and health information belonging to our customers and their patients.

Our results of operations could be adversely affected if our IS are interrupted, damaged by unforeseen events, incur cyber-attacks or fail for any extended period of time.

If we experience significant disruptions in our operations during our enterprise resource planning implementation, our business may be adversely affected.

We depend on our information technology systems for the efficient functioning of our business, including accounting, data storage, purchasing and inventory management. We are working on implementing a new enterprise resource planning system (ERP) across our significant operating locations. We expect that the ERP will take three to four years to implement and will require the investment of significant human and financial resources. During implementation, we may encounter difficulties in operating our business, which could disrupt our operations, including our ability to timely ship and track customer orders, determine inventory requirements, manage our supply chain, and otherwise adequately service our customers, and lead to increased costs and other difficulties. If we experience significant disruptions during our ERP implementation, we may not be able to repair our systems in an efficient and timely manner. Accordingly, such events may disrupt or reduce the efficiency of our entire operation and have a material adverse effect on our operating results and cash flows.

Our governing documents and Minnesota law may discourage takeovers and business combinations that our shareholders might consider to be in their best interests.

Anti-takeover provisions of our articles of incorporation, bylaws, and Minnesota law could diminish the opportunity for shareholders to participate in acquisition proposals at a price above the then current market price of our common stock. For example, while we have no present plans to issue any preferred stock, our Board of Directors, without further shareholder approval, may issue up to approximately 30 million shares of undesignated

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preferred stock and fix the powers, preferences, rights and limitations of such class or series, which could adversely affect the voting power of our common stock. In addition, although our classified board will be completely phased out in 2015, four of our directors are not required to stand for re-election in 2014 under our bylaws. Further, as a Minnesota corporation, we are subject to provisions of the Minnesota Business Corporation Act, or MBCA, regarding control share acquisitions and business combinations. We may, in the future, consider adopting additional anti-takeover measures. The authority of our Board of Directors to issue undesignated preferred stock and the anti-takeover provisions of the MBCA, as well as any future anti-takeover measures adopted by us, may, in certain circumstances, delay, deter or prevent takeover attempts and other changes in control of our company not approved by our Board of Directors.

Item 1B. UNRESOLVED STAFF COMMENTS

We have not received any written comments regarding our reports from the staff of the SEC issued 180 days or more preceding the end of the 2014 fiscal year that remain unresolved, nor have we received any written comments regarding our reports from the SEC within the past 180 days.

Item 2. PROPERTIES

We own our principal executive offices in St. Paul, Minnesota, and the majority of our distribution and manufacturing facilities. Leases of other distribution, manufacturing and administrative facilities generally are on a long-term basis, expiring at various times, with options to renew for additional periods. Most sales offices are leased for varying and usually shorter periods, with or without renewal options. We believe our properties are in good operating condition and are suitable for the purposes for which they are being used.

Patterson Logistics Services

The majority of assets we use to distribute product are owned and operated by Patterson Logistics Services, Inc. (PLSI), a wholly-owned subsidiary, which operates the distribution function for the benefit of all three of our sales and marketing business segments in the Unites States. PLSI also advises on the operations of our distribution centers outside of the U.S but these properties are not owned by PLSI.

As of April 26, 2014, PLSI operates 15 distribution centers (8 primary centers) totaling approximately 1,200,000 square feet of distribution space as follows:

- 1 dental distribution center is located in Hawaii.
- 4 veterinary distribution centers are located in Alabama, Colorado and Texas (2).
- 2 rehabilitation distribution centers are located in New York State and Indiana.
- 1 distribution center is located in Texas, which stocks and distributes both dental and rehabilitation product.
- 3 distribution centers are located in Iowa, South Carolina and Washington state, which stock and distribute dental and veterinary products; and,
- 4 distribution centers are located in California, Florida, Indiana and Pennsylvania, which distribute product for all three of the business units.

Approximately 90% of the PLSI distribution center space is owned.

Patterson Technology Center

The Patterson Technology Center is a state-of-the-art 100,000 square foot facility in Effingham, Illinois, which was completed in fiscal 2012.

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Dental Supply

In addition to the locations operated by PLSI, Patterson Dental utilizes an owned location in Illinois to manufacture and ship printed office products. The dental sales operations in Canada are supported by distribution centers located in Quebec and Alberta, Canada.

The dental supply segment is headquartered in our principal executive offices, which is an owned facility. This segment also maintains sales and administrative offices inside the U.S. at approximately 88 locations in over 40 states and at 10 locations in Canada. The majority of these locations are leased.

Veterinary Supply

Veterinary Supply headquarters is a leased facility in Devens, Massachusetts. Our veterinary sales personnel generally reside within branch locations.

Internationally, this segment s U.K. business has its primary distribution facility in Stoke-on-Trent, and additionally has nine depots used as secondary distribution points throughout the United Kingdom.

Rehabilitation Supply

Patterson Medical is headquartered in a leased facility in Warrenville, Illinois. Domestically, the rehabilitation supply segment maintains manufacturing facilities in Wisconsin and New York. This segment s eighteen branch office locations include eleven that are shared with the dental supply segment.

Internationally, this segment has facilities located in the U.K., France, Canada, Australia, New Zealand, China and Thailand.

Item 3. LEGAL PROCEEDINGS

We are involved in various product-related, employment-related and other legal proceedings arising in the ordinary course of our business. Some of these proceedings involve product liability claims arising out of the use of products we distribute. Product liability indemnification is generally obtained from suppliers. However, in the event a supplier of a defective product is unable to pay a judgment for which we may be jointly liable, we may be liable for the entire judgment.

We maintain product liability insurance coverage for any potential liability for claims arising out of products we sell. While we believe our insurance coverage is adequate, there can be no assurance that the insurance maintained is sufficient or will be available to us in adequate amounts or at reasonable costs in the future. Also, there can be no assurance that the indemnification agreements we have with our suppliers will provide us with adequate protection. In addition, future claims brought against us could involve claims not covered by insurance or indemnification agreements and could have a material adverse effect on our business or financial condition.

As of April 26, 2014, we had accrued our best estimate of potential losses relating to product liability and other claims likely to result in liability and for which it is possible to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other external factors, including probable recoveries from third parties.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Patterson s common stock trades on the NASDAQ Global Select Market® under the symbol PDCO.

The following table sets forth the range of high and low sale prices for Patterson s common stock for each full quarterly period within the two most recent fiscal years. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

	High	Low	Dividends per share
Fiscal 2014			
First Quarter	$ 40.59	$ 37.20	$ 0.16
Second Quarter	$ 42.60	$ 39.59	$ 0.16
Third Quarter	$ 44.27	$ 39.99	$ 0.16
Fourth Quarter	$ 43.01	$ 39.05	$ 0.20

	High	Low	
Fiscal 2013			
First Quarter	$ 35.66	$ 30.82	$ 0.14
Second Quarter	$ 36.42	$ 32.68	$ 0.14
Third Quarter	$ 36.96	$ 31.36	$ 0.14
Fourth Quarter	$ 38.25	$ 35.01	$ 0.16

On June 19, 2014, the number of holders on record of common stock was 2,120. The transfer agent for Patterson s common stock is Wells Fargo Bank, N.A., 161 North Concord Exchange, South St. Paul, Minnesota, 55075-0738, telephone: (651) 450-4064.

We had not paid any cash dividends on our common stock from our initial public offering in 1992 until the fourth quarter of fiscal 2010, at which time a $0.10 per share cash dividend was paid. In fiscal 2014 a quarterly cash dividend of $0.16 per share was paid throughout the year, except in the fourth quarter when the dividend was increased to $0.20 per share. We expect to continue to pay a quarterly cash dividend for the foreseeable future; however, the payment of dividends is within the discretion of our Board of Directors and will depend upon our earnings, capital requirements, operating results and financial condition among other factors.

For information relating to securities authorized for issuance under equity compensation plans, see Part III, Item 12.

On March 19, 2013, Patterson s Board of Directors approved a share repurchase plan by which up to 25 million shares may be purchased in open market transactions through March 19, 2018. As of April 26, 2014, 22,046,000 shares remain available under the current repurchase authorization.

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The following table presents activity under the stock repurchase program during the fourth quarter of fiscal 2014 ended April 26, 2014.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Be Purchased Under the Plan
January 26, 2014 to February 22, 2014	1,196,224	$ 40.07	1,196,224	22,071,000
February 23, 2014 to March 22, 2014	25,000	$ 40.90	25,000	22,046,000
March 22, 2014 to April 26, 2014				22,046,000
	1,221,224	$ 40.49	1,221,224	

The graph below compares the cumulative total shareholder return on $100 invested at the market close on April 24, 2009, the last trading day before the beginning of our 2010 fiscal year, through April 25, 2014, the last trading day of our fiscal year 2014, with the cumulative return over the same time period on the same amount invested in the S&P 500 Index and a Peer Group Index, consisting of six companies (including our company) based on the same Standard Industrial Classification Code.* The chart below the graph sets forth the actual numbers depicted on the graph.

	Fiscal Year Ending					
	4/25/2009	4/24/2010	4/30/2011	4/28/2012	4/27/2013	4/26/2014
Patterson Companies, Inc.	100.00	165.25	177.42	176.54	197.87	219.65
S&P 500	100.00	143.50	164.03	172.49	198.92	239.23
Peer Group	100.00	157.76	182.85	184.26	212.94	259.53

* The current composition of SIC Code 5047 Medical, Dental & Hospital Equipment & Supplies is as follows: Chindex International, Inc., Henry Schein, Inc., Millennium Healthcare, Inc., MWI Veterinary Supply, Inc., Owens & Minor, Inc., and Patterson Companies, Inc.

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Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share amounts)

	Fiscal Year Ended				
	April 26, 2014	April 27, 2013	April 28, 2012	April 30, 2011	April 24, 2010
Statement of Operations Data:					
Net sales	$ 4,063,715	$ 3,637,212	$ 3,535,661	$ 3,415,670	$ 3,237,376
Cost of sales	2,865,437	2,446,443	2,373,147	2,271,445	2,147,975
Gross profit	1,198,278	1,190,769	1,162,514	1,144,225	1,089,401
Operating expenses	852,522	836,314	804,505	768,217	734,110
Operating income[a,b]	345,756	354,455	358,009	376,008	355,291
Other expense net	(32,844)	(33,338)	(28,197)	(20,121)	(16,250)
Income before income taxes	312,912	321,117	329,812	355,887	339,041
Income taxes	112,300	110,845	116,997	130,502	126,787
Net Income	$ 200,612	$ 210,272	$ 212,815	$ 225,385	$ 212,254
Diluted earnings per share	$ 1.97	$ 2.03	$ 1.92	$ 1.89	$ 1.78
Weighted average shares and potentially dilutive shares outstanding	101,643	103,807	110,846	119,066	119,202
Dividends per common share	$ 0.68	$ 0.58	$ 0.50	$ 0.42	$ 0.10
Balance Sheet Data:					
Working capital	$ 872,254	$ 912,817	$ 873,865	$ 863,278	$ 785,407
Total assets	2,864,677	2,681,778	2,739,368	2,564,968	2,422,969
Total long-term debt	725,000	725,000	725,000	525,000	525,000
Stockholders equity	1,471,664	1,394,455	1,375,202	1,560,540	1,441,511

Notes:

a: Medical restructuring decreased operating income for April 26, 2014 by $15 million.
b: Information technology expenditures as of April 26, 2014, April 27, 3013 and April 28, 2012 decreased operating income by $10 million, $6 million and $6 million, respectively.
c: See the Notes to the Consolidated Financial Statements included in Item 8. of this Annual Report on Form 10-K.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our fiscal 2014 financial information is summarized in this Management s Discussion and Analysis, the Consolidated Financial Statements, and related Notes. The following background is provided to readers to more fully understand our Company s financial information.

Patterson operates a distribution business in three complementary markets: dental supply, veterinary supply and rehabilitation supply. Historically, our strategy for growth focused on internal growth and the acquisition of smaller distributors and businesses offering related products and services to the dental market. In fiscal 2002, we expanded our strategy to take advantage of a parallel growth opportunity in the veterinary supply market by acquiring the assets of J. A. Webster, Inc. July 9, 2001, which we operated as Webster Veterinary Supply (Webster) until January 1, 2013. Webster is now known as Patterson Veterinary. Patterson added a third component to our business platform in fiscal 2004 when we entered the rehabilitation supply market with the acquisition of AbilityOne Products Corp. (AbilityOne) on September 12, 2003. AbilityOne is now known as Patterson Medical.

Operating margins of the veterinary business are considerably lower than the dental and rehabilitation supply businesses. While operating expenses run at a lower rate in the veterinary business, their gross margin is substantially lower due generally to the low margins on the pharmaceutical products that are distributed.

We operate with a 52-53 week accounting convention with our fiscal year ending on the last Saturday in April. Fiscal years 2012, 2013 and 2014 ending April 28, 2012, April 27, 2013 and April 26, 2014, respectively included 52 weeks.

There are several important aspects of Patterson s business that are useful in analyzing it, including: (1) market growth in the various markets in which we operate; (2) internal growth; (3) growth through acquisition; and (4) continued focus on controlling costs and enhancing efficiency. Management defines internal growth as the increase in net sales from period to period, excluding the impact of changes in currency exchange rates, and excluding the net sales, for a period of twelve months following the transaction date, of businesses we have acquired.

NVS Acquisition. On August 16, 2013 Patterson Companies, Inc. completed the acquisition of all the outstanding stock of National Veterinary Services Limited (NVS) from Dechra Pharmaceuticals, PLC (NVS Acquisition). NVS is the largest veterinary products distributor in the United Kingdom. Total cash consideration paid for NVS was £91.2 million (approximately $142.7 million). The acquisition was accretive to earnings by $0.04 per diluted share for the fiscal year ended April 26, 2014. The NVS business has lower gross margins and operating expenses than our historical businesses.

Medical Restructuring. On August 22, 2013 Patterson Companies, Inc. announced a plan to divest certain non-core product lines in its medical segment (Medical Restructuring). As a result of the plan to dispose of these product lines, we incurred a pre-tax restructuring charge of $15 million or approximately $0.13 per diluted share. $14 million of the restructuring charge were non-cash losses on disposal of assets. We estimate that disposing of these product lines will generate operational savings of approximately $2 million beginning in fiscal year 2015.

Information Technology Initiative. We estimate that we will invest $45 million to $55 million over the next four years to transform our information systems (Information Technology Initiative). We estimate that approximately half of this amount will be capitalized over the project life. An incremental $10 million was expensed in fiscal 2014.

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Results of Operations

The following table summarizes our consolidated results of operations over the past three fiscal years as a percent of sales:

	2014	2013	2012
Net sales	100.0%	100.0%	100.0%
Cost of sales	70.5%	67.3%	67.1%
Gross margin	29.5%	32.7%	32.9%
Operating expenses	21.0%	23.0%	22.8%
Operating income	8.5%	9.7%	10.1%
Other income, net	0.1%	0.1%	0.1%
Interest expense	0.9%	1.0%	0.9%
Income before taxes	7.7%	8.8%	9.3%
Income taxes	2.8%	3.0%	3.3%
Net income	4.9%	5.8%	6.0%

Fiscal 2014 Compared to Fiscal 2013

Net Sales. Consolidated net sales in fiscal 2014 were $4,063.7 million, an increase of 11.7%, from $3,637.2 million in fiscal 2013. The growth in sales includes an 11.3% contribution from acquisitions and a 0.4% unfavorable impact of changes in foreign currency translation rates.

Dental segment sales in fiscal 2014 rose 0.1% to $2,382.1 million from $2,380.0 million in fiscal 2013. The growth included a 0.1% contribution from acquisitions and a 0.5% unfavorable impact from changes in foreign currency translation rates. Consumable sales increased 1.3%. Dental equipment and software sales decreased 1.8% in fiscal 2014 to $828.9 million due to strong CEREC sales in the prior year following a successful trade-up program, as well as a decrease in revenues from digital radiography products although unit volumes increased. The average selling price per unit in the latter category decline in fiscal 2014 as the focus shifted from higher capacity product to more mid-line product in the extraoral categories. Other dental sales, consisting primarily of technical service parts and labor, software support services and artificial teeth, increased 0.3% in fiscal 2014.

Veterinary segment sales grew 59.3% to $1,203.0 million. Acquisitions added 55.8% to sales in fiscal 2014. Excluding the NVS acquisition, consumables increased 2.5%, equipment and software sales increased 20.3% and other increased 15.5%. We believe that our equipment and technology strategy, which includes enhancing our infrastructure and becoming a national technical service provider, is driving the increases in equipment, software and services.

Medical segment sales of $478.6 million decreased 4.7% from fiscal 2013, primarily as a result of reduced sales from the non-core product lines that were divested in the current year. Fiscal 2014 sales were also impacted by continuing challenges in our international business due to austerity measures implemented over healthcare costs by foreign governments. Foreign exchange rate changes had an unfavorable impact to current year sales growth of 0.2%.

Gross Margin. Consolidated gross margin decreased 320 basis points from the prior year to 29.5%. The NVS Acquisition accounts for 250 basis points of the decrease and the Medical Restructuring accounts for 10 basis points resulting in a comparable decrease of 60 basis points from prior year of 32.7%. Veterinary gross margin decreased 430 basis points mainly due to the acquisition of NVS.

Operating Expenses. The consolidated operating expense ratio of 21.0% decreased 200 basis points from prior year at 23.0%. The NVS Acquisition accounts for 190 basis points of the decrease. The incremental expenses from the Information Technology Initiative increased operating expense by 30 basis points and the Medical Restructuring increased operating expenses by 30 basis points resulting in a comparable decrease of 70 basis points from Prior Period of 23.0%.

Operating Income. Current year operating income was $345.8 million, or 8.5% of net sales. In the prior year, operating income was $354.5 million, or 9.7% of net sales. The decrease in the operating margin is due primarily to the NVS Acquisition, the Medical Restructuring and the incremental expenses from the Information Technology Initiative, which combined reduced the operating margin by 140 basis points, resulting in a comparable operating margin rate of 9.9%.

Other (Expense) Income, Net. Net other expense was $32.8 million in the current year, a decrease of $0.5 million from the prior year. Net other expense is comprised primarily of interest expense, partly offset by interest income. Foreign currency had a negative impact of $2.1 million compared to $1.5 million in the prior year. Interest income of $5.0 million was up from $4.5 million in the prior year.

Income Taxes. The effective income tax rate was 35.9% in fiscal 2014 as compared to 34.5% in fiscal 2013. The effective tax rate increased in fiscal 2014 as compared to fiscal 2013 due to certain onetime benefits that were included in the prior year rate in addition to the unfavorable impact of the Medical Restructuring in the current year.

Net Income and Earnings Per Share. Net income decreased 4.6% to $200.6 million, compared to $210.3 million in the prior year. The decline is the result of the restructuring undertaken in the Medical segment and the incremental expenses incurred in the information technology transformation mitigated by the earnings contribution from NVS. Earnings per diluted share were $1.97 in the current year compared to $2.03 in the prior year. Excluding the restructuring costs, earnings per diluted share were $2.10. The impact on earnings per share from the incremental information technology expenditures was $0.07 Diluted shares outstanding in the current year were 101,643,000 compared to 103,807,000 in the prior year. The decrease in the share count is due to share repurchase activity. The current year s cash dividend was $0.68 per common share compared to $0.58 in the prior year.

Fiscal 2013 Compared to Fiscal 2012

Net Sales. Consolidated net sales in fiscal 2013 were $3,637.2 million, an increase of 2.9%, from $3,535.7 million in fiscal 2012. The growth in sales includes a 0.6% contribution from acquisitions and a 0.2% unfavorable impact of changes in foreign currency translation rates.

Dental segment sales in fiscal 2013 rose 4.0% to $2,380.0 million from $2,287.9 million in fiscal 2012. The growth included a 0.2% contribution from acquisitions and a 0.1% unfavorable impact form changes in foreign currency translation rates. Consumable sales increased 1.3%. Dental equipment and software sales increased 9.8% in fiscal 2013 to $843.9 million due to strong CEREC sales, as well as an increase in sales of digital radiography products. Other dental sales, consisting primarily of technical service parts and labor, software support services and artificial teeth, increased 2.8% in fiscal 2013.

Veterinary segment sales grew 2.8% to $755.2 million despite the change in a nutritional distribution arrangement that reduced sales by 5.8%. Sales of consumables were 3.4% higher in fiscal 2013, or over 9% after adjusting for the impact of the change in the nutritional agreement. Acquisitions added 0.9% to sales in fiscal 2013. We have been investing in the Veterinary segment s equipment and technical service offering to expand this unit s full-service platform.

Medical segment sales of $502.0 million decreased 2.2% from fiscal 2012. Acquisitions, contributed 1.6% of sales growth. The negative impact from foreign currency translation rates was 0.6% in fiscal 2013. We believe that continued uncertainty surrounding the U.S. health care system and the overall economy as well as continued austerity efforts in the United Kingdom are adversely affecting this segment.

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Gross Margin. Consolidated gross margin was 32.7% in fiscal 2013 and 32.9% in fiscal 2012. The Dental segment s gross margin decreased 30 basis points to 35.9% in fiscal 2013. This decrease is mainly due to sales mix as equipment growth outpaced consumable growth during the year and as the segment effectuated the change in the CEREC product line, which negatively impacted margins. Gross margin of the Veterinary segment increased 60 basis points to 18.9% in fiscal 2013 due primarily to the change in the nutritional distribution arrangement, which carried a lower than average margin. The Medical segment s gross margin declined 30 basis points to 38.7%, as a result of product mix.

Operating Expenses. The consolidated operating expense ratio in fiscal 2013 was 23.0%, or 20 basis points higher than fiscal 2012. The Dental segment s operating expense ratio increased 10 basis points. The Medical segment s operating expenses as a percent of sales were 80 basis points higher in the current fiscal year, due to the integration expense in the Australian operations of the Surgical Synergies acquisition. The Veterinary segment s operating expense ratio increased 40 basis points, mainly due to the reduced revenue from the nutritional agreement change and the addition of service technicians during the period.

Operating Income. Operating income totaled $354.5 million, or 9.7% of sales, compared to fiscal 2012 operating income of $358.0 million, or 10.1% of net sales for the reasons discussed above.

Interest Expense. Interest expense was $36.4 million in fiscal 2013 compared to $30.3 million in fiscal 2012. This increase is due to the issuance of $325 million of debt in the third quarter of the fiscal 2012 offset slightly by the repayment of $125 million of debt that matured late in fiscal 2013.

Other Income, net. Other income, net of other expenses, was $3.1 million in fiscal 2013 compared to $2.1 million in fiscal 2012. Interest income totaled $4.5 million in fiscal 2013, compared to $4.9 million in fiscal 2012.

Income Taxes. The effective income tax rate was 34.5% in fiscal 2013 as compared to 35.5% in fiscal 2012. The effective tax rate decreased in fiscal 2013 primarily due to an increase in the deductible dividends paid on shares held by our Employee Stock Ownership Plan and deductions claimed for domestic manufacturing activities.

Net Income and Earnings Per Share. Net income decreased 1.2% to $210.3 million in fiscal 2013. Earnings per diluted share and dilutive shares outstanding were $2.03 and 103.8 million, respectively, in fiscal 2013 and $1.92 and 110.8 million, respectively, in fiscal 2012.

Liquidity and Capital Resources

Patterson s operating cash flow has been our principal source of liquidity in the last three fiscal years. During fiscal 2014 and 2012, we used our revolving credit facility periodically as a source of liquidity in addition to operating cash flow. Operating activities generated cash of $195.8 million in fiscal 2014, compared to $299.2 million in fiscal 2013 and $321.2 million in fiscal 2012. Our operating activities are primarily driven by net income.

Capital expenditures were $40.3, $22.0 and $29.7 million in fiscal years 2014, 2013 and 2012, respectively. Significant expenditures in these years included the Information Technology Initiative, purchase and expansion of distribution facilities to accommodate multiple business units and the construction of a new facility for the Patterson Technology Center. In fiscal 2012, a project to build-out a purchased building in Indiana that serves as a distribution facility used by all three business units was completed. This facility replaced several smaller distribution facilities. In addition, the Patterson Technology Center in Illinois was completed in fiscal 2012. This 100,000 square foot state-of-the-art facility replaced a nearby-leased location and opened in the second quarter of fiscal 2012.

We expect to invest approximately $45 million in capital expenditures during fiscal 2015, our main investment is in information systems. We estimate that we will invest $45 million to $55 million over the next four years to transform our information systems. We estimate that approximately half of this amount with be capitalized over the project life.

Cash used for acquisitions and equity investments totaled $145.8 million in fiscal 2014, $14.6 million in fiscal 2013 and $22.6 million in fiscal 2012. The majority of the cash used for acquisitions in fiscal 2014 related to the acquisitions of National Veterinary Supply and Mercer Mastery. In fiscal 2013, the majority of the cash used for acquisitions related to the acquisitions of Iowa Dental Supply and Universal Vaporizer Support. The majority of the cash used for acquisitions in fiscal 2012 related to the acquisitions of American Veterinary Supply Corporation and Surgical Synergies.

In fiscal 2014, we invested in three time deposits with total principal of $110,000 Canadian dollars. Our time deposit securities are classified as held-to-maturity securities and are carried at cost, adjusted for accrued interest and amortization.

In fiscal 2013, we retired $125 million of debt. In fiscal 2012, we entered into a new debt agreement for $325 million; see Note 7 of the Consolidated Financial Statements, Long-term Debt for further information.

Total dividends paid in fiscal 2014, fiscal 2013 and fiscal 2012 were $85.7 million, $43.7 million and $54.7 million, respectively. We expect to continue to pay a quarterly cash dividend for the foreseeable future. In addition, during fiscal 2014, we repurchased approximately 2.4 million shares of common stock for approximately $96 million. In fiscal 2013, we repurchased approximately 5.2 million shares of common stock for approximately $180 million. In fiscal 2012, we repurchased approximately 12.0 million shares of common stock for approximately $362 million. Under a share repurchase plan authorized by the Board of Directors, as of March 19, 2013, Patterson may repurchase up to 25 million shares of its common stock. This authorization remains in effect through March 19, 2018.

Management expects funds generated from operations and existing cash to be sufficient to meet our working capital needs for the next fiscal year. We have $265 million in cash and cash equivalents of which $190 million is in foreign bank accounts. None of our cash balances are subject to any withdrawal restrictions. See Note 11, Income Taxes for further information regarding our intention to permanently reinvest these funds. We have a $250 million note due in the fourth quarter of fiscal year 2015. We have both the intent and ability to refinance at that time, therefore we have classified this balance as long term debt on the balance sheet as of April 26, 2014. We expect to continue to obtain liquidity from the sale of equipment finance contracts. Patterson s existing debt facilities are believed to be adequate as a supplement to internally generated cash flows to fund anticipated expansion plans and strategic initiatives, including acquisitions. In addition, we have a $300 million revolving credit facility which expires in fiscal 2017.

Patterson sells a significant portion of our finance contracts (see below) to a commercial paper funded conduit managed by a third party bank, and as a result, commercial paper is indirectly an important source of liquidity for Patterson. Patterson is allowed to participate in the conduit due to the quality of our finance contracts and our financial strength. Cash flows could be impaired if our financial strength diminishes to a level that precluded us from taking part in this facility or other similar facilities. Also, market conditions outside of our control could adversely affect the ability for us to sell the contracts.

Customer Financing Arrangements

Patterson is a party to two arrangements under which we have sold finance contracts received from our customers to outside financial institutions. These arrangements provide sources of liquidity for us that would have to be replaced should any of the current financial institutions be unable or unwilling to continue under them.

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In December 2010, the Receivables Purchase Agreement was amended to make The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU) the managing agent. As of April 26, 2014, the total capacity under this agreement is $500 million, which includes $300 million with BTMU and the remainder with Royal Bank of Canada (RBC). In August 2011, Fifth Third Bank (FTB) replaced U.S. Bank National Association as the agent under the Contract Purchase Agreement, which has a capacity of $100 million as of April 26, 2014. Our financing business is described in further detail in Note 6, Customer Financing. of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K. Note 6, discusses the nature and business purpose of the arrangements and the activity under each arrangement during fiscal 2014, including the amount of finance contracts sold and the holdback receivable owed to us.

Contractual Obligations

A summary of Patterson s contractual obligations as of April 26, 2014 follows (in thousands):

		Payment due by year			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	$ 725,000	$ 250,000	$	210,000	265,000
Interest on Long-Term Debt	141,063	32,984	40,117	31,492	36,470
Operating Leases	77,531	18,981	29,304	18,285	10,961

Patterson is unable to determine its contractual obligations by year related to the provisions of ASC Topic 740, Income Taxes , as the ultimate amount or timing of settlement of its reserves for income taxes cannot be reasonably estimated. The total liability for unrecognized tax benefits including interest and penalties at April 26, 2014, is $21.8 million.

For a more complete description of Patterson s contractual obligations, see Notes 7 and 11 to the Consolidated Financial Statements in Item 8 of this Form 10-K.

Outlook

Over the last ten years, we have been able to grow revenue and earnings through our strategy of emphasizing value-added, full-service capabilities, using technology to enhance customer service, continuing to improve operating efficiencies, and growing through internal expansion and acquisitions. While the weakness in the general economy that has existed during the last several years is expected to continue to affect our performance for at least the near term, Patterson s strategy will continue to focus on these key elements. With strong operating cash flow and available credit capacity, we are confident that we will be able to financially support our future growth. We believe that the strategic initiatives that we have implemented in the past several years, as well as those that will be implemented in fiscal 2015 and beyond, will strengthen our operational platform and contribute to future growth. Given these factors, we consider ourselves well positioned to capitalize upon the growth opportunities in the dental, companion animal veterinary and the worldwide rehabilitation supply markets.

Asset Management

The following table summarizes Patterson s days sales outstanding (DSO) and inventory turnover the past three fiscal years:

	2014	2013	2012
Days sales outstanding (1)	46	42	45
Inventory turnover (2)	7.2	7.1	6.7

(1) Receivables as of April 26, 2014, April 27, 2013 and April 28, 2012 include approximately $7 million, $9 million and $20 million, respectively, of finance contracts received from customers related to certain

financing promotions in fiscal 2014, 2013 and 2012. Patterson has sold contracts in fiscal 2014 and expects to sell the contracts held as of April 26, 2014 to outside institutions under an existing agreement during fiscal 2015. If these finance contracts are excluded from the calculation of DSO, the pro forma DSO would be 45, 42 and 43 as of April 26, 2014, April 27, 2013 and April 28, 2012, respectively.

(2) The inventory values used in this calculation are the LIFO inventory values for all inventories except for manufactured inventories and foreign inventories, which are valued using FIFO inventory methods.

Foreign Operations

Foreign sales derive primarily from Patterson Dental and Patterson Medical operations in Canada, from Patterson Veterinary s operations in the U.K. and from Patterson Medical operations in the U.K., France, Australia and Thailand. Fluctuations in currency exchange rates have not significantly impacted earnings. However, changes in exchange rates adversely affected net sales in fiscal 2014 and 2013, and enhanced net sales in fiscal 2012. Without foreign currency effects, net sales would have been $13.9 million higher, $5.6 million higher, and $6.1 million lower in fiscal years 2014, 2013 and 2012, respectively. Changes in currency exchange rates are a risk accompanying foreign operations, but this risk is not considered material with respect to our consolidated operations.

Critical Accounting Policies and Estimates

Patterson has adopted various accounting policies to prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States. Management believes that our policies are conservative and our philosophy is to adopt accounting policies that minimize the risk of adverse events having a material impact on recorded assets and liabilities. However, the preparation of financial statements requires the use of estimates and judgments regarding the realization of assets and the settlement of liabilities based on the information available to management at the time. Changes subsequent to the preparation of the financial statements in economic, technological and competitive conditions may materially impact the recorded values of Patterson s assets and liabilities. Therefore, the users of the financial statements should read all the notes to the Consolidated Financial Statements and be aware that conditions currently unknown to management may develop in the future. This may require a material adjustment to a recorded asset or liability to consistently apply to our significant accounting principles and policies that are discussed in Note 1 to the Consolidated Financial Statements. The financial performance and condition of Patterson may also be materially impacted by transactions and events that we have not previously experienced and for which we have not been required to establish an accounting policy or adopt a generally accepted accounting principle.

Revenue Recognition Revenues are generated from the sale of consumable products, equipment, software products and services, technical service parts and labor, freight and delivery charges, and other sources. Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and there is reasonable assurance of collection of the sale. Estimates for returns, damaged goods, rebates, loyalty programs and other revenue allowances are made at the time the revenue is recognized based on the historical experience for such items. In addition to revenues generated from the distribution of consumable products under conventional arrangements (buy/sell agreements) where the full market value of the product is recorded as revenue, the veterinary segment may earn a small amount of commission income for services provided under agency agreements with certain pharmaceutical manufacturers. The services generally consist of detailing the product and taking the customer s order. The agency agreement contrasts to a buy/sell agreement in that the veterinary segment does not purchase and handle the product or bill and collect from the customer in an agency relationship with a vendor.

Consumable product sales are recorded upon delivery, except in those circumstances where terms of the sale are FOB shipping point. Commissions under agency agreements are recorded when the services are provided.

Equipment and software product revenues are recognized upon delivery and, if necessary, installation. In those circumstances where terms of the sale are FOB shipping point, revenues are recognized when products are

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transferred to the shipping carrier. Revenue derived from post contract customer support for software is deferred and recognized ratably over the period in which the support is provided. Patterson provides financing for select equipment and software sales. Revenue is recorded at the present value of the finance contract, with discount, if any, and interest income recognized over the life of the finance contract as other income . See Note 6 to the Consolidated Financial Statements, for more information regarding customer financing.

Other revenue, including freight and delivery charges and technical service parts and labor, is recognized when the related product revenue is recognized or when the product or services are provided to the customer.

The receivables that result from the recognition of revenue are reported net of the related allowances discussed above. Patterson maintains a valuation allowance based upon the expected collectability of receivables held. Estimates are used to determine the valuation allowance and are based on several factors, including historical collection data, economic trends and credit worthiness of customers. Receivables are written off when we determine the amounts to be uncollectible, typically upon customer bankruptcy or non-response to continuous collection efforts. The portions of receivable amounts that are not expected to be collected during the next twelve months are classified as long-term.

Patterson has a relatively large, dispersed customer base and no single customer accounts for more than 1% of consolidated net sales. In addition, the equipment sold to customers under finance contracts generally serves as collateral for the contract and the customer provides a personal guarantee as well.

Patterson Advantage Loyalty Program Patterson Dental provides a point-based awards program to qualifying customers involving the issuance of Patterson Advantage dollars which can be used toward equipment and technology purchases. The program was initiated on January 1, 2009 and runs on a calendar year schedule. Patterson Advantage dollars earned during a program year expire one year after the end of the program year. The cost and corresponding liability associated with the program is recognized as contra-revenue in accordance with ASC Topic 605-50, Revenue Recognition-Customer Payments and Incentives. As of April 26, 2014, we believe we have sufficient experience with the program to reasonably estimate the amount of Patterson Advantage dollars that will not be redeemed and thus have recorded a liability for 87% of the maximum potential amount that could be redeemed. We use the redemption recognition method, and we recognize the estimated value of unused Advantage dollars as redemptions occur. Breakage recognized was immaterial to all periods presented.

Inventory and Reserves Inventory consists primarily of merchandise held for sale and is stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for all inventories, except for foreign inventories and manufactured inventories, which are valued using the first-in, first-out (FIFO) method. We continually assess the valuation of inventories and reduce the carrying value of those inventories that are obsolete or in excess of forecasted usage to estimated realizable value. Estimates are made of the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements.

Goodwill and Other Indefinite-Lived Intangible Assets Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Other indefinite-lived intangible assets include copyrights, trade names and trademarks.

We evaluate goodwill on an annual basis, or more frequently if indicators of impairment are present using a qualitative assessment to determine whether it is more likely than not that the fair value of any reporting unit is less than its carrying amount. If we determine that the fair value of the reporting unit may be less than its carrying amount, we evaluate goodwill using a two-step impairment test. Otherwise, we conclude that no impairment is indicated and we do not perform the two-step impairment test.

Patterson has three reporting units at April 26, 2014, which are the same as our operating units. The first step of the goodwill impairment test compares the book value of a reporting unit, including goodwill, with its fair value, as determined by its discounted cash flows. If the book value of a reporting unit exceeds its fair value, the second step of the impairment test is performed to determine the amount of goodwill impairment loss to be recorded. The determination of fair value involves uncertainties because it requires management to make assumptions and to apply judgment to estimate industry and economic factors and the profitability of future business strategies. Patterson conducts impairment testing based on current business strategy in light of present industry and economic conditions, as well as future expectations. Additionally, in assessing goodwill for impairment, the reasonableness of the implied control premium is considered based on market capitalizations and recent market transactions.

Other indefinite-lived intangible assets are assessed for impairment by comparing the carrying value of an asset with its fair value. If the carrying value exceeds fair value, an impairment loss is recognized in an amount equal to the excess. The determination of fair value involves assumptions, including projected revenues and gross profit levels, as well as consideration of any factors that may indicate potential impairment.

In the fourth quarter of fiscal 2014, management completed its annual goodwill and other indefinite-lived intangible asset impairment tests and determined there was no impairment. Although we believe estimates and assumptions used in estimating cash flows and determining fair value are reasonable, making material changes to such estimates and assumptions could materially affect such impairment analyses and financial results, including an impairment charge that could be material.

The medical reporting unit was evaluated using a quantitative assessment for impairment testing. This reporting unit has a higher level of sensitivity to impairment as management currently assesses the various estimates and assumptions used to conduct these tests. A significant reduction in these assumptions from further softening in medical utilizations in the U.S. or more severe austerity measures in the United Kingdom could cause us to recognize a material impairment charge on this reporting unit. At April 26, 2014, the estimated fair value of this reporting unit exceeded its book value by approximately 6%. Also see Note 3 of the Notes to the Consolidated Financial Statements included in this report.

Long-Lived Assets Long-lived assets, including definite-lived intangible assets, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows derived from such assets. Our definite-lived intangible assets primarily consist of an exclusive distribution agreement and customer lists. When impairment exists, the related assets are written down to fair value.

Income Taxes We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgments are required in determining the consolidated provision for income taxes.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite our belief that its tax return positions are supportable, we believe that certain positions may not be fully sustained upon review by tax authorities. We believe that our accruals for tax liabilities are adequate for all open audit years based on an assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made and could materially affect our financial results.

Valuation allowances are established for deferred tax assets if, after assessment of available positive and negative evidence, it is more likely than not that the deferred tax asset will not be fully realized. The valuation allowance reflected in the footnote disclosure relates to net operating loss carryforwards of certain foreign subsidiaries acquired in prior years.

Self-insurance Patterson is self-insured for certain losses related to general liability, product liability, automobile, workers compensation and medical claims. We estimate our liabilities based upon an analysis of

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historical data and actuarial estimates. While current estimates are believed reasonable based on information currently available, actual results could differ and affect financial results due to changes in the amount or frequency of claims, medical cost inflation or other factors. Historically, actual results related to these types of claims have not varied significantly from estimated amounts.

Stock-based Compensation We recognize stock-based compensation based on certain assumptions including inputs within the Black-Scholes Model and estimated forfeitures. These assumptions require subjective judgment and changes in the assumptions can materially affect fair value estimates. Management assesses the assumptions and methodologies used to estimate forfeitures and to calculate estimated fair value of stock-based compensation on a regular basis. Circumstances may change, and additional data may become available over time, which could result in changes to these assumptions and methodologies and thereby materially impact the fair value determination or estimates of forfeitures. If factors change and we employ different assumptions, the amount of compensation expense associated with stock-based compensation may differ significantly from what was recorded in the current period.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

We are exposed to market risk consisting of foreign currency rate fluctuations and changes in interest rates.

Patterson is exposed to foreign currency exchange rate fluctuations in our operating statement due to transactions denominated primarily in Canadian Dollars, British Pounds, Euros, Australian Dollars, New Zealand Dollars and Thai Bahts. Although Patterson is not currently involved with foreign currency hedge contracts, we continually evaluate our foreign currency exchange rate risk and the different mechanisms for use in managing such risk. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would have reduced fiscal 2014 net sales by approximately $54 million**.** This amount is not indicative of the hypothetical net earnings impact due to the partially offsetting impact of the currency exchange movements on cost of sales and operating expenses.

Patterson s earnings are also affected by fluctuations in short-term interest rates through the investment of cash balances and the practice of selling fixed rate equipment finance contracts under agreements with both a commercial paper conduit and a bank that provide for pricing based on variable interest rates.

When considering the exposure under the agreements whereby Patterson sells equipment finance contracts to both a commercial paper conduit and bank, Patterson has the ability to select pricing based on interest rates ranging from 30 day LIBOR up to twelve month LIBOR. In addition, the majority of the portfolio of installment contracts generally turns over in less than 48 months, and Patterson can adjust the rate we charge on new customer contracts at any time. Therefore, in times where the interest rate markets are not rapidly increasing or decreasing, the average interest rate in the portfolio generally moves with the interest rate markets and thus would parallel the underlying interest rate movement of the pricing built into the sale agreements. In calculating the gain on the contract sales, we use an interest rate curve that approximates the maturity period of the then-outstanding contracts. If increases in the interest rate markets occur, the average interest rate in our contract portfolio may not increase at the same rate, resulting in a reduction of gain on the contracts sales as compared to the gain that would be realized if the average interest rate in our portfolio were to increase at a more similar rate to the interest rate markets.

Patterson estimates that if interest rates changed by 10% during the year, the annual impact would have been less than $1 million to earnings before income taxes.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Patterson Companies, Inc.

We have audited Patterson Companies, Inc. s internal control over financial reporting as of April 26, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Patterson Companies, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting appearing in Item 9A, *Controls and Procedures*, of this Annual Report on Form 10-K. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management s Annual Report on Internal Control Over Financial Reporting appearing in Item 9A, *Controls and Procedures*, of this Annual Report on Form 10-K, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of National Veterinary Services Limited, which is included in the fiscal 2014 consolidated financial statements of Patterson Companies, Inc. and constituted 14% and 10% of total and net assets, respectively, as of April 26, 2014, and 10% and 2% of revenues and net income, respectively, for the fiscal year then ended. Our audit of internal control over financial reporting of Patterson Companies, Inc. also did not include an evaluation of the internal control over financial reporting of National Veterinary Services Limited.

In our opinion, Patterson Companies, Inc. maintained, in all material respects, effective internal control over financial reporting as of April 26, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Patterson Companies, Inc. as of April 26, 2014 and

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April 27, 2013, and the related consolidated statements of income and other comprehensive income, changes in stockholders equity, and cash flows for each of the three fiscal years in the period ended April 26, 2014, and our report dated June 25, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota

June 25, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Patterson Companies, Inc.

We have audited the accompanying consolidated balance sheets of Patterson Companies, Inc. as of April 26, 2014 and April 27, 2013, and the related consolidated statements of income and other comprehensive income, changes in stockholders equity, and cash flows for each of the three fiscal years in the period ended April 26, 2014. Our audits also include the financial statement schedule listed in Item 15(a)(2). These financial statements and the schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Patterson Companies, Inc. at April 26, 2014 and April 27, 2013, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended April 26, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Patterson Companies, Inc. s internal control over financial reporting as of April 26, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated June 25, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota

June 25, 2014

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PATTERSON COMPANIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	April 26, 2014	April 27, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 264,908	$ 505,228
Short-term investments	40,775	
Receivables, net of allowance for doubtful accounts of $9,873 and $5,808 at April 26, 2014 and April 27, 2013, respectively	607,580	448,158
Inventory	436,463	360,563
Prepaid expenses and other current assets	65,991	47,387
Total current assets	1,415,717	1,361,336
Property and equipment, net	204,939	192,020
Long-term receivables, net	90,535	85,427
Goodwill	844,433	823,740
Identifiable intangibles, net	223,150	196,656
Other	85,903	22,599
Total assets	$ 2,864,677	$ 2,681,778
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 342,056	$ 249,795
Accrued payroll expense	66,567	70,687
Other accrued expense	134,840	128,037
Total current liabilities	543,463	448,519
Long-term debt	725,000	725,000
Deferred income taxes	94,004	93,329
Other	30,546	20,475
Total liabilities	1,393,013	1,287,323
Stockholders equity:		
Common Stock, $.01 par value: Authorized shares 600,000 Issued and outstanding shares 103,965 and 105,570 at April 26, 2014, and April 27, 2013, respectively	1,040	1,056
Additional paid-in capital		
Accumulated other comprehensive income	25,370	25,165
Retained earnings	1,531,198	1,463,358
Unearned ESOP shares	(85,944)	(95,124)
Total stockholders equity	1,471,664	1,394,455
Total liabilities and stockholders equity	$ 2,864,677	$ 2,681,778

See accompanying notes

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PATTERSON COMPANIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

AND OTHER COMPREHENSIVE INCOME

(In thousands, except per share amounts)

		Twelve Months Ended	
	April 26, 2014	April 27, 2013	April 28, 2012
Net sales	$ 4,063,715	$ 3,637,212	$ 3,535,661
Cost of sales	2,865,437	2,446,443	2,373,147
Gross profit	1,198,278	1,190,769	1,162,514
Operating expenses	852,522	836,314	804,505
Operating income	345,756	354,455	358,009
Other income and expense:			
Other income, net	2,869	3,059	2,146
Interest expense	(35,713)	(36,397)	(30,343)
Income before taxes	312,912	321,117	329,812
Income taxes	112,300	110,845	116,997
Net income	$ 200,612	$ 210,272	$ 212,815
Earnings per share:			
Basic	$ 1.99	$ 2.04	$ 1.93
Diluted	$ 1.97	$ 2.03	$ 1.92

