PATTERSON COMPANIES, INC.
Form 10-Q
March 10, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JANUARY 29, 2011.

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

Commission File No. 0-20572

PATTERSON COMPANIES, INC.

(Exact name of registrant as specified in its charter)

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

1031 Mendota Heights Road, St. Paul, Minnesota 55120

(Address of principal executive offices, including zip code)

(651) 686-1600

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large Accelerated Filer	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 x No

Patterson Companies, Inc. had outstanding 122,876,305 shares of common stock as of March 4, 2011.

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

This Form 10-Q for the period ended January 29, 2011, contains certain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, which may be identified by the use of forward-looking terminology such as may , will , expect , anticipate , estimate , believe , goal , or continue , or comparable terminology that involves risks and uncertainties that are qualified in their entirety by cautionary language set forth herein under the caption Factors That May Affect Future Operating Results, in the Company s 2010 Annual Report on Form 10-K filed June 23, 2010 and other documents previously filed with the Securities and Exchange Commission.

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PART I - FINANCIAL INFORMATION

PATTERSON COMPANIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	January 29, 2011 (Unaudited)	April 24, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 388,039	$ 340,591
Receivables, net	420,778	452,746
Inventory	323,270	288,725
Prepaid expenses and other current assets	43,865	51,696
Total current assets	1,175,952	1,133,758
Property and equipment, net	185,572	169,598
Long-term receivables, net	91,893	75,073
Goodwill	793,488	782,083
Identifiable intangibles, net	230,001	223,594
Other	26,679	38,863
Total assets	$ 2,503,585	$ 2,422,969
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 172,227	$ 193,626
Accrued payroll expense	55,811	67,809
Other accrued expenses	97,325	86,916
Income taxes payable	1,347	0
Current maturities of long-term debt	0	0
Total current liabilities	326,710	348,351
Long-term debt	525,000	525,000
Other long-term liabilities	100,319	108,107
Total liabilities	952,029	981,458
STOCKHOLDERS EQUITY		
Common stock	$ 1,229	$ 1,234
Additional paid-in capital	21,344	41,703
Accumulated other comprehensive income (loss)	25,268	23,291
Retained earnings	1,620,683	1,493,885
Notes receivable from ESOP	(116,968)	(118,602)
Total stockholders equity	1,551,556	1,441,511
Total liabilities and stockholders equity	$ 2,503,585	$ 2,422,969

See accompanying notes.

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PATTERSON COMPANIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 29, 2011	January 23, 2010	January 29, 2011	January 23, 2010
Net sales	$ 824,650	$ 820,084	$ 2,531,851	$ 2,424,614
Cost of sales	543,775	544,015	1,691,575	1,623,324
Gross profit	280,875	276,069	840,276	801,290
Operating expenses	188,168	182,302	568,393	546,247
Operating income	92,707	93,767	271,883	255,043
Other income and (expense):				
Interest income	1,577	2,122	7,118	6,491
Interest expense	(6,380)	(6,406)	(19,499)	(19,383)
Other gain (loss)	(1,620)	(10)	(2,097)	480
Income before taxes	86,284	89,473	257,405	242,631
Income taxes	30,888	33,424	94,727	92,182
Net income	$ 55,396	$ 56,049	$ 162,678	$ 150,449
Earnings per share:				
Basic	$ 0.47	$ 0.47	$ 1.37	$ 1.27
Diluted	$ 0.47	$ 0.47	$ 1.36	$ 1.26
Weighted average common shares:				
Basic	117,994	118,518	118,544	118,324
Diluted	118,837	119,434	119,331	119,097
Dividends declared per common share	$ 0.10	$ 0.00	$ 0.30	$ 0.00

See accompanying notes.

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PATTERSON COMPANIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended	
	January 29, 2011	**January 23, 2010**
Operating activities:		
Net income	$ 162,678	$ 150,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	18,768	17,910
Amortization	12,067	10,324
Share-based compensation	7,911	6,618
Excess tax benefits from share-based compensation	(1,276)	(381)
Bad debt expense	2,613	3,047
Change in assets and liabilities, net of acquired	(11,306)	(34,840)
Net cash provided by operating activities	191,455	153,127
Investing activities:		
Additions to property and equipment, net	(29,199)	(17,506)
Acquisitions, net	(52,343)	(28,151)
Net cash used in investing activities	(81,542)	(45,657)
Financing activities:		
Dividends paid	(35,543)	0
Repurchases of common stock	(36,947)	0
Payments on credit facility	0	(22,000)
ESOP activity	881	0
Common stock issued, net	9,417	9,995
Excess tax benefits from share-based compensation	1,276	381
Net cash used in financing activities	(60,916)	(11,624)
Effect of exchange rate changes on cash	(1,549)	13,871
Net increase in cash and cash equivalents	47,448	109,717
Cash and cash equivalents at beginning of period	340,591	158,065
Cash and cash equivalents at end of period	$ 388,039	$ 267,782

See accompanying notes.

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PATTERSON COMPANIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

January 29, 2011

NOTE 1 GENERAL

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of January 29, 2011 and the results of operations and the cash flows for the periods ended January 29, 2011 and January 23, 2010. Such adjustments are of a normal recurring nature. The results of operations for the periods ended January 29, 2011 and January 23, 2010, are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the financial statements included in the 2010 Annual Report on Form 10-K filed on June 23, 2010.

The condensed consolidated financial statements of Patterson Companies, Inc. include the assets and liabilities of PDC Funding Company, LLC (PDC Funding) and PDC Funding Company II, LLC (PDC Funding II), wholly owned subsidiaries and separate legal entities under Minnesota law. PDC Funding and PDC Funding II are fully consolidated special purpose entities of the Company established to sell customer installment sale contracts to outside financial institutions in the normal course of business. The assets of PDC Funding and PDC Funding II would be available first and foremost to satisfy the claims of its creditors. There are no known creditors of PDC Funding or PDC Funding II.

Fiscal Year End

The fiscal year end of the Company is the last Saturday in April. The third quarter of fiscal 2011 and fiscal 2010 represent the 13 weeks ended January 29, 2011 and January 23, 2010, respectively. Because the first quarter of fiscal 2011 included an additional week, the nine months ended January 29, 2011 included 40 weeks, while the nine months ended January 23, 2010 included 39 weeks. Fiscal 2011 will include 53 weeks of operations, while fiscal 2010 was comprised of 52 weeks.

Comprehensive Income

Total comprehensive income was $58,135 and $164,655 for the three months and nine months ended January 29, 2011, respectively, and $53,100 and $175,861 for the three and nine months ended January 23, 2010, respectively. Other than net income, comprehensive income also includes foreign currency translation adjustments. Foreign currency translation adjustments do not include a provision for income tax because earnings from foreign operations are considered to be indefinitely reinvested outside the U.S. During the nine months ended January 23, 2010, comprehensive income was positively affected by approximately $25 million due to the effects of changes in exchange rates on foreign currency translation. The effects of changes in exchange rates on foreign currency translation were not significant during the nine months ended January 29, 2011.

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Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	January 29, 2011	**January 23, 2010**	**January 29, 2011**	**January 23, 2010**
Denominator:				
Denominator for basic earnings per share weighted-average shares	117,994	118,518	118,544	118,324
Effect of dilutive securities stock options, restricted stock, and stock purchase plans	843	916	787	773
Denominator for diluted earnings per share adjusted weighted average shares	118,837	119,434	119,331	119,097

Options to purchase 595 and 606 shares of common stock during the three and nine months ended January 29, 2011, respectively, and 869 and 1,057 shares during the three and nine months ended January 23, 2010, respectively, were excluded from the calculation of diluted earnings per share because the effect would have been anti-dilutive. Unvested restricted stock awards excluded from the calculation of diluted earnings per share were 0 and 230 shares during the three and nine months ended January 29, 2011, respectively, and 0 and 80 shares during the three months and nine months ended January 23, 2010, respectively, because the effect would have been anti-dilutive.

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Recently Issued Accounting Pronouncements

In June 2009, the FASB issued guidance codified into ASC Topic No. 860, Transfers and Servicing (ASC 860) which amends the derecognition guidance in former FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. Also in June 2009, the FASB issued guidance codified into ASC Topic No. 810, Consolidation (ASC 810) which amends the consolidation guidance applicable to variable interest entities. The Company adopted ASC 860 and ASC 810 at the beginning of fiscal 2011. See Note 5 to the condensed consolidated financial statements for a discussion of the impact of this guidance.

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13). This update amends ASC Topic 605-25, Revenue Recognition Multiple-Deliverable Revenue Arrangements to remove the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The update also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables relative selling price. The provisions will be effective for revenue arrangements entered into or materially modified in the Company s fiscal year 2012 and must be applied prospectively. The Company is currently evaluating the impact of the provisions of ASU 2009-13.

NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS

The goodwill balances and related activity by business segment as of April 24, 2010 and January 29, 2011 are as follows:

	Balance at April 24, 2010	Acquisition Activity	Translation And Other Activity	Balance at January 29, 2011
Dental Supply	$ 131,370	$ 0	$ 543	$ 131,913
Rehabilitation Supply	530,904	5,618	261	536,783
Veterinary Supply	119,809	650	4,333	124,792
Total	$ 782,083	$ 6,268	$ 5,137	$ 793,488

The increase in the acquisition activity column during the nine month period ended January 29, 2011 primarily reflects the purchase price allocations of the rehabilitation businesses of DCC Healthcare, which was acquired in June 2010. The translation and other activity column is comprised primarily of earn-out payments made related to acquisitions completed prior to fiscal year 2010.

Other intangibles acquired in the acquisitions from DCC Healthcare had a fair value of approximately $17.3 million and a weighted average useful life of 9.9 years.

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Balances of other intangible assets excluding goodwill are as follows:

	January 29, 2011	April 24, 2010
Unamortized - indefinite lived:		
Copyrights, trade names and trademarks	$ 76,464	$ 76,464
Amortized:		
Distribution agreement, customer lists and other	227,618	209,050
Less: Accumulated amortization	(74,081)	(61,920)
Net amortized other intangiable assets	153,537	147,130
Total identifiable intangible assets, net	$ 230,001	$ 223,594

NOTE 3 DERIVATIVE FINANCIAL INSTRUMENTS

The Company is a party to certain offsetting and identical interest rate cap agreements. The cap agreements are not designated for hedge accounting treatment and were entered into to fulfill certain covenants of a sale agreement between a commercial paper conduit managed by The Bank of Tokyo-Mitsubishi UFJ, Ltd. and PDC Funding. Prior to the Third Amended and Restated Receivables Purchase Agreement entered into on December 3, 2010, the commercial paper conduit was managed by JPMorgan Chase Bank, N.A. The cap agreements provide a credit enhancement feature for the financing contracts sold by PDC Funding to the commercial paper conduit, and replace a minimum interest rate margin previously required under the sale agreement.

The cap agreements are cancelled and new agreements entered into periodically to maintain consistency with the dollar maximum of the sale agreements and the maturity of the underlying financing contracts. As of January 29, 2011, PDC Funding had purchased two interest rate caps from banks with combined notional amounts of $500 million and maturity dates of September 2018. Patterson Companies, Inc. sold two identical interest rate caps to the same banks. Similarly to the above agreements, PDC Funding II and Patterson Companies, Inc. entered into offsetting and identical interest rate swap agreements. These agreements have a notional amount of $110 million and a maturity date of July 2015.

In addition to the identical purchased and sold interest rate contracts described above, the Company has entered into two interest rate swap agreements with banks to economically hedge the interest rate risk associated with our finance contracts. As of January 29, 2011, the agreements have notional amounts of approximately $10 million and $7 million, respectively, and maturity dates of November 2011 and February 2012, respectively.

None of the Company s interest rate contracts qualify for hedge accounting treatment and, accordingly, the Company records the fair value of the agreements as an asset or liability and the change in any period as income or expense of the period in which the change occurs.

In the first quarter of fiscal 2011, the Company entered into a foreign currency forward contract that was settled in the same quarter. This contract served as an economic hedge and was not designated as a hedge for accounting purposes. The gain on the contract was $0.1 million.

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

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

Derivative type	Classification	January 29, 2011	April 24, 2010	January 23, 2010
Assets:				
Interest rate contracts	Other noncurrent assets	$ 6.2	$ 11.7	$ 9.0
Liabilities:				
Interest rate contracts	Other noncurrent liabilities	$ 6.5	$ 12.6	$ 10.2

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

Derivative type	Location of gain(loss) recognized on derivative	Three Months Ended January 29, 2011	Three Months Ended January 23, 2010	Nine Months Ended January 29, 2011	Nine Months Ended January 23, 2010
Interest rate contracts	Other income(expense), net	$ 0.0	$ (0.2)	$ 0.0	$ (0.8)
Foreign currency contracts	Other income(expense), net	$ 0.0	$ 0.0	$ (1.9)	$ 0.0

NOTE 4 FAIR VALUE MEASUREMENTS

Fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. The fair value hierarchy of measurements is categorized into one of three levels based on the lowest level of significant input used:

Level 1 - Quoted prices in active markets for identical assets and liabilities at the measurement date.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs for which there is little or no market data available. These inputs reflect management s assumptions of what market participants would use in pricing the asset or liability.

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The Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of January 29, 2011 is as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Assets:				
Cash equivalents	$ 216.8	$ 216.8	0	0
Derivative instruments	6.2	0	$ 6.2	0
Total assets	$ 223.0	$ 216.8	$ 6.2	$ 0
Liabilities:				
Derivative instruments	$ 6.5	$ 0	$ 6.5	$ 0

The Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of April 24, 2010 is as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Assets:				
Cash equivalents	$ 141.3	$ 141.3	0	0
Derivative instruments	11.7	0	$ 11.7	0
Total assets	$ 153.0	$ 141.3	$ 11.7	$ 0
Liabilities:				
Derivative instruments	$ 12.6	$ 0	$ 12.6	$ 0

Cash equivalents The Company values cash equivalents at current market rates. The carrying value of cash equivalents, including government securities and money market funds, approximates fair value. Maturities of cash equivalents are less than three months.

Derivative instruments The Company s derivative instruments consist of interest rate contracts. These instruments are valued using inputs such as interest rates and credit spreads.

Certain assets are measured at fair value on a consolidated basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments under certain circumstances, such as when there is evidence of impairment. There were no fair value adjustments to such assets in fiscal years 2011, 2010 or 2009.

The carrying amounts of receivables, net of allowances, accounts payable, and certain accrued and other current liabilities approximate fair value at January 29, 2011.

NOTE 5 CUSTOMER FINANCING

As a convenience to its customers, the Company offers several different financing alternatives including both a Company sponsored program and a third party program. For the third party program, the Company acts as a facilitator between the customer and the third party financing entity with no on-going involvement in the financing transaction. Under the Company sponsored program, equipment purchases by customers with strong credit are financed to a maximum of $0.4 million for any one customer. The Company generally sells the customers financing contracts to outside financial institutions in the normal course of its business. The Company currently has two arrangements under which it has sold these contracts.

In fiscal 2003, the Company initiated an agreement to sell its equipment finance contracts to a commercial paper conduit managed by JPMorgan Chase Bank N.A. To participate in the commercial paper conduit, the Company was required to establish a special purpose entity (SPE), PDC Funding Company, LLC, a consolidated, wholly owned subsidiary. In December 2010, this agreement was amended and restated and The Bank of Tokyo-Mitsubishi UFJ, Ltd. became the managing agent under the amended agreement.

The Company transfers financing contracts to the SPE and in turn, the SPE sells the contracts to the commercial paper conduits. The SPE does not issue any debt. While there is no recourse to the Company by the commercial paper conduits on the sale of contracts, the Company receives only 87.5% of the principal amount of the contracts upon the sale. The remaining 12.5% of the proceeds is held by the conduit as security against the eventual performance of the portfolio. The holdback receivable from the conduit is recorded as a non-current asset, which is carried at its estimated fair market value. The capacity of this arrangement with the conduits as of January 29, 2011 is $500 million.

The Company also maintains an agreement with U.S. Bank National Association, as agent, whereby the U.S. Bank group purchased customers financing contracts. The Company has established another SPE, PDC Funding LLC II (PDC II), as a consolidated, wholly owned subsidiary, which sold financing contracts to the U.S. Bank group. The Company received 88% of the principal amounts of the contracts upon sale with the remaining 12% of the proceeds held by the banks as security against the eventual performance of the portfolio. The holdback receivable from the banks is recorded as a non-current asset, which is carried at its estimated fair market value. The capacity under the agreement was $110 million. In the fourth quarter of fiscal 2010, this agreement was amended such that no additional contracts will be sold, but the remaining contracts previously sold and outstanding under the agreement will continue under the agreement. Approximately $53 million of such contracts were outstanding as of January 29, 2011.

Under the terms of the amended and restated agreements described above, these financing arrangements are accounted for as a sale under ASC Topic No. 860, *Accounting for the Transfers of Financial Assets*. The Company sold approximately $240.1 million and $202.2 million of its contracts under these arrangements during the nine months ended January 29, 2011 and January 23, 2010, respectively.

The Company retains servicing responsibilities under both agreements, for which it is paid a servicing fee. The servicing fees received by the Company are considered adequate compensation for services rendered. Accordingly, no servicing asset or liability has been recorded. The agreements require the Company to maintain a minimum current ratio and maximum leverage ratio. The Company was in compliance with the covenants at January 29, 2011.

Included in current receivables in the consolidated balance sheets are approximately $89.5 million, net of unearned income of $3.8 million, and $116.7 million, net of unearned income of $4.2 million, as of January 29, 2011 and April 24, 2010, respectively, of finance contracts not yet sold by the Company. A total of $468.2 million of finance contracts receivable sold under the agreements was outstanding at January 29, 2011. The residual receivable under the arrangements was approximately $78.9 million and $65.2 million as of January 29, 2011 and April 24, 2010, respectively. Since the internal financing program began in 1994, bad debt write-offs have amounted to less than one-percent of the loans originated.

Prior to fiscal 2011, these financing arrangements were accounted for as a sale of assets, whereby the finance contracts transferred to the commercial paper conduit were derecognized. Under the revised accounting standards of ASC Topic No. 860, transfers under the agreement with the commercial paper conduit prior to the amendment and restatement in December 2010 described above were accounted for as secured borrowings. Accordingly, the assets transferred during the first two quarters of fiscal 2011 were not derecognized and a liability for the cash advances received was included in the balance sheet as of October 30, 2010. When these assets were transferred in December 2010 under the revised and amended agreement, they were accounted for as a sale of assets.

NOTE 6 SEGMENT REPORTING

Patterson Companies, Inc. is comprised of three reportable segments: dental, veterinary, and rehabilitation supply. The Company s reportable business segments are strategic business units that offer similar products and services to different customer bases. The dental supply segment provides a virtually complete range of consumable dental products, clinical and laboratory equipment and value-added services to dentists, dental laboratories, institutions and other dental healthcare providers throughout North America. The veterinary supply segment provides consumable supplies, equipment, diagnostic products, biologicals (vaccines) and pharmaceuticals to companion-pet veterinary clinics in the majority of regions throughout the United States. The rehabilitation supply segment provides a comprehensive range of distributed and self-manufactured rehabilitation medical supplies and non-wheelchair assistive products to acute care hospitals, long-term care facilities, rehabilitation clinics, dealers and schools.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to the consolidated financial statements included in the Company s 2010 Annual Report on Form 10-K filed June 23, 2010. The Company evaluates segment performance based on operating income. The corporate office general and administrative expenses are included in the dental supply segment and consist of home office support costs in areas such as informational technology, finance, human resources and facilities. The cost to operate the distribution centers are allocated to the operating units based on the through-put of the unit.

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

	Three Months Ended		Nine Months Ended	
	January 29, 2011	**January 23, 2010**	**January 29, 2011**	**January 23, 2010**
Net sales				
Dental supply	$ 557,048	$ 572,073	$ 1,662,936	$ 1,620,231
Rehabilitation supply	117,876	96,240	377,976	322,777
Veterinary supply	149,726	151,771	490,939	481,606
Consolidated net sales	$ 824,650	$ 820,084	$ 2,531,851	$ 2,424,614
Operating income				
Dental supply	$ 73,785	$ 75,001	$ 198,337	$ 193,261
Rehabilitation supply	12,846	12,859	48,381	42,617
Veterinary supply	6,076	5,907	25,165	19,165
Consolidated operating income	$ 92,707	$ 93,767	$ 271,883	$ 255,043

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

	Three Months Ended		Nine Months Ended	
	January 29, 2011	**January 23, 2010**	**January 29, 2011**	**January 23, 2010**
Net sales				
Consumable and printed products	$ 520,011	$ 501,141	$ 1,653,946	$ 1,586,534
Equipment and software	232,594	249,324	668,372	636,979
Other	72,045	69,619	209,533	201,101
Total	$ 824,650	$ 820,084	$ 2,531,851	$ 2,424,614

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our 2010 Annual Report on Form 10-K filed June 23, 2010, for important background information regarding, among other things, an overview of the markets in which we operate and our business strategies.

The fiscal year end of the Company is the last Saturday in April. The nine months ended January 29, 2011 included an extra or fortieth week and fiscal year 2011 ending April 30, 2011 will include 53 weeks, while fiscal 2010 was comprised of 52 weeks.

RESULTS OF OPERATIONS

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

	Three Months Ended		Nine Months Ended	
	January 29, 2011	January 23, 2010	January 29, 2011	January 23, 2010
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	65.9%	66.3%	66.8%	67.0%
Gross margin	34.1%	33.7%	33.2%	33.0%
Operating expenses	22.8%	22.2%	22.4%	22.5%
Operating income	11.2%	11.4%	10.7%	10.5%
Other expense, net	(0.8%)	(0.5%)	(0.6%)	(0.5%)
Income before taxes	10.5%	10.9%	10.2%	10.0%
Net income	6.7%	6.8%	6.4%	6.2%

QUARTER ENDED JANUARY 29, 2011 COMPARED TO QUARTER ENDED JANUARY 23, 2010.

Net Sales. Consolidated net sales for the three months ended January 29, 2011 (Current Quarter) were $824.7 million, an increase of 0.6% compared to $820.1 million for the three months ended January 23, 2010 (Prior Quarter). Acquisitions contributed 2.1% to sales growth and changes in foreign currency translation rates increased sales by 0.2%.

Sales of the Dental segment were $557.0 million, a decrease of 2.6% compared to Prior Quarter sales of $572.1 million. Consumable sales grew 2.9% in the Current Quarter and we believe this increase is an indication that the underlying dental market is gradually strengthening.

Dental equipment and software sales declined 11.9% in the Current Quarter. The lower sales performance was largely isolated to our dental technology equipment business, where sales of CEREC

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dental restorative systems and various digital product offerings were lower than both the Prior Quarter and our expectations. Earlier in fiscal 2011, we made the decision to reduce promotional activities for CEREC and digital products during the latter half of the year. Based on the impact of this decision on the Current Quarter, we have revised certain technology marketing programs which we believe will start rebuilding sales momentum for these equipment categories in the fourth quarter of fiscal 2011.

Sales of other services and products in the Dental segment grew 3.3% in the Current Quarter.

Veterinary segment sales declined 1.3% in the Current Quarter to $149.7 million. The comparability of this segment s sales continued to be affected by previously reported changes in the distribution arrangements for certain pharmaceuticals, which reduced Current Quarter sales growth by an estimated three percentage points.

Current Quarter Rehabilitation segment sales were $117.9 million, an increase of 22.5% from $96.2 million in the Prior Quarter. Acquisitions contributed 17.8% to sales growth and unfavorable changes in foreign currency translation rates reduced sales in the Current Quarter sales by 0.9%. The acquisition contribution was from the June 2010 acquisition of the rehabilitation businesses of DCC Healthcare. The Rehabilitation segment s sales in the Current Quarter were affected by weakness in its sales to U.K. customers due to budgetary constraints being imposed by the British government on its National Health Service.

Gross Margins. Consolidated gross margin increased 40 basis points in the Current Quarter to 34.1%. Dental gross margin improved 70 basis points due mostly to a higher percentage of total sales coming from consumables. Gross margin of the Veterinary segment decreased 30 basis points. Rehabilitation segment gross margin declined 90 basis points due to the impact of the lower gross margin associated with the sales contribution of the DCC healthcare entities acquired in June 2010.

Operating Expenses. The consolidated operating expense ratio increased 60 basis points from the Prior Quarter to 22.8%.

The Dental segment s operating expense ratio was 50 basis points higher due to the impact of fixed and semi-variable costs on the lower sales in the Current Quarter. The operating expense ratio of the Veterinary segment improved 50 basis points.

The Rehabilitation segment s operating expenses as a percent of sales were 150 basis points higher in the Current Quarter resulting from the integration of the DCC businesses. Included in those operating expenses were $1.1 million of redundancy costs which will not recur.

Operating Income. Current Quarter operating income was $92.7 million, or 11.2% of net sales. In the Prior Quarter, operating income was $93.8 million, or 11.4% of net sales. The lower operating margin resulted from the 60 basis point increase in the operating expense ratio, partly offset by the 40 basis point improvement in gross margin as described above.

Other (Expense) Income, Net. Net other expense was $6.4 million in the Current Quarter compared to net other expense of $4.3 million in the Prior Quarter. Net other expense is comprised primarily of interest expense, partly offset by interest income. Interest income of $1.6 million was down $0.5 million from the Prior Quarter due mostly to less finance receivables outstanding during the Current Quarter. In addition, the Current Quarter includes a $1.4 million non-cash charge arising from certain equity transactions at VetSource, an equity investment, prior to our investment in this veterinary pharmaceutical services company.

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Income Tax Expense. The effective income tax rate for the Current Quarter was 35.8% and was favorably affected by the portion of our cash dividends paid on allocated shares owned by the Employee Stock Ownership Plan. In addition, certain net operating loss carryforwards that were acquired in the purchase of the Mobilis entities in fiscal 2009 were realized on our UK tax returns. In the Prior Quarter, the tax rate was 37.4%.

Net Income and Earnings Per Share. Net income decreased 1.2% to $55.4 million, compared to $56.0 in the Prior Quarter. Earnings per diluted share were $0.47 in both the Current and Prior Quarters.

NINE MONTHS ENDED JANUARY 29, 2011 (40 WEEKS) COMPARED TO QUARTER ENDED JANUARY 23, 2010 (39 WEEKS).

Net Sales. Consolidated net sales for the nine months ended January 29, 2011 (Current Period) totaled $2,531.9 million compared to $2,424.6 million for the nine months ended January 23, 2010 (Prior Period). Total sales growth of 4.4% included a contribution from acquisitions of 2.0% and a positive impact from foreign currency translation rates of 0.3%. The Current Period includes an additional week due to the Company s fiscal year convention of ending on the last Saturday in April. It is difficult to quantify the exact impact of this additional week, but estimates have been provided in those areas where it is possible to make reasonable approximations. We estimate that the impact of the extra week on consolidated sales was approximately two percentage points.

Dental segment sales of $1,662.9 million were 2.6% higher than $1,620.2 million in the Prior Period. Acquisitions added 0.1% to Current Period sales and the impact of currency translation rates favorably impacted sales by 0.7%. Consumable sales increased 3.4% and have been affected by uneven patient demand for dental services as a result of the weak economy.

Dental equipment and software sales grew 1.1% compared to the Prior Period. Sales of basic dental equipment and software grew 4.1%, led by sales of digital sensors and cone beam and panoramic imaging systems. Sales of CEREC dental systems declined 9.1%. Sales of other services and products in the Dental segment rose 3.4% in the Current Period.

Sales of the Veterinary segment rose 1.9% to $490.9 million in the Current Period. The period-over-period comparability of Veterinary sales was affected by the change in distribution arrangements for certain pharmaceuticals, which are discussed in the quarter-over-quarter discussion above.

In the Current Period, Rehabilitation segment sales of $378.0 million were 17.1% higher than the $322.8 million of sales in the Prior Period. The impact of acquisitions contributed 14.5% to sales growth, while unfavorable changes in foreign currency translation rates reduced Current Period sales by 1.0%.

Gross Margins. Consolidated gross margin improved 20 basis points to 33.2% in the Current Period, due in part to the relative sales growth of the Medical segment which generates a higher gross margin than the other two segments, as well as improved gross margin in the Medical and Veterinary segments. These factors were largely offset by a decline in the Dental segment.

Dental gross margin declined 30 basis points due mostly to product mix. Gross margin of the Veterinary segment increased 80 basis points as a result of the shift of certain product categories from full distribution to agency arrangements and increased levels of vendor rebates earned in the Current Period. In addition, the gross margin of the Veterinary segment reflects the decision to exit the low margin production animal business of Columbus Serum. The Rehabilitation segment gross margin improved 20 basis points due to the favorable impact of product mix and rebates, and despite an unfavorable impact from the newly acquired assets from DCC Healthcare. We expect this latter impact to mitigate over the next several quarters as these assets are further integrated into this segment s operations.

Operating Expenses. The consolidated operating expense ratio improved 10 basis points from the Prior Period to 22.4%.

The Dental segment s operating expense ratio improved 20 basis points due mostly to leverage of higher sales on fixed and semi-variable costs and expense control measures. The operating expense ratio of the Veterinary segment was 40 basis points lower in the Current Period. The operating expenses in the Prior Period included costs related to the integration of the Columbus Serum acquisition, which is now complete.

The Rehabilitation segment s operating expenses as a percent of sales was 60 basis points higher than the Prior Period reflecting the impact of costs associated with the acquisition and integration of the DCC businesses. The impact of this acquisition on operating expense is expected to lessen in the fourth quarter of fiscal 2011.

Operating Income. Current Period operating income totaled $271.9 million, or 10.7% of sales, compared to Prior Period operating income of $255.0 million, or 10.5% of net sales. As discussed above, in the Current Period gross margin improved and the operating expense ratio improved 20 and 10 basis points, respectively.

Other (Expense) Income, Net. Net other expense was $14.5 million in the Current Period compared to $12.4 million in the Prior Period. The Current Period includes the $1.4 million non-cash charge arising from certain equity transactions at VetSource as discussed above.

Income Taxes. The effective income tax rate for the Current Period was 36.8% compared to 38.0% in the Prior Period. The Current Period was favorably affected by the portion of our cash dividends paid on allocated shares owned by the Employee Stock Ownership Plan. In addition, certain net operating loss carryforwards that were acquired in the purchase of the Mobilis entities in fiscal 2009 were realized on our UK tax returns.

Net Income and Earnings Per Share. Net income increased 8.1% to $162.7 million, compared to $150.4 in the Prior Period. Earnings per diluted share was $1.36 in the Current Period compared to $1.26 in the Prior Period.

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LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was $191.5 million in the Current Period, compared to $153.1 million in the Prior Period. The increase was due primarily to a larger reduction in receivables of approximately $27 million in the Current Period. In addition, net income was $12.2 million higher in the Current Period.

Net cash used in investing activities in the Current Period was $81.5 million compared to $45.7 million in the Prior Period. Current Period activity is primarily related to the June 2010 acquisition of the rehabilitation businesses of DCC Healthcare. The acquired businesses provide assistive living products and rehabilitation equipment and supplies to customers primarily in the UK, continental Europe and Australia, with combined sales of approximately $70 million for their fiscal year ended March 31, 2010. In addition, capital expenditures have been $29.2 million in the Current Period and include the build-out of a distribution facility in Indiana and the ongoing construction of a new facility for the Patterson Technology Center. The Prior Period use of cash included two smaller acquisitions totaling $28.2 million and capital expenditures of $17.5 million. Total capital expenditures for fiscal 2011 are expected to approximate $35 million.

Net cash used in financing activities was $60.9 million in the Current Period compared to $11.6 million in the Prior Period. The Company, which paid its first dividend in the fourth quarter of fiscal 2010, paid dividends of $35.5 million in the Current Period. In addition, $36.9 million was used repurchase common stock, while there no repurchases in the Prior Period.

In the Prior Period, the Company repaid $22.0 million outstanding under its revolving credit facility. No amounts under this facility were outstanding in the Current Period. $300 million is available under the facility, which expires in November 2012.

During the Prior Period, the Canadian dollar strengthened against the U.S. Dollar. This change was the primary reason for a $13.9 million favorable exchange rate effect on cash balances in the Prior Period. The impact of exchange rate changes on cash was minimal in the Current Period.

The Company expects funds generated by operations, existing cash balances and credit availability under existing debt facilities will be sufficient to meet the Company s working capital needs and finance anticipated expansion plans and strategic initiatives over the next twelve months.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes in the Company s Critical Accounting Policies and Estimates, as disclosed in its 2010 Annual Report on Form 10-K filed June 23, 2010.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued guidance codified into ASC Topic No. 860, Transfers and Servicing (ASC 860) which amends the derecognition guidance in former FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. Also in June 2009, the FASB issued guidance codified into ASC Topic No. 810, Consolidation (ASC 810) which amends the consolidation guidance applicable to variable interest entities. The Company adopted ASC 860 and ASC 810 at the beginning of fiscal 2011. See Note 5 to the condensed consolidated financial statements for a discussion of the impact of this guidance.

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13). This update amends ASC Topic 605-25, Revenue Recognition Multiple-Deliverable Revenue Arrangements to remove the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The update also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables relative selling price. The provisions will be effective for revenue arrangements entered into or materially modified in the Company s fiscal year 2012 and must be applied prospectively. The Company is currently evaluating the impact of the provisions of ASU 2009-13.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

Certain information of a non-historical nature contains forward-looking statements. Words such as believes, expects, plans, estimates, intends and variations of such words are intended to identify such forward-looking statements. These statements are not guaranties of future performance and are subject to certain risks, uncertainties or assumptions that are difficult to predict; therefore, the Company cautions shareholders and prospective investors that the following important factors, among others, could cause the Company s actual operating results to differ materially from those expressed in any forward-looking statements. The statements under this caption are intended to serve as cautionary statements within the meaning of the Private Securities Litigation Reform Act of 1995. The following information is not intended to limit in any way the characterization of other statements or information under other captions as cautionary statements for such purpose. The order in which such factors appear below should not be construed to indicate their relative importance or priority. The Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

- Economic conditions and volatility in the financial markets could adversely affect our operating results and financial condition. The ability to predict the demand for capital goods by customers is extremely difficult in the current economic environment, which could lead to increased volatility in the Company s revenues for these types of products.

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The Company s ability to meet increased competition from national, regional and local full-service distributors and mail-order distributors of dental, veterinary and rehabilitation and assistive living products, while maintaining current or improved profit margins.

The ability of the Company to effectuate modifications to the business models of its three operating units to address changes in the individual markets of those business units.

The ability of the Company to consolidate the distribution, information systems, human resources, financial and other administrative functions of its three business units into jointly shared services which meet the needs of the individual business units.

The ability of the Company to manage rapidly changing energy and commodity prices.

The ability of the Company to retain its base of customers and to increase its market share.

The ability of the Company to provide for an orderly management succession, including the ability to recruit skilled personnel for the business, and then identify and train our personnel for their transition into key roles to support the long-term growth of the business.

The ability of the Company to maintain satisfactory relationships with qualified and motivated sales personnel.

The continued ability of the Company to maintain satisfactory relationships with key vendors and the ability of the Company to create relationships with additional manufacturers of quality, innovative products.

Changes in the economics of dentistry affecting dental practice growth and the demand for dental products, including the ability and willingness of dentists to invest in high-technology diagnostic and therapeutic products.

Reduced growth in expenditures for dental services by private dental insurance plans.

The accuracy of the Company s assumptions concerning future per capita expenditures for dental services, including assumptions as to population growth and the demand for preventive dental services such as periodontic, endodontic and orthodontic procedures.

The rate of growth in demand for infection control products currently used for prevention of the spread of communicable diseases such as AIDS, hepatitis and herpes.

Changes in the economics of the veterinary supply market, including reduced growth in per capita expenditures for veterinary services and reduced growth in the number of households owning pets.

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since April 24, 2010 in the Company s market risk. For further information on market risk, refer to Item 7A in the Company s 2010 Annual Report on Form 10-K filed June 23, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company s management, including the Company s President and Chief Executive Officer (CEO) and its Chief Financial Officer (CFO), management evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of January 29, 2011. Based upon their evaluation of these disclosure controls and procedures, the CEO and CFO concluded that the disclosure controls and procedures were effective as of January 29, 2011.

There were no changes in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act) that occurred during the quarter ended January 29, 2011 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) In September 2004, the Company s Board of Directors approved a stock repurchase program under which the Company could have repurchased up to six million shares of common stock. In December 2007, the Company s Board of Directors expanded this authorization to allow for the purchase of up to twenty five million shares of common stock. As of January 29, 2011, 4,557,057 shares remain available for purchase under the authorization, which expires on December 31, 2012.

There was no activity under the stock repurchase program during the quarter ended January 29, 2011.

ITEM 6. EXHIBITS

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

All other items under Part II have been omitted because they are inapplicable or the answers are negative, or were previously reported in the 2010 Annual Report on Form 10-K filed June 23, 2010.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PATTERSON COMPANIES, INC.
(Registrant)

Dated: March 10, 2011

By: /s/ R. Stephen Armstrong
R. Stephen Armstrong
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a), under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Financials in XBRL format