

PATTERSON COMPANIES, INC.

Form 10-Q

December 04, 2008

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

Washington, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED OCTOBER 25, 2008.**

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

Commission File No. 0-20572

**PATTERSON COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

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**Minnesota**  
(State of incorporation)

**41-0886515**

(I.R.S. Employer Identification No.)

**1031 Mendota Heights Road, St. Paul, Minnesota 55120**

(Address of principal executive offices, including zip code)

**(651) 686-1600**

(Registrant's telephone number, including area code)

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Patterson Companies, Inc. had outstanding 121,573,034 shares of common stock as of December 1, 2008.

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<u>Safe Harbor Statement Under The Private Securities Litigation Reform Act Of 1995:</u>	

This Form 10-Q for the period ended October 25, 2008, contains certain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, which may be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "believe", "goal", or "continue", or comparable terminology that involves risks and uncertainties that are qualified in their entirety by cautionary language set forth herein under the caption "Factors That May Affect Future Operating Results," in the Company's 2008 Annual Report on Form 10-K filed June 25, 2008 and other documents previously filed with the Securities and Exchange Commission.

**Table of Contents****PART I - FINANCIAL INFORMATION****PATTERSON COMPANIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	October 25, 2008 (Unaudited)	April 26, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 256,643	\$ 308,164
Receivables, net	365,189	364,050
Inventory	311,637	281,238
Prepaid expenses and other current assets	38,366	31,589
<b>Total current assets</b>	<b>971,835</b>	<b>985,041</b>
Property and equipment, net	158,418	148,932
Long-term receivables, net	49,622	54,392
Goodwill	729,441	681,352
Identifiable intangibles, net	195,465	200,398
Other	6,307	6,258
<b>Total assets</b>	<b>\$ 2,111,088</b>	<b>\$ 2,076,373</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 188,523	\$ 194,405
Accrued payroll expense	43,566	51,560
Other accrued expenses	80,100	90,092
Income taxes payable		
Current maturities of long-term debt	130,006	130,010
<b>Total current liabilities</b>	<b>442,195</b>	<b>466,067</b>
Long-term debt	525,333	525,024
Other long-term liabilities	80,862	80,495
<b>Total liabilities</b>	<b>1,048,390</b>	<b>1,071,586</b>
<b>STOCKHOLDERS EQUITY</b>		
Common stock	\$ 1,216	\$ 1,224
Additional paid-in capital	9,553	
Accumulated other comprehensive income	(13,149)	31,352
Retained earnings	1,186,841	1,093,974
Notes receivable from ESOP	(121,763)	(121,763)
<b>Total stockholders equity</b>	<b>1,062,698</b>	<b>1,004,787</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 2,111,088</b>	<b>\$ 2,076,373</b>

See accompanying notes.

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

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	October 25, 2008	October 27, 2007	October 25, 2008	October 27, 2007
Net sales	\$ 759,461	\$ 741,992	\$ 1,503,320	\$ 1,443,395
Cost of sales	505,886	489,693	998,015	953,962
Gross profit	253,575	252,299	505,305	489,433
Operating expenses	170,973	166,686	343,109	328,613
Operating income	82,602	85,613	162,196	160,820
Other income and (expense):				
Finance income, net	1,870	2,710	3,792	5,058
Interest expense	(8,183)	(2,599)	(16,235)	(5,096)
Gain (loss) on currency exchange	(1,201)	644	(983)	1,398
Income before taxes	75,088	86,368	148,770	162,180
Income taxes	28,185	32,627	55,903	60,895
Net income	\$ 46,903	\$ 53,741	\$ 92,867	\$ 101,285
Earnings per share:				
Basic	\$ 0.40	\$ 0.40	\$ 0.79	\$ 0.75
Diluted	\$ 0.40	\$ 0.39	\$ 0.78	\$ 0.74
Weighted average common shares:				
Basic	117,421	135,907	117,656	135,846
Diluted	118,328	136,923	118,520	136,834

See accompanying notes.

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

(Dollars in thousands)

(Unaudited)

	<b>Six Months Ended</b>	
	<b>October 25, 2008</b>	<b>October 27, 2007</b>
<b>Operating activities:</b>		
Net income	\$ 92,867	\$ 101,285
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	10,968	9,675
Amortization	2,896	2,649
Share-based compensation	3,938	3,978
Excess tax benefits from share-based compensation	(291)	(529)
Bad debt expense	1,049	1,696
Change in assets and liabilities, net of acquisitions	(53,597)	(9,915)
<b>Net cash provided by operating activities</b>	<b>57,830</b>	<b>108,839</b>
<b>Investing activities:</b>		
Additions to property and equipment, net	(17,495)	(9,180)
Acquisitions, net	(69,877)	(11,539)
<b>Net cash used in investing activities</b>	<b>(87,372)</b>	<b>(20,719)</b>
<b>Financing activities:</b>		
Payments and retirement of long-term debt and obligations under capital leases	(4)	(16)
Common stock issued, net	5,363	6,598
Excess tax benefits from share-based compensation	291	529
<b>Net cash provided by financing activities</b>	<b>5,650</b>	<b>7,111</b>
Effect of exchange rate changes on cash	(27,629)	8,120
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(51,521)</b>	<b>103,351</b>
Cash and cash equivalents at beginning of period	308,164	241,791
<b>Cash and cash equivalents at end of period</b>	<b>\$ 256,643</b>	<b>\$ 345,142</b>

See accompanying notes.

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**PATTERSON COMPANIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

*(Unaudited)*

**October 25, 2008**

**NOTE 1 GENERAL**

*Basis of Presentation*

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of October 25, 2008 and the results of operations and the cash flows for the periods ended October 25, 2008 and October 27, 2007. Such adjustments are of a normal recurring nature. The results of operations for the periods ended October 25, 2008 and October 27, 2007, are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the financial statements included in the 2008 Annual Report on Form 10-K filed on June 25, 2008.

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

*Fiscal Year End*

The fiscal year end of the Company is the last Saturday in April. The second quarter and the first six months of fiscal 2009 and 2008 represent the 13 and 26 weeks ended October 25, 2008 and October 27, 2007, respectively.

*Comprehensive Income*

Total comprehensive income was \$2,718 and \$48,366 for the three and six months ended October 25, 2008, respectively, and \$67,628 and \$121,245 for the three and six months ended October 27, 2007. Other than net income, comprehensive income also includes foreign currency translation effects and unrealized gains on cash flow hedging instruments. Comprehensive income in the three and six months ended October 25, 2008 was negatively affected by changes in foreign currency exchange rates.



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### *Fair Value Measurements*

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

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

- Level 1 -** Quoted prices in active markets for identical assets and liabilities at the measurement date.
  
- Level 2 -** Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Company's derivative contracts are financial assets and liabilities reflected at fair value and are considered to be Level 2 within the fair value hierarchy.
  
- Level 3 -** Unobservable inputs for which there is little or no market data available. These inputs reflect management's assumptions of what market participants would use in pricing the asset or liability.

The Company adopted the effective portions of SFAS 157 on April 27, 2008, the first day of fiscal 2009. The adoption did not have a material effect on the consolidated financial statements. The Company is currently evaluating the impact of the remaining portions of SFAS 157, which will be effective at the beginning of our fiscal year 2010.

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

**Table of Contents***Earnings Per Share*

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 25, 2008</b>	<b>October 27, 2007</b>	<b>October 25, 2008</b>	<b>October 27, 2007</b>
<b>Denominator:</b>				
Denominator for basic earnings per share weighted-average shares	117,421	135,907	117,656	135,846
Effect of dilutive securities stock options, restricted stock, and stock purchase plans	907	1,016	864	988
Denominator for diluted earnings per share adjusted weighted average shares	118,328	136,923	118,520	136,834

Options to purchase 667 and 681 shares of common stock during the three and six months ended October 25, 2008, respectively, and 445 and 471 shares during the three and six months ended October 27, 2007, respectively, were excluded from the calculation of diluted earnings per share because the effect would have been anti-dilutive. Unvested restricted stock awards outstanding excluded from the calculation of diluted earnings per share were 203 and 102 shares during the three and six months ended October 25, 2008, because the effect would have been anti-dilutive.

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

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

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

**NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS**

The goodwill balances and related activity by business segment as of April 26, 2008 and October 25, 2008 are as follows:

	<b>Balance at April 26, 2008</b>	<b>Acquisition Activity</b>	<b>Translation And Other Activity</b>	<b>Balance at October 25, 2008</b>
Dental Supply	\$ 99,580	\$ 6,785	\$ (2,209)	\$ 104,156
Rehabilitation Supply	490,614	917		491,531
Veterinary Supply	91,158	42,596		133,754
Total	\$ 681,352			