PATTERSON COMPANIES, INC.
Form 10-K
June 29, 2011
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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 30, 2011

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 incorporation or organization)	**(I.R.S. Employer 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 30, 2010, was approximately $3,185,000,000. (For purposes of this calculation all of the registrant s officers, directors, presidents of operating units and 10% owners known to the Company are deemed affiliates of the registrant.)

As of June 24, 2011, there were 119,941,874 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 30, 2011 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 1A Risk Factors and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Factors that May Affect Future Operating Results and Item 1A Risk Factors, for a discussion of certain factors that could cause the Company s actual operating results to differ materially from those expressed in any forward-looking statements.

General

In June 2004, the Company changed its 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 expanding base of business, which now encompasses 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, Webster Veterinary and Patterson Medical.

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

North American dental supply;

U.S. companion-pet (dogs, cats and other common household pets) and equine veterinary supply;

And the worldwide rehabilitation and assistive products supply market.

Unless otherwise indicated, all references to Patterson or the Company include its subsidiaries: Patterson Dental Holdings, Inc., Direct Dental Supply Co., Patterson Dental Canada Inc., Patterson Dental Supply, Inc., Webster Veterinary Supply, Inc., PDC Funding Company, LLC, PDC Funding Company II, LLC, Patterson Technology Center, Inc., Patterson Office Supplies, Inc., Webster Management LP, Patterson Medical Holdings, Inc., Patterson Medical Supply, Inc., Sammons Preston Canada, Inc., Tumble Forms, Inc., Midland Manufacturing Company Inc., Patterson Logistics Services, Inc., Williamston Industrial Center, LLC, Patterson Global Ltd., Patterson Medical Ltd., Mobilis Healthcare Group Ltd., Halo Healthcare Ltd., County Footwear Ltd., Dolphin Imaging Systems, LLC, Dolphin Practice Management, LLC, Kinetec SA, Ausmedic Australia Pty., Auckbritt International Ltd., Metron Holding Pty., Metron Medical Australia Ltd., Metron Medical Co. Ltd., Physio Med Services Ltd., Days Healthcare Property Investments Ltd., PCI Limited I, LLC, PCI Limited II, LLC and PCI Two Limited Partnership.

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

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

The Company s 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 the Company s value-added business proposition highly attractive to customers.

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Shared Services Initiative

The Company has continued to consolidate its distribution infrastructure and business systems over the past several years. With respect to the distribution infrastructure, beginning in fiscal 2005, the consolidation of facilities began with a facility in Columbia, SC that replaced the individual dental and veterinary distribution centers that were serving this region. As of April 30, 2011, there are eight facilities that serve two or three of the Company s business units. These strategically located facilities enable the Company to realize operating efficiencies and improve customer service.

In fiscal 2008, the first shared sales branch office locations were established, enabling multiple business units to operate at one physical location. As of April 30, 2011, there are ten shared locations and the Company plans to leverage additional branch sharing between two or three business units in select markets in fiscal 2012 and beyond.

The Patterson Technology Center (PTC) has staff dedicated to support of the technology offerings of each of the Company s business units. Such technology product and service offerings have expanded in recent years and will continue to be a focus of the Company. The PTC supports over 80,000 customers nationwide, with a goal to resolve any situation in one call, whether the question or concern involves hardware, software, computer networking or digital technology. The PTC is also the source for development of the various proprietary practice management & patient education products that are offered by the business units, as well as customer order entry systems deployed by the Company. In addition, in conjunction with the branch offices of the business units, the PTC provides network installation and customer training.

Dental Supply

Overview

As Patterson s largest business, Patterson Dental is one of the two largest distributors of dental products in North America. The 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 customers a broad selection of dental products including more than 90,000 stock keeping units (SKUs) of which approximately 4,000 are private-label products sold under the Patterson name. Patterson Dental also offers customers a full range of related services including dental equipment installation, maintenance and repair, dental office design and equipment financing. Patterson Dental markets its dental products and services through more than 1,500 direct sales representatives, 271 of whom are equipment specialists.

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 $2.2 billion in fiscal 2011 and profitability has increased from an operating loss in fiscal 1986 to operating income of $272.2 million in fiscal 2011.

Patterson estimates the dental supply market it serves to be approximately $6.8 billion annually and that its 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 the Company s role as a value-added, full-service distributor. According to the American Dental Association, there are over 185,000 dentists practicing in the United States. In Canada, there are approximately 18,000 licensed dentists according to the Canadian Dental Association. The average general practitioner generated approximately $713,000 in annual revenue in 2007, while the average specialty practitioner produces about $1,050,000. The Company believes that a dentist uses between 5% and 7% of annual revenue to purchase consumable supplies used in the daily operations of the practice. This translates into between $35,000 and $50,000 of supplies being purchased by the average practice each year. The Company believes the average dental practitioner purchases about 40% of their supplies from their top supplier.

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Total expenditures for dental services in the United States increased from $31 billion in 1990 to $102 billion in 2009. The Company believes 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 334 million by 2020. The median age of the population is also increasing and the Company believes that older dental patients spend more on a per capita basis for dental services.

Dental products and techniques. Technological developments in dental products have contributed 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 grow. 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 2010, approximately 54% of the U.S. population had some form of dental coverage.

Strategy

Patterson s objective within the dental segment is to remain a leading national distributor of supplies, equipment and related services in the market while continuing to improve its profitability and enhance its value to customers. To achieve this objective, Patterson Dental has adopted a strategy of emphasizing its 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. The Company believes that its 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. The Company s knowledgeable sales representatives assist customers in the selection and purchase of supplies and equipment. In addition, the high quality sales force allows Patterson to offer broader product lines. Since 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.

Patterson Dental meets its customers requirements by delivering frequent, small quantity orders rapidly and reliably from its strategically located distribution centers. Equipment specialists, service technicians and technology trainers also support the Company s value-added strategy. Equipment specialists offer consultation on office design, equipment requirements and financing. Technology advisors from the branches provide guidance on integrating technology solutions including practice management and clinical software, digital

radiography, custom hardware and networking into the dental practice. The Company s experienced service technicians perform equipment installation, maintenance and repair services including services on products not purchased through Patterson.

Using Technology to Enhance Customer Service. As part of its commitment to providing superior customer service, the Company offers its customers easy order placement. The Company has offered electronic ordering capability to its dental supply segment since 1987 when it first introduced Remote Order Entry (REMOSM). The Company believes that its computerized order entry systems help to establish relationships with new customers and increase loyalty among existing customers. The remote order entry systems permit customers to place orders from their offices directly to Patterson 24 hours a day, seven days a week. Over the years, the Company has continued to introduce new order entry systems designed to meet the varying needs of its customers. Today the Company offers four systems to the dental supply segment, eMAGINE®, REMOSM, PDXpress® and www.pattersondental.com. Customers, as well as the Company s sales force, use these systems. Over the years, the number of orders transmitted electronically has grown steadily to approximately 74% of Patterson s consumable dental product volume or $925 million in fiscal year 2011.

In fiscal 2002, the Company introduced its newest order entry system, eMAGINE®. eMAGINE® has become the standard platform for the sales representative and offers many new features and upgrades including: up to three years of order history for the customer s reference, faster searches for products and reports, order tracking, instant information on monthly product specials, descriptions and photographs of popular products and an electronic custom catalog, including a printable version with scannable bar codes.

For those dental customers not using eMAGINE®, the Company offers three alternative order entry products. REMOSM gives customers direct and immediate ordering access through a personal computer to a database containing Patterson s complete inventory. PDXpress® is a handheld order entry system that eliminates handwritten order forms by permitting a user to scan a product bar code from an inventory tag system or from Patterson s bar-coded catalog. Pattersondental.com affords the customer the convenience of researching and ordering when not at the dental practice. These systems, including eMAGINE®, are provided at no additional charge to customers who maintain certain minimum purchase requirements. The PTC develops and supports the Company s order entry systems.

The goal of the Company s Internet strategy is to distribute information and service related products over the Internet to enhance customers practices and to increase sales force productivity. The Company s Internet environment includes order entry, customer-loyalty program reports and services, access to Patterson Today articles and manufacturers product information. Additionally, Patterson utilizes a tool, InfoSource, to provide real time customer and Company information to the Company s sales force, managers and vendors via the Internet.

In addition to enhancing customer service, by offering electronic order entry systems to its customers, the Company enables its sales representatives to spend more effective time with existing customers and to call on additional customers.

The Company s proprietary practice management and clinical software, EagleSoft®, is developed and maintained by the PTC. The Company believes the PTC differentiates Patterson Dental from the competition by positioning Patterson Dental as the only company providing a single-source solution for the high growth area of digital radiography. This technology, which the Company expects to be installed eventually in most dental offices, has a current market penetration of approximately 40%. Among its many specialized capabilities, the PTC provides system configuration, as well as the seamless integration of all digital operatory components with clinical software, including our EagleSoft® line. This integration creates an electronic patient database that combines the patient s front office record with digital information from the clinical x-ray, intra-oral camera, CEREC® and other digital equipment. Patterson Dental also will design and install the network for the digital x-ray system throughout the entire office and provides all required custom computer hardware for the system.

In addition, Patterson provides installation and customer training. The PTC provides a call center for troubleshooting customer problems and arranging for local service. Beginning in 2011, customers can select back-up services for their computerized systems through an offering from the PTC.

Software and digital radiography customers also have access to the support capabilities of the PTC. The PTC provides support for our proprietary products as well as select branded product from our manufacturers. In addition to troubleshooting problems through its customer call center, Patterson designs and configures local area networks and assembles custom hardware. The PTC also develops and supports the Company s order entry systems.

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 investing in management information systems to consolidating distribution centers. Recent initiatives include upgrading the Company s communications architecture, developing a new technical service system, and implementation of the shared services concept.

The Company has improved operating efficiencies by converting its communications architecture to faster, higher capacity data lines that combine voice and data transmissions. The Company has made substantial progress in the development of field service management tools for its technical service operations. These tools have allowed the Company to fundamentally change its technical service business processes, improving the Company s ability to coordinate the actions of its service technicians and enhancing customer service while reducing the overall cost of operations.

An integral part of the Company s shared services concept is the consolidation and leveraging of distribution centers between the segments of the Company, which began several years ago. As of April 2011, there are eight distribution centers that are shared between two or all three of the operating units. In addition, the Company has begun to establish shared sales branch office locations between multiple segments. As a result of these and other efforts, the Company expects to continue to improve its operating leverage and efficiencies going forward.

Growing Through Internal Expansion and Acquisitions. Patterson Dental intends 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 its customer base. The Company believes that it is well positioned to take advantage of expected continued consolidation in the dental distribution market. Over the past 25 years the Company 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, the Company is 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, Patterson 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 operation, now known as the Patterson Technology Center, is located in Effingham, Illinois. In December 2001, the Company purchased Modern Practice Technologies, a company that provides custom computing solutions to the dental industry. This acquisition helped Patterson to position itself 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, this business provides dental practices with a range of communications media that educate patients about professional dental care, procedures and treatment alternatives with the goal of influencing patient decisions about dental services and increasing the productivity of the dental professional. Educational materials are communicated through CD/DVD media, 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. The Company believes there are no major competitors for Dolphin s full range of product. Additionally, certain elements of Dolphin s imaging software can be integrated into Patterson Dental s current line of EagleSoft® software for general dental practitioners.

Products and Services

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

	2011	2010	2009
Consumable and printed products	56%	56%	56%
Equipment and software	33	33	34
Other [(1)]	11	11	10
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. Patterson offers 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 instruments, burs, and diamonds. In addition to representing a wide array of branded products from numerous manufacturers, Patterson also markets its own private label line of dental supplies including anesthetics, instruments, preventive and restorative products, and cotton and paper products. The private label line is used to complement the branded products where the customer is seeking a lower cost alternative on a product that has become commoditized in the market. Compared to most name brand supplies, the private label line provides lower prices for the Company s customers and higher margins for the Company.

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Printed Office Products. Patterson Dental provides a variety of printed office products, office filing supplies, and practice management systems. Products include custom printed products, insurance and billing forms, stationery, envelopes, business cards, labels, file folders, appointment books and other stock office supply products. Products are sold through two channels:

- The Company s dental sales force
- Direct mail catalogs distributed to over 100,000 customers several times a year

A staff of telemarketing personnel located in Champaign, Illinois supports both channels. Orders are received by telephone, through the mail or electronically from the distribution order processing system.

Equipment and Software

Dental Equipment. Patterson Dental is the largest supplier of dental equipment in the U.S. and Canada. It offers a wide range of dental equipment products including x-ray machines, high and low-speed handpieces, dental chairs, dental handpiece control units, diagnostic equipment, sterilizers, dental lights and compressors. The Company also distributes newer technology equipment that provides customers with the tools to improve productivity and patient satisfaction. Examples of such innovative and high 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 its own proprietary line of practice management and clinical software for dental professionals. Products include software for scheduling, billing, charting and capture/storage/retrieval of digital images. The Company 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. Patterson Dental offers custom hardware and networking solutions required for integrating the entire dental office. This product offering is available to all of the Company s dental customers. This initiative marked another step in Patterson s overall strategy of providing customers with the convenience and cost-effectiveness of a virtually complete range of products and value-added services and is one of the newest components of Patterson s single source solution for dental offices.

Patient Education Services. The CAESY® line of products offers patient education products and services. These communications tools are designed to influence patient decisions about services in an efficient, cost-effective manner.

Other

Software Services. Patterson Dental offers a variety of services to complement its software products such as service agreements, software training, electronic claims processing and billing statement processing. These services provide value to customers by allowing them to keep 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 Patterson s 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 24-hour handpiece repair service. In addition to service technicians who provide installation and repair services on basic dental equipment, the Company has also invested in personnel who specialize in installing and troubleshooting issues with technology solutions such as practice management software, digital imaging products, hardware and

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networking. The goal of this group, which is comprised of both local service technicians and the Patterson Technology Center, is to help customers integrate newer technology into their dental practices. The Patterson Technology Center helps the customer 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 through the use of a computer-aided design (CAD) program. Equipment specialists can create original or revised 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.

Equipment Financing. Patterson Dental provides a variety of options to fulfill its customers financing needs. For qualified purchasers of equipment, the Company will arrange financing for the customer through Patterson or a third party. For non-equipment related needs, such as for working capital or real estate, customers are referred to a third party organization. This alternative allows the Company to offer its customers convenience while still meeting their diverse financing needs. In fiscal 2011, the Company originated approximately $260 million of equipment finance contracts in the United States. The Company, or its vendor partner, financed approximately 40% of the equipment purchased by customers during fiscal 2011.

Since November 1998, Patterson has maintained one or more finance referral agreements with outside finance companies to provide a more extensive selection of finance opportunities to its customers. This might include financing for practice transition transactions, working capital, leasing, real estate and long-term capital. Currently this service is provided by Wells Fargo Practice Finance, a division of Wells Fargo Bank N.A. There are no recourse provisions under this agreement. Patterson receives referral fees under this agreement and Wells Fargo extends credit and services the accounts.

Patterson generally does not hold the finance contracts initiated on equipment transactions for the duration of the contract. These contracts have generally been sold to either a commercial paper conduit, or to a group of banks.

Patterson 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 the commercial paper conduit. The Company transfers finance contracts it originates to the SPE. In turn, the SPE sells the contracts to the commercial paper conduit. As of April 30, 2011, the maximum outstanding capacity of this arrangement at any one time is $500 million. There is no recourse to the Company for contracts purchased by the commercial paper conduit, but there is a deferred purchase price by the conduit equal to approximately 16% of the principal of these contracts.

A second special purpose entity, PDC Funding Company II, LLC, sold contracts through a Contract Purchase Agreement to a group of banks. The agreement operated similarly to the Receivables Purchase Agreement described above, except that the capacity 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 to run out under the agreement.

Patterson services the customer contracts under both of the preceding arrangements for which it receives a fee that approximates its cost for providing the service.

Sales and Marketing

During fiscal 2011, Patterson Dental sold products or services to over 120,000 customers in the U.S. and Canada who made one or more purchases during the year. Patterson Dental s customers include dentists, dental laboratories, institutions and other healthcare professionals. No single customer accounted for more than 1% of sales during fiscal 2011, and Patterson Dental is not dependent on any single customer or geographic group of

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customers. The Company s sales and marketing efforts are designed to establish and improve customer relationships through personal interaction with its sales representatives and frequent direct marketing contact, which underscores the Company s value-added approach.

Patterson Dental has over 90 local offices throughout the U.S. and Canada so that it can provide a presence in the market and decision making near the customer. These offices, or branches, are staffed with a full 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 its sales force. Due to the fragmented nature of the dental supply market, Patterson believes 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 Dental employees and are generally compensated on a commission basis, with some, less experienced, representatives receiving a base salary and commission.

To assist its 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 30,000 inventoried items. The catalog includes pictures of products, detailed descriptions and specifications of products and is utilized 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 Patterson s tri-yearly publication, *Patterson Today,* which also includes articles on dental office design, trends in dental practice, products and services offered by Patterson and information on equipment maintenance.

To enhance the total value it brings to its customers, Patterson Dental offers a value-added benefit program for its preferred customers. A new program, Patterson Advantage®, replaced the former Patterson Plus℠ program effective January 2009. The Patterson Advantage® program enables members to earn Advantage Dollars which can be applied toward future purchases of equipment and technology products. The Patterson Advantage® program also entitles its 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 a key element to providing complete customer satisfaction. Patterson Dental ships dental consumable supplies from ten 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 the Company s manufacturing and distribution facility in central Illinois.

All orders are routed through Patterson s centralized computer ordering, shipping and inventory management systems, which are linked to each of the Company s 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 the Company s value-added approach. Patterson Dental estimates that 98% of its 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, Patterson must maintain sufficient inventories at its distribution centers. Purchasing of consumables and standard equipment is centralized and the purchasing department uses a real-time perpetual inventory system to manage inventory levels. The Company s inventory consists mostly of consumable supply items. By utilizing its computerized inventory management and ordering systems, the Company is able to accurately predict inventory turns in order to minimize inventory levels for each item.

Patterson Dental s more than 90 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 the Patterson Dental s sales offices before delivery to dental offices for installation.

Sources of Supply

Effective purchasing is a key strategy the Company has adopted in order to achieve its objective of continuing to improve profitability. The Company has a program to effectuate electronic data interchange (EDI) with its major vendor partners. In fiscal 2011, the Company processed approximately 70% of its invoices from dental vendors using EDI capabilities. In addition, approximately 60% of Patterson s dental purchase order volume was conducted employing EDI. Utilizing EDI allows the Company to improve efficiencies and reduce administrative costs.

Patterson Dental obtains products from more than 1,000 vendors in the dental segment. Patterson has exclusive distribution agreements with several quality dental equipment manufacturers including Sirona Dental Systems, Inc. for CEREC® dental restorative systems and Schick™ digital x-rays. The Company is the only national dealer for A-dec® equipment, including chairs, units and cabinetry. A-dec, Inc. is the largest manufacturer of dental equipment in the U.S.

While the Company makes purchases from many suppliers and there is generally more than one source of supply for most of the categories of products sold by the Company, the concentration of business with key suppliers is considerable. The Company s top ten supply vendors accounted for approximately 43% and 42% of the cost of dental products sold in fiscal 2011 and 2010, respectfully. Of these ten, the top two vendors accounted for 11% and 7% of both fiscal 2011 and fiscal 2010 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 distributors. The dental supply market is extremely fragmented. In addition to Patterson 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.

The Company approaches its markets by emphasizing and delivering a value-added model to the practitioner. To differentiate itself from its competition it deploys a strategy of premium customer service, a highly qualified and motivated sales force, experienced service technicians, an extensive breadth and mix of products and services, accurate and timely delivery of product, strategic location of sales offices and distribution centers, and competitive pricing.

The Company also experiences competition in Canada in the dental supply market. The principal competitor is a national, full-service dental distributor, Henry Schein Ash Arcona, a unit of Henry Schein, Inc. The Company believes it competes in Canada on essentially the same basis as in the United States.

Veterinary Supply

Overview

Webster Veterinary, or Webster, is a leading distributor of veterinary supplies to companion-pet (dogs, cats and other common household pets) veterinary clinics in the United States. Management believes Webster is the second largest distributor of companion-pet veterinary supplies nationally. In addition, through its fiscal 2005 acquisition of Milburn Distributions, Inc., Webster is the leading national equine distributor in the United States.

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Webster provides products used for the diagnosis, treatment and/or prevention of diseases in companion pets and equine animals. Founded in 1946 and headquartered in Massachusetts, Webster has developed a strong brand identity as a value-added, full-service distributor of a virtually complete range of consumable supplies, equipment, diagnostic supplies, biologicals (vaccines) and pharmaceuticals. Webster s product offering, totaling more than 11,000 items, is sold by approximately 230 field sales representatives. In addition to its core business of distributing veterinary products, Webster has a significant agency commission business with a few large pharmaceutical manufacturers. Under the agency relationships, Webster typically earns a commission for soliciting orders through its sales force. In the agency relationship, Webster processes the order to the manufacturer but handles none of the product nor does Webster bill and collect from the customer. The agency commissions that Webster earns range from 3% to 8%, a portion of which is shared with the direct sales personnel. Webster s agency commissions accounted for less than 1% of its net sales in fiscal 2011. Net sales by Webster in fiscal 2011 were $674.9 million and operating income totaled $37.0 million.

The Company estimates the market for pharmaceuticals and supplies sold to companion animal and equine veterinarians through distribution is approximately $3.2 billion on an annual basis. Based upon the estimated $3.2 billion market, the Company believes its share of this market is approximately 21%. Similar to the dental supply market, the veterinary supply market is fragmented and geographically diverse. There are approximately 84,000 veterinarians practicing at 27,000 animal health clinics. The vast majority, approximately 66% of veterinarians, work in private animal health clinics specializing in small animals, predominately companion pets. The average private veterinary practice generates approximately $823,000 of annual revenue. These practices purchase between $80,000 and $120,000 of supplies each year, and similar to the dental practitioner, do not 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 are administered and dispensed by veterinarians.

Over the past 15 years, the demand for veterinary services has grown significantly faster than growth in the overall economy. The companion pet segment is the fastest growing area of the overall U.S. veterinary supply market. The Company believes this growth is sustainable 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. Today, 60% of U.S. households own a companion pet compared with 56% in 1988. Overall, 40% of all households in the U.S. own more than one pet.

- *Veterinary expenditures per household.* The amount pet owners are willing to spend caring for their pet is increasing substantially. The American Pet Products Manufacturers Association estimates that pet owners will spend $50.8 billion in 2011 to care for the American pet population, a significant increase compared to $17 billion spent in 1994.

- *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.

Strategy

Webster s objective is to build a leading national position in the companion animal veterinary market through internal expansion and acquisitions, while continuing to improve its profitability and enhance its value to customers. Its key strategies and priorities for accomplishing this are to open new geographic markets, make acquisitions that expand market share, emphasize value-added capabilities, consistently improve operating efficiencies and broaden the product offering.

Growing Through Internal Expansion and Acquisitions. In April 2004, Webster acquired the assets of ProVet, which was the companion animal veterinary supply division of Lextron, Inc. ProVet was a distributor with locations in Indianapolis, Kansas City, Houston, Denver and Seattle. Management believes this acquisition made Webster the second largest distributor of companion-pet veterinary supplies in the U.S. This acquisition added 44 sales representative territories expanding Webster s geographic coverage to include the states of Indiana, Illinois, Missouri, Kansas, Oklahoma, Colorado, Nevada, Idaho and Oregon. In addition, the acquisition increased market coverage in Washington state and Texas where Webster already had a presence.

In October 2004, Webster acquired Milburn Distributions, Inc., the largest distributor specializing in the U.S. equine veterinary supply market. Milburn s annualized sales exceed $50 million. The company operates facilities in Arizona, Kentucky, Texas and Florida. Most companion-pet and large animal veterinary supply distributors have not successfully served the nation s equine veterinarians due to the highly specialized nature of this niche market. Milburn has capitalized on this opportunity by focusing exclusively on the unique needs of equine veterinarians.

In fiscal 2006, Webster grew through both an acquisition and greenfield expansion. In December 2005, it acquired Intra Corp., one of the nation s leading developers of veterinary practice management software that is marketed under the IntraVet® brand name. IntraVet® software has more than 1,600 installations nationwide and furthers Webster s strategy of establishing a value-added business platform similar to that of Patterson Dental.

Also in fiscal 2006, Webster developed business through a program of internal start-ups, including operations in Ohio, Michigan and California. The expansion into California, which had been Webster s largest unserved market, was particularly successful and has made a solid contribution to Webster s sales results.

During fiscal 2008, Webster acquired New England X-Ray, Inc. and Associated Medical Supply, Inc. New England X-Ray expanded product and service offerings and Associated Medical Supply, Inc. strengthened Webster s competitive position in the southwestern U.S.

In October 2008, Webster acquired Columbus Serum Company, a full service distributor of companion-pet veterinary supplies, equipment and pharmaceuticals. Columbus Serum, with sales of over $160 million, serves veterinarians in the Midwest and mid-Atlantic regions and further strengthened Webster s position in these markets. Also in October 2008, Webster acquired Odyssey Veterinary Software, LLC, a developer and marketer of Diagnostic Imaging Atlas (DIA®) software. DIA® software encompasses 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 April 2010, the Company made a minority equity investment of 33.3% in VetSource, a leading North American provider of integrated specialty pharmacy distribution, including home delivery capabilities.

In fiscal 2011, Webster acquired ePet Records, LLC. Rebranded as ePetHealth, this innovative communication platform provides practitioners with a secure Internet portal for their clients to access their pets medical information 24/7 plus descriptive, easy-to-understand resources and educational materials with 3D graphics. 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. Webster 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. Webster 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. Webster meets its customer s requirements by delivering frequent, small quantity orders rapidly and reliably from strategically located distribution centers. In addition, the recently acquired DIA® and ePet Records products and services described above further broaden Webster s value-added platform.

Continuing to Improve Operating Efficiencies. Webster continuously pursues opportunities to lower costs and improve efficiencies. As of April 2011, Webster shares seven distribution facilities with one or both of the other operating units. The unit has also deployed the eMAGINE® order entry system for its customers and sales personnel. Today, 20% of the orders processed by Webster are processed through eMAGINE. In addition, a customer system that can be used by multiple business segments but maintains the same look and feel of the eMAGINE® system has been fully deployed within the unit. The system provides customer support staff with integrated customer information on one screen.

Broaden the Product Line. Webster continuously seeks to broaden its portfolio of product offerings to maximize the opportunities within its existing customer base. In fiscal 2005, Webster successfully launched its private label initiative to supply veterinary customers with quality consumable goods (white goods, exam gloves, sutures, surgical blades and microscope slides) at value prices. Private label offerings have since been expanded and are expected to continue to grow. Management believes that product innovation allows Webster to maintain its competitive position and helps fuel internal growth. Management also believes that its emphasis on new product offerings enables its sales force to remain effective in creating demand among veterinarians.

Broadening the product line also includes bringing new, innovative services to the customer to allow them to generate greater revenues and profitability from their practice. As Webster continues to expand and build its equipment business, it has added clinic and hospital design capabilities and technical service personnel to install and repair equipment that is sold by Webster as well as by others. With the acquisitions of the IntraVet® practice management and DIA® software products, new services and revenue opportunities have become possible.

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:

	2011	2010	2009
Consumable and printed products	94%	94%	94%
Equipment and software	5	5	5
Other	1	1	1
Total	100%	100%	100%

Consumable and Printed Products

Webster offers its customers a broad selection of veterinary supply products including consumable supplies, pharmaceuticals, diagnostics, biologicals, flea and tick preventatives, and pet wellness and therapeutic diets. Consumable supplies distributed by Webster include lab supplies, various types and sizes of paper goods, needles and syringes, gauze and wound dressings, sutures, latex gloves, orthopedic and casting products. Webster s pharmaceutical products include anesthetics, antibiotics, injectibles, ointments and nutraceuticals. The diagnostics product category includes on-site testing products for heartworm, FIV, FELV and Parvo- virus. Biological products are comprised of vaccines and injectibles. Many of the office supply products sold by Patterson Office Supplies are also offered to the veterinary supply market.

Equipment and Software

Webster sells equipment for hospital, laboratory and general surgical use within the veterinary practice. Webster offers innovative, quality equipment that differentiates Webster from the competition. About 50% of veterinary equipment orders are drop shipped directly to the customer, of which 15% are custom ordered from the manufacturer. The other half of veterinary equipment is distributed in a manner similar to consumable supplies. Webster has expanded its software offerings through acquisitions to include IntraVet® practice management software and DIA® software.

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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 and Marketing

A primary component of Webster s value-added approach is its sales force. Due to the fragmented nature of the veterinary supply market, Webster believes 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 representative works within an assigned sales territory under the supervision of a location (branch) manager. Sales representatives are employees and are generally compensated on a commission basis, with some, less experienced, representatives receiving a base salary and commission.

To assist its sales representatives, Webster publishes a catalog, which contains approximately 11,000 SKUs. This catalog includes detailed descriptions and specifications of products and is utilized by practitioners as a reference source. Selected consumable supplies, new products, specially priced items and high demand items are promoted through merchandise fliers printed and distributed monthly.

Webster s website was built upon the proven technology of the Patterson Dental website and the site 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, build a shopping list of frequently purchased items and track their order status.

Distribution

As of April 30, 2011, veterinary products were stocked and shipped out of twelve distribution centers. The distribution of veterinary products is complemented by telesales representatives who are responsible for processing approximately 70% of customer orders in this segment. In order to meet the rapid delivery requirements of customers, most consumable products are delivered within 24 hours. Webster estimates that approximately 97% of its consumable orders are delivered to the customer on time.

Sources of Supply

Webster obtains products from nearly 575 vendors. While Webster makes purchases from many suppliers and there is generally more than one source of supply for most of the categories of products, the concentration of business with key suppliers is considerable. In fiscal 2011 and 2010, Webster s top 10 veterinary supply manufacturers comprised 67% and 66%, respectively, and the single largest supplier comprised 13% and 14%, respectively, of the total cost of veterinary supply sales.

Competition

Within the companion pet market segment, competitors range from small local distributors to large national and regional full-service companies, and to a lesser extent, mail order distributors or buying groups. Webster also competes directly with pharmaceutical companies who sell certain products directly to the customer.

The Company approaches its markets by emphasizing and delivering a value-added model to the practitioner. To differentiate itself from its competition it deploys 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.

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Rehabilitation Supply

Overview

Patterson Medical is headquartered in Bolingbrook, Illinois, and is the world s leading distributor of rehabilitation medical supplies and non-wheelchair assistive products. Patterson Medical believes it offers the most comprehensive range of distributed and self-manufactured rehabilitation products to health care professionals globally. Its 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. Patterson Medical operates as Sammons Preston and Medco Sports Medicine in North America and Homecraft, Mobilis, Rolyan and Ausmedic in international markets.

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). It offers its customers a one-stop shop through what it believes to be the most comprehensive catalog 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, Patterson believes Patterson Medical s reputation, global market presence and highly transferable business model will facilitate entry into new markets.

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 its capabilities, reputation and customer partnerships can result in a competitive advantage. Its goal is to become its customers first choice for rehabilitation medical supplies and assistive products in each of its 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), Patterson Medical s products often do not represent a major expense category for its customers.

In March 2002, Patterson Medical completed the acquisition of the Smith & Nephew Rehabilitation (SNR) division of Smith & Nephew PLC, and in doing so, acquired the Rolyan, Homecraft and Kinetec brand names. The SNR acquisition added 3,500 additional products, as well as a broad array of other brand names and proprietary products. The acquisition of SNR combined the two leading distributors of rehabilitation medical supplies to create what Patterson believes is the only one-stop shop in the industry. Patterson Medical manufactures or has exclusively manufactured for it products representing approximately 35% of its total revenue and purchases products representing the remaining 65%. Approximately 73% of its revenue is in North America.

Patterson Medical believes the rehabilitation medical supplies and assistive products 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. Patterson Medical does not participate in all product segments, so its addressable market (defined as the collective market for products sold by Patterson Medical) is approximately $3.4 billion worldwide. Patterson Medical believes that it has an industry leading market share of approximately 15% in a highly fragmented rehabilitation and assistive products market.

Patterson Medical believes 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, are expected to contribute to increased demand for products distributed by Patterson Medical. Specifically,

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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 2010 to 14 million by 2040 and 19 million by 2050. The 65 to 84 year old population is expected to more than double between 2010 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 it is 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 Occupational Outlook Handbook, there were approximately 185,000 PTs and 104,000 OTs in the U.S. in 2008. 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 largely driven by the (i) increase in the number of individuals with disabilities or limited function requiring therapy services; (ii) rapidly growing elderly population which is particularly vulnerable to chronic and debilitating conditions that require therapeutic services; (iii) baby-boom generation which is entering the prime age for heart attacks and strokes, increasing the demand for cardiac and physical rehabilitation; (iv) advances in medical technology which permit treatment of more disabling conditions; and (v) widespread interest in health promotion.

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. Younger patients are opting for reconstructive implants over less invasive alternatives due to improved and longer lasting implant technology. Patterson Medical believes it is well positioned to benefit from the growth in reconstructive implants, by providing orthopedic products, namely Continuous Passive Motion machines and splinting, which are critical to post-operatory rehabilitation.

International Operations

Patterson Medical s international operations are based in the United Kingdom (U.K.) and are made up of three divisions: Homecraft in the U.K., Kinetec in France and Ausmedic in Australasia. The international operations broadly reflect the same business model as used in the North American market. In the U.K., France and Australia, operations include sales and marketing, customer service, distribution, purchasing and administration. France also includes a self contained manufacturing unit.

Homecraft 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, Homecraft is the prime source for numerous established and market leading ADL brands, including products sold under the Sammons Preston Rolyan brand. The Homecraft catalog offers a broad line of ADL, therapy, rehabilitation and pediatric products containing over 10,000 items. Their catalog is circulated to PTs, OTs, loan equipment stores and private clinics, trade outlets and the general public.

Homecraft s central sales and marketing strategy is to provide a one-stop shop proposition to hospitals, local government and trade customers 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, Homecraft acquired Mobilis Healthcare, further increasing Homecraft s presence in the U.K. While Homecraft has historically been focused on occupational therapy, Mobilis has a strong position in the physical therapy market.

In June 2010, Homecraft acquired the rehabilitation businesses 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.

Kinetec consists of two operations, the manufacturing and distribution of Continuous Passive Motion machines (CPMs) for sale on a worldwide basis and the sale and distribution of Sammons Preston Rolyan and Homecraft products in France. Products are marketed to customers through product brochures, mailings, tele-marketing and a sales force that covers the French rehabilitation market.

Strategy

Patterson Medical s objective is to be the customers first choice for rehabilitation medical supplies and non-wheelchair assistive products in each of its chosen markets. It intends to continue its growth through internal expansion and acquisitions in both rehabilitation and related products.

Emphasizing Value-Added, Full-Service Capabilities. Patterson Medical currently offers their customer a one-stop shop for products through their industry leading catalog with over 20,000 items, focused primarily on physical and occupational therapy products. Patterson Medical adds new products each year to its 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.

Patterson Medical recognizes 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 its customers, while focusing on niches, worldwide, where its capabilities, reputation and customer partnerships can result in a competitive advantage. As such, Patterson Medical foresees an on-going evolution of its product offerings to meet the ever-increasing demands of its 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 several years, Patterson Medical made investments in new sales and marketing programs as a part of its accelerated adoption of Patterson s value-added strategy, including the expansion of its sales force and the establishment of a branch office structure. The Company believes these investments will result in additional sales and operating efficiencies into the future.

As of April 2011, the unit is distributing products from four shared distribution facilities that distribute products for two or all three Patterson operating units. In addition, the first shared branch office location was created late in fiscal 2007 in Northern California. This shared branch location includes both dental and

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rehabilitation segment personnel, while allowing the two units to share in certain common expenses. As of April 2011, Patterson Medical now shares eight branch facilities.

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

Patterson Medical acquired Homecraft and Kinetec as part of the SNR transaction. Patterson Medical is leveraging this platform to accelerate international expansion, in terms of both product lines and geographic regions. Since the SNR transaction, Patterson Medical has added over 550 pages of new products to the Homecraft catalog. Homecraft and Kinetec 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. Patterson Medical s management team believes its business model is transferable to other countries, and is using Homecraft 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 its sports medicine business, it 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 13 territory sales people. Medco markets to athletic trainers, schools and school nurses, daycare providers and healthcare professionals including podiatrists, chiropractors and physical therapists.

Over the past five years, Patterson Medical has opened seventeen branch offices through acquisitions and internal start-ups in desirable locations throughout the U.S. 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.

Patterson Medical acquired the rehabilitation business of Empi, Inc., with sales of approximately $30 million, in June 2009.

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:

	2011	2010	2009
Consumables	69%	71%	69%
Equipment and software	26	24	25
Other	5	5	6
Total	100%	100%	100%

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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
- 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. This 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, stationary bicycles and CPMs. 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 the unit 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

Its customers generally know Patterson Medical as Sammons Preston in the U.S. and Canada, and Homecraft in the remainder of the world. The Sammons Preston and Homecraft business models, which Patterson Medical employs in the U.S., Canada and the U.K., have successfully driven revenue growth and profitability.

A core element of Sammons Preston 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. The product management group works closely with customers, suppliers and the sales force to evaluate new products for inclusion in Sammons Preston s product offering. Sammons Preston adds 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 Patterson Medical 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 the 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 began developing a branch office structure in fiscal 2007 through a combination of internal start-ups and dealer/distributor acquisitions. Similar to a dental branch, these offices have a showroom, commissioned sales staff and service department that provides equipment installation, repair and warranty service for equipment manufacturers.

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

For many years, Sammons Preston and SNR had the only national sales forces in the U.S. dedicated to the clinical education and the sale of products to institutionally based PTs and OTs. With the acquisition and integration of SNR, Patterson Medical s clinical presence and sales capability have been enhanced with a broader product offering and a more complete range of proprietary brands. The Patterson Medical sales professionals, many of whom are therapists, are located throughout the U.S. and Canada. These sales professionals have utilized the extensive product line and the comprehensive national contracts portfolio to establish direct sales to U.S. hospitals, nursing homes and rehab clinics. Patterson Medical also sells to national healthcare distributors and local dealers.

The rehabilitation medical supplies and non-wheelchair assistive products that Patterson Medical offers are generally not subject to direct reimbursement pressures from Medicare and Medicaid. Patterson Medical does not engage in third-party billing and collection activities, but sells to customers, including dealers, who provide this service.

The rehabilitation medical supplies and non-wheelchair assistive products industry is highly fragmented. No one manufacturer, distributor or customer represents a significant portion of Patterson Medical s revenue.

To enhance the total value it brings to its customers, Patterson Medical created a value-added benefit program for its preferred customers. The Patterson Advantage® program from Patterson Medical entitles its 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 its ability to fill small unit size and small dollar amount orders. In the U.S., over 6,000 packages ship daily from five locations. A majority of products are shipped out of an eastern Pennsylvania distribution center that is shared among all three Patterson operating units. Patterson Medical moved into this facility during fiscal 2007, at which time an existing distribution center located in Bolingbrook, IL was closed. In fiscal 2009, Patterson Medical moved into a Dinuba, California distribution center that carries a full line of rehabilitation products. Certain high volume product is distributed from other multi-segment facilities within the Patterson Logistics distribution network. Approximately 95% of the packages in the U.S. ship via UPS.

Patterson Medical s call center operates from 7am 7pm Monday through Friday, processing in excess of 2,600 calls per day. In addition, the customer can order 24 hours a day through Patterson Medical s Internet websites. The combination of in-house staff and web ordering options provide customers with 24 hours a day, seven days a week ordering capabilities. Approximately 34% of customer orders are through the web or EDI, which has decreased call center activity, allowing us to provide more personalized service to our customers.

Sources of Supply

Among Patterson Medical s core strengths is its ability to obtain premier products from vendors. Patterson Medical purchases its products from over 1,500 suppliers and manufacturers. Although no single supplier accounted for more than 5% of Patterson Medical s total purchases in fiscal 2011, Patterson Medical frequently is the largest single customer of these manufacturers. Suppliers view the ability to distribute their products through Sammons Preston and Homecraft positively due to reputation, longstanding industry leading position, comprehensive catalogs, national account contracts, sales force presence and distribution capabilities. Patterson Medical continually works at strengthening its supplier relationships through the introduction of supplier programs.

Competition

Patterson Medical operates in the highly fragmented rehabilitation medical supplies and non-wheelchair assistive products 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 its competition.

Patterson Medical believes it is the only national player to offer, one-stop shopping to its customers. Patterson Medical s national and international scale and purchasing power provide Patterson Medical with a favorable cost position and strong pricing trends relative to its competition.

For further information on each of the Company s 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 11 to the Consolidated Financial Statements.

Patterson Companies, Inc.

Trademarks

Patterson has registered with the United States Patent and Trademark Office numerous trademarks including Patterson®, PDXpress®, EagleSoft® and eMAGINE®. With the addition of Patterson Medical, the Company acquired the marks Sammons, Preston, Roylan, Homecraft and a number of other trade names and trademarks. The Company believes that their trademarks are well recognized within their respective industries, and are therefore valuable assets of the Company.

Employees

As of April 30, 2011, the Company had approximately 7,100 employees. Patterson has not experienced a shortage of qualified personnel in the past, and believes that it will be able to attract such employees in the future. None of Patterson s employees are subject to collective bargaining agreements or represented by a union. The Company considers its relations with its employees to be good.

Website

The Company makes available, free of charge, on its website, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports 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 the Company s website at *www.pattersoncompanies.com.*

Information relating to corporate governance at Patterson, including our Principles of Business Conduct and Code of Ethics, and information concerning our executive officers, 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 our website is not being included as a part of, or incorporating it by reference into, our Annual Report on Form 10-K.

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Governmental Regulation

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

The Company also is required to be licensed as a distributor of drugs and medical devices by each state in which it conducts business. In addition, several state Boards of Pharmacy require the Company to be licensed in their state for the sale of animal health products within their jurisdiction. The Company is also subject to the requirements of foreign laws and regulations, which impact the Company s operations in those foreign countries where the Company conducts business.

While the Company believes it is in substantial compliance with the laws and regulations which regulate its business, and that it possesses all the licenses required in the conduct of its business, the failure to comply with any of those laws or regulations, or the imposition of new laws or regulations could negatively impact the Company s business.

Executive Officers of the Registrant

Set forth below is the name, age and position of the executive officers of the Company as of June 29, 2011.

Scott P. Anderson	44	President and Chief Executive Officer Patterson Companies, Inc.
Peter L. Frechette	73	Chairman of the Board Patterson Companies, Inc.
R. Stephen Armstrong	60	Executive Vice President, Chief Financial Officer and Treasurer Patterson Companies, Inc.
Ranell Hamm	49	Vice President and Chief Information Officer Patterson Companies, Inc.
Jerome E. Thygesen	53	Vice President, Human Resources Patterson Companies, Inc.
Paul A. Guggenheim	51	President Patterson Dental Supply, Inc.
George L. Henriques	50	President Webster Veterinary Supply, Inc.
David P. Sproat	44	President Patterson Medical Products, Inc.

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

Background of Executive Officers

Scott P. Anderson became the Company s Chief Executive Officer in April 2010 and was appointed to the Board of Directors in June 2010. Mr. Anderson had held the position of President of the Company s subsidiary, Patterson Dental Supply, Inc., since June 2006 and previously held the positions of Vice President, Sales and Vice President, Marketing of Patterson Dental Supply, Inc. Mr. Anderson joined Patterson in 1993 and currently serves on the board of directors of the Dental Trade Alliance, the trade association of dental manufacturers, distributors and laboratories.

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Peter L. Frechette currently serves as our Chairman of the Board and has held that position since May of 1985. He served as Chief Executive Officer from September 1982 through May 2005 and as President from September 1982 to April 2003. He has been one of our directors since March 1983. Prior to joining Patterson, Mr. Frechette was employed by American Hospital Supply Corporation for 18 years, the last seven of which he served as President of its Scientific Products Division.

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

Ranell Hamm was elected Vice President and Chief Information Officer in June 2011. Prior to joining Patterson, Ms. Hamm was Senior Director of Clinical Information Delivery for UnitedHealth Group since 2010. Prior to UnitedHealth Group she was employed with Assurant, Inc. since 1986, 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.

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 Patterson in 2000 following its 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 was named President of Webster Veterinary Supply, Inc. in August 2006. Mr. Henriques previously served as chief information officer of Webster Veterinary since 2000 and also serves on the board of directors of the American Veterinary Distributors Association.

David P. Sproat was named President of Patterson Medical Products, Inc. in September 2005. Mr. Sproat joined Patterson Companies in 1997 and has served in various sales and marketing capacities, including Vice President, Sales of the Patterson Dental Supply, Inc. unit from June 2004 through September 2005.

Item 1A. RISK FACTORS

The following list describes several risk factors that are unique to our company. The risk factors described below should be carefully considered, together with the information included elsewhere in this Annual Report on Form 10-K and other documents filed with the SEC. These risks factors are being disclosed based on instructions set forth in Item 503(c) of Regulation S-K.

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

Continued recessionary trends in the U.S. or global economy, or an uncertain economic outlook, could materially adversely affect our operating results and financial condition in the future. Economic conditions may continue to cause customers to reduce or delay purchases from us and may cause vendors to reduce their production or change their terms of sale to us. 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.

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We compete in distribution industries that are highly competitive and we may not be able to compete successfully.

Our competitors include numerous manufacturers and distributors. Some of our competitors may have different resources than we do, which could allow them to compete more successfully. Many of our products are available from several sources and our customers tend to have relationships with several different distributors. Competitors could obtain exclusive rights to market particular products, which we would then be unable to market. Our failure to compete effectively may limit and/or reduce our revenues, profitability and cash flow.

Acquisitions of businesses could negatively impact our profitability and return on invested capital.

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. 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.

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

There are a number of risks inherent in foreign operations, which include regulatory, economic and political requirements and changes. Additionally, foreign operations expose us to foreign currency fluctuations that could impact our results of operations and financial condition based on the movements of the applicable foreign currency exchange rates in relation to the U.S. Dollar.

Our future operating results can be affected by our relationships with our sales representatives and vendors and manufacturers of products that we distribute.

The inability to attract or retain qualified sales personnel or build or maintain relationships with vendors and manufacturers of products that we distribute may have an adverse effect on our business.

Interruptions with our vendors could adversely affect our operating results.

We are dependent on our vendors to supply products. If a vendor is unable to deliver product in a timely and efficient manner, whether due to financial difficulties or other reasons, we could experience lost sales. In addition, a portion of our products are 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 and affect foreign trade beyond our control and adversely affect our results of operations.

We sell products that could be subject to market and technological obsolescence.

We carry over 100,000 different product stock keeping units. Some of these products are subject to technological obsolescence that may not be within the control of the Company since we do not manufacture the products. If we were no longer able to sell these products due to customers making decisions not to buy them, we may have to record expense related to the diminution in value of inventories we have in stock that would 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 claims for damages arising out of the use of products we distribute, claims relating to intellectual property matters, and claims involving employment matters. We also may be subject to securities litigation.

The defense of these lawsuits may divert our management s attention, we may incur significant expenses in defending these lawsuits, and we may be required to 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 exposures.

Leadership development and succession planning.

Our business could suffer if it loses key personnel unexpectedly or fails to provide for an orderly management succession. Our success depends, in large part, on our 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. While our board of directors and management actively monitor our succession plans and processes, any sudden change at the senior management level may adversely affect our business.

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. Under U.S. generally accepted accounting principles, 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.

Certain U.S. and foreign laws could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the U.S. and abroad that may subject us to claims or other remedies. Our failure to comply with applicable laws may subject us to additional liabilities, which could adversely affect our business, financial condition and results of operations. In addition, the effects of healthcare related legislation and regulation may affect expenditures or reimbursements for rehabilitation and assistive products.

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

Our balance sheet includes some variable rate long-term debt and certain non-current assets that are sensitive to movements in short-term interest rates. The variable rates are comprised of LIBOR plus a spread and reset on certain dates, as prescribed by 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. Our results of operations could be adversely affected if there are sudden and dramatic changes in the interest rates within the markets.

Item 1B. UNRESOLVED STAFF COMMENTS

The Company has received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2011 fiscal year that remain unresolved.

Item 2. PROPERTIES

The Company owns its principal executive offices located in St. Paul, Minnesota, and the majority of its 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

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sales offices are leased for varying and usually shorter periods, with or without renewal options. The Company believes its properties are in good operating condition and are suitable for the purposes for which they are being used.

Patterson Logistics Services

Effective at the beginning of fiscal 2007, the majority of the assets used to distribute product that were previously owned and operated by individual business units were transferred to a wholly owned subsidiary of Patterson Companies, Inc. The new entity, Patterson Logistics Services, Inc. (PLSI) operates the distribution function for the benefit of all three of the sales and marketing business units.

As of April 30, 2011, PLSI operates 17 distribution centers totaling approximately 1,300,000 square feet of distribution space as follows:

- 2 dental distribution centers located in Indiana and Hawaii.
- 6 veterinary distribution centers. Sales and administrative personnel for the veterinary segment generally share space with PLSI in these distribution facilities, which are located in Alabama, Colorado, Indiana and Texas.
- 1 rehabilitation distribution center in New York State.
- 1 distribution center located in Texas, which stocks and distributes both dental and rehabilitation products.
- 4 distribution centers which stock and distribute dental and veterinary products, located in Iowa, Illinois, South Carolina and Washington state; and,
- 3 distribution centers located in California, Florida and Pennsylvania which distribute product for all three of the business units. These locations replaced nearby distribution centers which distributed product of just one of the business units.

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

Patterson Technology Center

The Patterson Technology Center leases a 45,000 square foot building in Illinois. The Company is currently building a state-of-the-art 100,000 square foot facility near the current location. The construction of this owned facility will be completed in fiscal 2012 and will replace the leased facility that is currently occupied.

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 the provinces of Quebec and Alberta, Canada.

The dental supply segment is headquartered in the Company s principal executive offices, which is an owned facility. This segment also maintains sales and administrative offices inside the United States at approximately 90 locations in over 40 states and at 10 locations in Canada. The majority of these locations are leased.

Veterinary Supply

Headquartered in Devens, Massachusetts, Webster Veterinary has executive, sales and marketing, human resource, accounting, and procurement personnel in this location. It s field sales and administrative personnel generally reside within the PLSI distribution center and branch locations shared with the dental supply segment.

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Rehabilitation Supply

Patterson Medical is headquartered in Bolingbrook, Illinois. Distribution of product in North America is generally performed at PLSI-operated locations. Domestically, the rehabilitation supply segment maintains manufacturing facilities in Wisconsin, New York and South Carolina. Seventeen branch office locations include eight that are shared with the dental supply segment.

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

Item 3. LEGAL PROCEEDINGS

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

The Company maintains product liability insurance coverage for any potential liability for claims arising out of products sold by the Company. While the Company believes its insurance coverage is adequate, there can be no assurance that the insurance coverage 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 the Company could involve claims not covered by insurance or indemnification agreements, and could have a material adverse effect on the Company s business or financial condition.

As of April 30, 2011, the Company had accrued our best estimate of potential losses relating to product liability and other claims that were probable to result in a liability and for which it was possible to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to the Company s 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. REMOVED AND RESERVED

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PART II

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

The Company 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 the Company 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
Fiscal 2011		
First Quarter	$ 32.22	$ 24.13
Second Quarter	$ 29.02	$ 24.88
Third Quarter	$ 33.29	$ 27.54
Fourth Quarter	$ 34.80	$ 30.42
	High	**Low**
Fiscal 2010		
First Quarter	$ 24.16	$ 19.55
Second Quarter	$ 28.34	$ 23.84
Third Quarter	$ 30.94	$ 24.37
Fourth Quarter	$ 32.84	$ 28.06

On June 24, 2011, the number of holders of record of common stock was 2,546. The transfer agent for the Company s common stock is Wells Fargo Bank, N.A., 161 North Concord Exchange, South St. Paul, Minnesota, 55075-0738, telephone: (651) 450-4064.

The Company had not paid any cash dividends on its common stock since its initial public offering in 1992 until the fourth quarter of fiscal 2010, at which time a $0.10 per share cash dividend was paid. The Company paid a $0.10 quarterly cash dividend for the first-three quarters of fiscal 2011 and increased the per share dividend to $0.12 in the fourth quarter. The Company expects to continue to pay a quarterly cash dividend for the foreseeable future; however, the payment of dividends is within the discretion of the Company s Board of Directors and will depend upon the earnings, capital requirements and operating and financial condition of the Company, among other factors.

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

In December 2007, the Company s Board of Directors expanded a share repurchase program to allow for the purchase of up to twenty-five million shares of common stock in open market transactions. As of March 2011, approximately 20.5 million shares had been repurchased under this authorization. In March 2011, the Board of Directors cancelled the existing share repurchase program and replaced it with a new authorization to repurchase an additional twenty-five million shares of common stock. As of April 30, 2011, 23,090,999 shares remain available under the repurchase authorization, which expires on March 15, 2016.

The following table presents activity under the stock repurchase program during the fourth quarter of fiscal 2011 ended April 30, 2011.

	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 30, 2011 to February 26, 2011		$		5,905,430
February 27, 2011 to March 26, 2011	210,501	$ 31.59	210,501	24,789,499

March 27, 2011 to April 30, 2011	1,698,500	$ 32.60	1,698,500	23,090,999
	1,909,001	$ 32.48	1,909,001	

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The graph below compares the cumulative total shareholder return on $100 invested at the market close on April 28, 2006, the last trading day before the beginning of our 2007 fiscal year, through the end of fiscal 2011 with the cumulative return of the same time period on the same amount invested in the S&P 500 Index and a Peer Group Index, consisting of 32 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.

			Period Ending			
Company/Market/Peer Group	**4/29/2006**	**4/28/2007**	**4/26/2008**	**4/25/2009**	**4/24/2010**	**4/30/2011**
Patterson Companies, Inc.	$ 100.00	$ 111.36	$ 102.85	$ 61.08	$ 100.94	$ 108.37
S&P 500 Index	$ 100.00	$ 116.15	$ 110.81	$ 70.51	$ 101.17	$ 115.65
Medical & Hospital Equipment	$ 100.00	$ 111.96	$ 113.58	$ 79.58	$ 115.34	$ 140.46

			Fiscal Year Ending			
Company/Market/Peer Group	**4/29/2006**	**4/28/2007**	**4/26/2008**	**4/25/2009**	**4/24/2010**	**4/30/2011**
Patterson Companies, Inc.	$ 100.00	$ 111.36	$ 102.85	$ 61.08	$ 100.94	$ 108.37
S&P 500 Index	$ 100.00	$ 116.15	$ 110.81	$ 70.51	$ 101.17	$ 115.65
Medical & Hospital Equipment	$ 100.00	$ 111.96	$ 113.58	$ 79.58	$ 115.34	$ 140.46

* The current composition of SIC Code 5047 Medical, Dental & Hospital Equipment & Supplies is as follows:
ActiveCare, Inc., Alpha Pro Tech, Ltd., ALR Technologies, Inc., American Medical Alert, Animal Health International, Inc., China Yibai United Guarantee International Holding, Inc., Chindex International, Inc., CompuMed, Inc., Five Star Quality Care, Inc., Henry Schein, Inc., Hybrid Energy Holdings, Inc, McKesson, Inc., Merit Medical Systems, Modern Mobility Aids, Inc., Molecular Imaging Corporation, MWI Veterinary Supply, Inc., Nano Mask Inc, NetMed, Inc., NOVT Corporation, Otter Tail Corporation, Owens & Minor, Inc., Patterson Companies, Inc., PSS World Medical, Inc., Pure Bioscience Inc., Scantek Medical, Inc., Shandong Zhouyuan Seed and Nursery Co., Ltd., THC Homecare, Inc., Trinity3 Corporation, Valesc Holdings, Inc., Varian Medical Systems, Inc., Vertical Health Solutions, Inc., Vision-Sciences, Inc.

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Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share amounts)

	Fiscal Year Ended				
	April 30, 2011	April 24, 2010	April 25, 2009	April 26, 2008	April 28, 2007
Statement of Operations Data:					
Net sales	$ 3,415,670	$ 3,237,376	$ 3,094,227	$ 2,998,729	$ 2,798,398
Cost of sales	2,271,445	2,147,975	2,050,703	1,967,004	1,829,526
Gross margin	1,144,225	1,089,401	1,043,524	1,031,725	968,872
Operating expenses	768,217	734,110	697,298	672,522	633,182
Operating income	376,008	355,291	346,226	359,203	335,690
Other income net	(20,121)	(16,250)	(26,575)	(1,775)	(6,082)
Income before income taxes	355,887	339,041	319,651	357,428	329,608
Income taxes	130,502	126,787	120,016	132,570	121,272
Net Income	$ 225,385	$ 212,254	$ 199,635	$ 224,858	$ 208,336
Diluted earnings per share	$ 1.89	$ 1.78	$ 1.69	$ 1.69	$ 1.51
Weighted average shares and potentially dilutive shares outstanding	119,066	119,202	118,355	132,910	137,769
Dividends per common share	$ 0.42	$ 0.10			
Balance Sheet Data:					
Working capital	$ 863,278	$ 785,407	$ 603,295	$ 518,974	$ 509,021
Total assets	2,564,968	2,422,969	2,133,620	2,076,373	1,940,320
Total debt	525,000	525,000	547,000	655,034	180,024

Note: 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

The Company s fiscal 2011 financial information is summarized in this Management s Discussion and Analysis, the Consolidated Financial Statements, and the related Notes. The following background is essential to more fully understand the Company s financial information.

Patterson operates a distribution business in three complementary markets: dental supply, veterinary supply and rehabilitation supply. Historically the Company s 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, the Company expanded its strategy to take advantage of a parallel growth opportunity in the veterinary supply market by acquiring the assets of J. A. Webster, Inc. on July 9, 2001. The Company added a third component to its business platform in fiscal 2004 when it 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, its gross margin is substantially lower. A major contributor to this margin differential results from the high concentration of pharmaceutical products distributed by the veterinary business, which are sold at margins well below the average for other consumable products.

There are several important aspects of the Company s business that are useful in analyzing the Company, including: (1) market growth in the various markets it operates; (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 that it has acquired.

The Company operates with a 52-53 week accounting convention with its fiscal year ending on the last Saturday in April. Fiscal year 2011 included 53 weeks, while fiscal years ending in 2010 and 2009 were both comprised of 52 weeks. Fiscal 2012 will be comprised of 52 weeks.

In the fourth quarter of fiscal 2010, the Company initiated a quarterly cash dividend of $0.10 per share. A quarterly cash dividend of $0.10 per share was paid throughout fiscal 2011, except in the fourth quarter when the dividend was increased to $0.12 per share. Total dividends declared in fiscal years 2011 and 2010 were $50 million and $12 million, respectively. The Company expects to continue paying a quarterly cash dividend into the foreseeable future.

During fiscal 2011, the Company repurchased approximately 3.3 million shares of its common stock at a cost of approximately $99 million. Through these repurchases and the cash dividends, the Company returned nearly $149 million of cash to its shareholders.

With respect to the Company s Employee Stock Ownership Plan (ESOP), allocations to employees have been made almost entirely from shares of Company stock acquired in 1990. Although the accounting standards in effect in 1990 were subsequently revised, the accounting for the shares acquired in 1990 was grandfathered under the revised standards. The accounting for the 1990 shares called for the expensing of shares released for allocation to employees to be based on the original cost of the shares acquired. The revised standards require the expensing of shares released based on fair market value at the time the shares are committed to be released.

Since the revision of the accounting standards, the ESOP has acquired additional shares, nearly all of which are still held for future allocation employees. As the final allocation of the shares acquired in 1990 was made at the end of fiscal 2011, the ESOP shares that will be contributed to employees in fiscal 2012 and beyond will result in a non-cash expense equal to the fair market value of the shares when released.

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Based on the Company s best estimate of a competitive ESOP contribution to employees in fiscal 2012, we estimate the non-cash ESOP expense will increase our operating expenses by approximately $23 million and $0.12 per share in fiscal 2012 as compared to fiscal 2011. While this expense does create a comparability discrepancy between the Company s past and foreseeable future, it does not change the Company s underlying cash generation ability or the fundamentals of the business.

Results of Operations

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

	2011	2010	2009
Net sales	100.0%	100.0%	100.0%
Cost of sales	66.5%	66.3%	66.3%
Gross margin	33.5%	33.7%	33.7%
Operating expenses	22.5%	22.7%	22.5%
Operating income	11.0%	11.0%	11.2%
Other income, net	0.2%	0.3%	0.1%
Interest expense	0.8%	0.8%	1.0%
Income before taxes	10.4%	10.5%	10.3%
Income taxes	3.8%	3.9%	3.9%
Net income	6.6.%	6.6%	6.5%

Fiscal 2011 Compared to Fiscal 2010

Net Sales. Consolidated net sales in fiscal 2011 were $3,415.7 million, an increase of 5.5% from $3,237.4 million in fiscal 2010. The growth in sales includes a 2.1% contribution from acquisitions and a 0.4% favorable impact of changes in foreign currency translation rates. Each of the business units continued to be impacted by the weakness in the general economy during fiscal 2011. Fiscal 2011 also included an additional or fifty-third 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 one and a half percent.

Dental segment sales in fiscal 2011 rose 3.2% to $2,236.1 million from $2,167.5 million in fiscal 2010. Acquisitions added 0.1% to sales and the impact of currency translation rates was a favorable 0.7%. Consumable sales increased 3.2%, although they were affected by uneven patient demand for dental services as a result of the weak economy. While the economic recovery has been slow, we believe the fundamentals of the North American dental market continued to strengthen as fiscal 2011 progressed.

Dental equipment and software sales increased 3.6% in fiscal 2011 to $734.7 million. Sales of basic dental equipment and software grew 5.4%, led by sales of digital sensors and cone beam and panoramic imaging systems. Sales of CEREC® dental restorative systems declined 2.4%.

As market fundamentals have started to improve, we believe dentists have gradually become more confident about investing in their practices. In addition, we implemented additional marketing programs at the beginning of the fourth quarter of fiscal 2011. These two factors helped in reaching equipment sales growth of 11.2% in the fourth quarter. We believe we are rebuilding sales momentum and are forcasting stronger equipment sales growth for fiscal 2012 as compared to fiscal 2011, however, our equipment sales may experience quarterly fluctuations as they have historically, given the sales cycles related to these capital expenditures and the potential impact of prevailing economic conditions.

Other dental sales, consisting primarily of technical service parts and labor, software support services and artificial teeth, increased 2.0% in fiscal 2011.

Webster Veterinary sales grew 4.9% to $674.9 million. Sales of consumables were 4.0% higher in fiscal 2011 and equipment and software sales of $34.3 million represented an increase of 16.8% compared to fiscal 2010. The Veterinary equipment business has been growing at solid rates in recent quarters, and we intend to continue investing in this relatively new portion of Webster s operation that has expanded the unit s full-service platform. Due to a change in distribution by a major pharmaceutical company at the beginning of calendar 2010, Webster s consumable sales growth was negatively impacted during the first two-thirds of the fiscal year. A higher percentage of doses sold during this period were under agency agreements as compared to the prior year where more doses were sold under buy-sell agreements. Under agency agreements, Webster reports a small commission for each dose sold, while under a buy-sell agreement, the full transaction value of the dose is recorded as revenue. This impact was estimated to be approximately three percentage points during the period.

Patterson Medical sales of $504.7 million were 18.4% higher than fiscal 2010. Acquisitions, primarily those from the health care business of DCC plc (DCC), contributed 15.3% of sales growth. Internally generated sales growth, which excludes the contribution of acquisitions and a 0.4% negative impact from foreign currency translation rates, was 3.5% in fiscal 2011.

Gross Margin. Consolidated gross margin was 33.5% in fiscal 2011 and 33.7% in fiscal 2010.

The Dental segment s gross margin decreased 30 basis points to 36.5% in fiscal 2011. Lower vendor rebates and a higher level of promotional activities as compared to fiscal 2010 contributed to the decline.

Gross margin of the Veterinary unit was 19.3%, a decrease of 20 basis points from 19.5% in fiscal 2010. Price increases on a line of pharmaceutical products by a manufacturer and lower vendor rebates were primary factors of the decline in gross margin.

Patterson Medical s gross margin of its historical operations expanded during fiscal 2011; however, these improvements were offset by lower gross margins of the operations acquired from DCC, which carried lower gross margins than Patterson Medical s historical business. For the year, gross margin declined 10 basis points to 39.1%.

Operating Expenses. The consolidated operating expense ratio in fiscal 2011 was 22.5%, or 20 basis points lower than fiscal 2010.

The Dental unit s operating expense ratio decreased 30 basis points, reflecting expense controls and leverage gained from higher sales on fixed costs.

The ratio of the Veterinary unit s operating expenses as a percent of sales decreased 80 basis points, due to leverage on higher sales and cost savings from the further integration of the October, 2008 Columbus Serum acquisition. Those integration activities were completed in fiscal 2011.

Patterson Medical s operating expense ratio temporarily increased 80 basis points in fiscal 2011 due to the direct costs of the transaction and the cost structure of the assets acquired from DCC. Integration activities throughout the year were largely complete at the end of fiscal 2011 and are expected to result in a lower cost of operations for the acquired businesses in fiscal 2012.

Operating Income. Operating income was $376.0 million in fiscal 2011, or 5.8% higher compared to $355.3 million in fiscal 2010. Operating margin was 11.0% in fiscal years 2011 and 2010, respectively.

Interest Expense. Interest expense was $25.8 million in fiscal 2011 compared to $25.7 million in fiscal 2010.

Other Income, net. Other income, net of other expenses, was $5.7 million in fiscal 2011 compared to $9.4 million in fiscal 2010. The decrease was due to losses related to the Veterinary unit s equity interest in VetSource. Interest income totaled $8.2 million in fiscal 2011, compared to $8.6 million in fiscal 2010.

Income Taxes. The effective income tax rate was 36.7% in fiscal 2011 as compared to 37.4% in fiscal 2010. A portion of the dividends paid on shares held by our Employee Stock Ownership Plan are deductible on the Company s income tax return. As there were more dividends paid in fiscal 2011 than in fiscal 2010, the deductible amount was larger, resulting in a lower effective income tax rate in fiscal 2011.

Net Income and Earnings Per Share. Net income increased 6.2% to $225.4 million in fiscal 2011 due primarily to the increase in operating income as discussed above. Earnings per diluted share and dilutive shares outstanding were $1.89 and 119.1 million, respectively, in fiscal 2011 and $1.78 and 119.2 million, respectively, in fiscal 2010.

Fiscal 2010 Compared to Fiscal 2009

Net Sales. Fiscal 2010 consolidated sales were $3,237.4 million, an increase of 4.6% compared to $3,094.2 million in fiscal 2009. Acquisitions contributed 4.1% to sales growth, resulting mostly from acquisitions by the veterinary and rehabilitation units. Fluctuations in foreign currency translation rates contributed 0.4% to sales growth. During both fiscal 2010 and 2009, sales at each of our business units were adversely affected by the recession and slow economic recovery.

Sales of our consolidated dental supply unit were $2,167.5 million, a decrease of 0.3% from $2,174.4 million in fiscal 2009. Fluctuations in foreign currency rates related to our dental operations in Canada and the contribution from acquisitions had a favorable impact on fiscal 2010 sales of 0.6% and 0.7%, respectively. Sales of dental consumable supplies decreased 0.2% to $1,214.8 million. Beginning late in the first half of fiscal 2009 and continuing throughout fiscal 2010, the sales of consumables were affected by reduced discretionary spending and high levels of unemployment resulting from the general economic conditions, particularly in the United States.

Dental equipment sales declined 3.0% in fiscal 2010 to $709.5 million. We believe the weak economy caused many dental practitioners to focus their investment dollars on equipment with rapid and high rates of return. Sales of basic equipment were 7.5% lower in fiscal 2010, while sales of CEREC® 3D dental restorative systems rose 15.7%. Within the basic equipment category, certain technology products with rapid rates of return such as digital imaging systems (sensors, panoramic and cone beam units) outperformed core equipment such as chairs, power units and cabinetry.

Other dental sales, consisting primarily of technical service parts and labor, software support services and artificial teeth, grew 7.7% in fiscal 2010.

Sales of Webster Veterinary grew 16.9% to $643.6 million. Acquisitions, primarily the Columbus Serum Company (Columbus) acquired in October 2008, contributed 11.5% of the sales growth. Internally generated sales rose 5.4%.

Patterson Medical sales of $426.3 million were 15.5% higher than fiscal 2009. Acquisitions, primarily those of Mobilis Healthcare Group (Mobilis) late in fiscal 2009 and Empi Therapy Solutions (Empi) in June 2009, contributed 13.4% of the sales growth. Internally generated sales growth, which excludes the contribution of acquisitions and a 0.3% negative impact related to foreign currency translation rates, was 2.4% in fiscal 2010.

Gross Margin. Consolidated gross margin was 33.7% in both fiscal 2010 and fiscal 2009.

The Dental segment s gross margin improved 40 basis points to 36.8% in fiscal 2010, largely due to product mix. Core equipment such as chairs, units and lights, generally have a lower gross margin than newer, technology related equipment.

Gross margin of the Veterinary unit was unchanged at 19.5%.

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Patterson Medical s gross margin declined 30 basis points due primarily to the Mobilis and Empi acquisitions which carry lower gross margins than Patterson Medical s historical business.

Operating Expenses. The consolidated operating expense ratio in fiscal 2010 was 22.7%, or 20 basis points higher than fiscal 2009. In the second half of fiscal 2009 and continuing throughout fiscal 2010, the Company took steps involving a range of cost control initiatives including a hiring freeze except in the area of sales representatives, a wage freeze and restrictions on travel and other more discretionary expenses. In the first quarter of fiscal 2010, the Company enacted company-wide salary reductions. While these measures have slowed expense growth, their impact was lessened by acquisition-related expenses, including amortization expense, and higher levels of incentive compensation based on achievement of operating targets for the current year.

The Dental unit s operating expense ratio increased 40 basis points, reflecting increased fixed costs on lower sales volume and acquisition-related expense.

The ratio of the Veterinary unit s operating expenses as a percent of sales improved 10 basis points, primarily due to leverage on higher sales.

Patterson Medical s operating expense ratio increased 70 basis points in fiscal 2010 due primarily to the cost structure of recent acquisitions.

Operating Income. Operating income was $355.3 million in fiscal 2010, or 2.6% higher compared to $346.2 million in fiscal 2009. Operating margin was 11.0% and 11.2% in fiscal years 2010 and 2009, respectively, as increases in semi-variable and fixed costs outpaced revenue growth causing the de-leveraging of the expense structure.

Interest Expense. Interest expense was $25.7 million in fiscal 2010 compared to $30.1 million in fiscal 2009. The $4.4 million decrease in interest expense is due primarily to $130 million of scheduled debt payments made in November 2008.

Other Income, net. Other income, net of other expenses, was $9.4 million in fiscal 2010 compared to $3.6 million in fiscal 2009. Interest income increased $3.1 million due primarily to higher levels of finance contracts held during fiscal 2010. Besides higher interest income, other income was $0.9 million, a change of $2.7 million from the loss of $1.8 million in fiscal 2009, due primarily to fluctuations in foreign currency rates.

Income Taxes. The effective income tax rate was 37.4% in fiscal 2010 as compared to 37.5% in fiscal 2009.

Net Income and Earnings Per Share. Net income increased 6.3% to $212.3 million in fiscal 2010 due to increases in operating income and other income, net as discussed above. Earnings per diluted share and dilutive shares outstanding were $1.78 and 119.2 million, respectively, in fiscal 2010 and $1.69 and 118.4 million, respectively, in fiscal 2009.

Liquidity and Capital Resources

Patterson s operating cash flow has been the Company s principal source of liquidity in the last three fiscal years. During fiscal 2009 and in early fiscal 2010, the Company used its revolving credit facility periodically as a source of liquidity in addition to operating cash flow.

Operating activities generated cash of $262.6 million in fiscal 2011, compared to $265.5 million in fiscal 2010 and $124.0 million in fiscal 2009. In the second half of fiscal 2009, the Company invested in a financing program to support marketing efforts directed at the CEREC® product line. This promotion, which ended at the close of fiscal 2009, had generated approximately $98 million of finance contracts that the Company could not immediately sell to its funding sources due to certain requirements in those funding arrangements. In fiscal 2011 and 2010, the Company invested in similar financing programs, but to a lesser degree.

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Capital expenditures were $36.9, $29.8 and $32.3 million in fiscal years 2011, 2010 and 2009, respectively. Significant expenditures in these years included the purchase and expansion of distribution facilities to accommodate multiple business units, the construction of a new facility for the Patterson Technology Center, the expansion of our general office building and continuing investments in information systems. In fiscal 2011, a project to build-out a purchased distribution center in Indiana has progressed and is operational for one business unit. In fiscal 2012, the remainder of the build-out will be completed and the building will serve as a distribution facility used by all three business units. This facility is replacing several smaller distribution facilities that have been or will be closed. In addition, the majority of the construction of a new building for the Patterson Technology facility in Illinois took place in fiscal 2011. This 100,000 square foot state-of-the-art facility will replace a nearby leased location and is expected to open in the second quarter of fiscal 2012. Capital expenditures in fiscal 2012 will include the interior furnishings for this facility.

The Company expects to invest approximately $30 million in capital expenditures during fiscal 2012, including investments in information systems and the completion of the Indiana distribution facility build-out and Patterson Technology facility projects discussed above.

Cash used for acquisitions and equity investments totaled $52.2 million in fiscal 2011, $53.7 million in fiscal 2010 and $124.8 million in fiscal 2009. The majority of the cash used for acquisitions in fiscal 2011 was related to the acquisition of the entities of DCC plc. The acquisition of the rehabilitation products business of Empi, Inc. and the investment in VetSource accounted for the majority of the cash used in fiscal 2010 and the acquisitions of Columbus, Dolphin, and Mobilis accounted for the majority of the cash used in fiscal 2009.

There were neither issuances of, nor principal payments on, debt during fiscal 2011. In fiscal 2010, the Company fully paid the $22 million that was outstanding under a revolving credit facility at the end of fiscal 2009. A maximum of $300 million is available under this facility which expires in fiscal 2013. Payments on long-term debt in fiscal 2009 were $130 million and related to a scheduled retirement of debt that had been issued in fiscal 2004.

In the fourth quarter of fiscal 2010, the Company declared and paid an initial quarterly cash dividend of $0.10 per share. In fiscal 2011, the Company continued to pay a quarterly cash dividend of $0.10 per share for the first three quarters, which was increased to $0.12 per share in the fourth quarter. Total dividends paid in fiscal 2011 and fiscal 2010 were $50.0 million and $11.9 million, respectively. In addition, during fiscal 2011 the Company repurchased approximately 3.3 million shares of its common stock for approximately $99 million. Under a share repurchase plan authorized by the board of directors, as of April 30, 2011, the Company may repurchase up to an additional 23.1 million shares of its common stock. This authorization remains in effect through March 15, 2016.

The Company expects to continue to pay a quarterly cash dividend and to return a portion of its excess cash to shareholders through additional repurchases of its common stock under the current authorization discussed above. While there are no assurances as to the level of repurchases in the future, the Company expects to use approximately $100 million to repurchase its common stock during fiscal 2012.

Management expects funds generated from operations and existing cash to be sufficient to meet the Company s working capital needs for the next fiscal year. The Company expects to continue to obtain liquidity from the sale of its equipment finance contracts. In addition, as of April 30, 2011, $300 million is available under a revolving credit facility. The Company 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.

The Company sells a significant portion of its finance contracts 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 the Company. The Company is allowed to participate in the conduit due to the quality of its finance contracts and

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its financial strength. Cash flow could be impaired if the Company s financial strength diminished to a level that precluded the Company from taking part in this facility or other similar facilities. Also, market conditions outside of the Company s control could adversely affect the ability of the Company to sell the contracts.

Customer Financing Arrangements

The Company is a party to two arrangements under which it has sold finance contracts it receives from its customers to outside financial institutions. These arrangements have provided sources of liquidity for the Company that would have to be replaced should each of the current financial institutions be unable or unwilling to continue in the arrangements. In the fourth quarter of fiscal 2010, one agreement with a group of banks led by U.S. Bank National Association with capacity of $110 million was amended such that no additional contracts will be sold under the arrangement. At the same time, the Company s other agreement with JPMorgan Chase Bank, N.A was amended to increase capacity from $367 million to $550 million.

In December 2010, the agreement with JPMorgan Chase Bank, N.A. was amended and restated and The Bank of Tokyo-Mitsubishi UFJ, Ltd. became the managing agent under the amended agreement. As of April 30, 2011, the capacity under this agreement is $500 million. The Company s financing business is described in further detail in Note 6 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K. Note 6, Customer Financing , discusses the nature and business purpose of the arrangements and the activity under each arrangement during fiscal 2011, including the amount of finance contracts sold and the holdback receivable owed to the Company.

Contractual Obligations

A summary of the Company s contractual obligations as of April 30, 2011 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	$ 525,000	$	$ 125,000	250,000	150,000
Interest on Long-Term Debt	115,241	24,675	45,834	28,559	16,172
Operating Leases	71,099	17,799	26,383	15,377	11,540

As discussed in Note 11 of the Notes to Consolidated Financial Statements, the Company adopted the provisions of ASC Topic 740, Income Taxes related to uncertainty in income taxes at the beginning of fiscal 2008. The Company is unable to determine its contractual obligations by year related to this pronouncement, 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 30, 2011, is $21.9 million.

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

Outlook

Over the last ten years, the Company has been able to grow revenue and earnings through its strategy of emphasizing its value-added, full-service capabilities, using technology to enhance customer service, continuing to improve operating efficiencies, and growing through internal expansion as well as from acquisitions. While we believe that the weakness in the general economy that has existed during much of fiscal 2011 and 2010 will continue to affect our performance for at least the near term, the Company s strategy will continue to focus on these key elements. With strong operating cash flow and available credit capacity, the Company is confident that it will be able to financially support its future growth. The Company believes that the strategic initiatives that it has implemented in the past several years, as well as those that will be implemented in fiscal 2012 and beyond,

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will strengthen the Company s operational platform and contribute to future growth. Given these factors, the Company considers itself well positioned to capitalize upon the growth opportunities in the dental supply, companion-pet veterinary supply and the worldwide rehabilitation supply markets.

Asset Management

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

	2011	2010	2009
DSO [(1)]	48	51	56
Inventory turnover [(2)]	6.9		