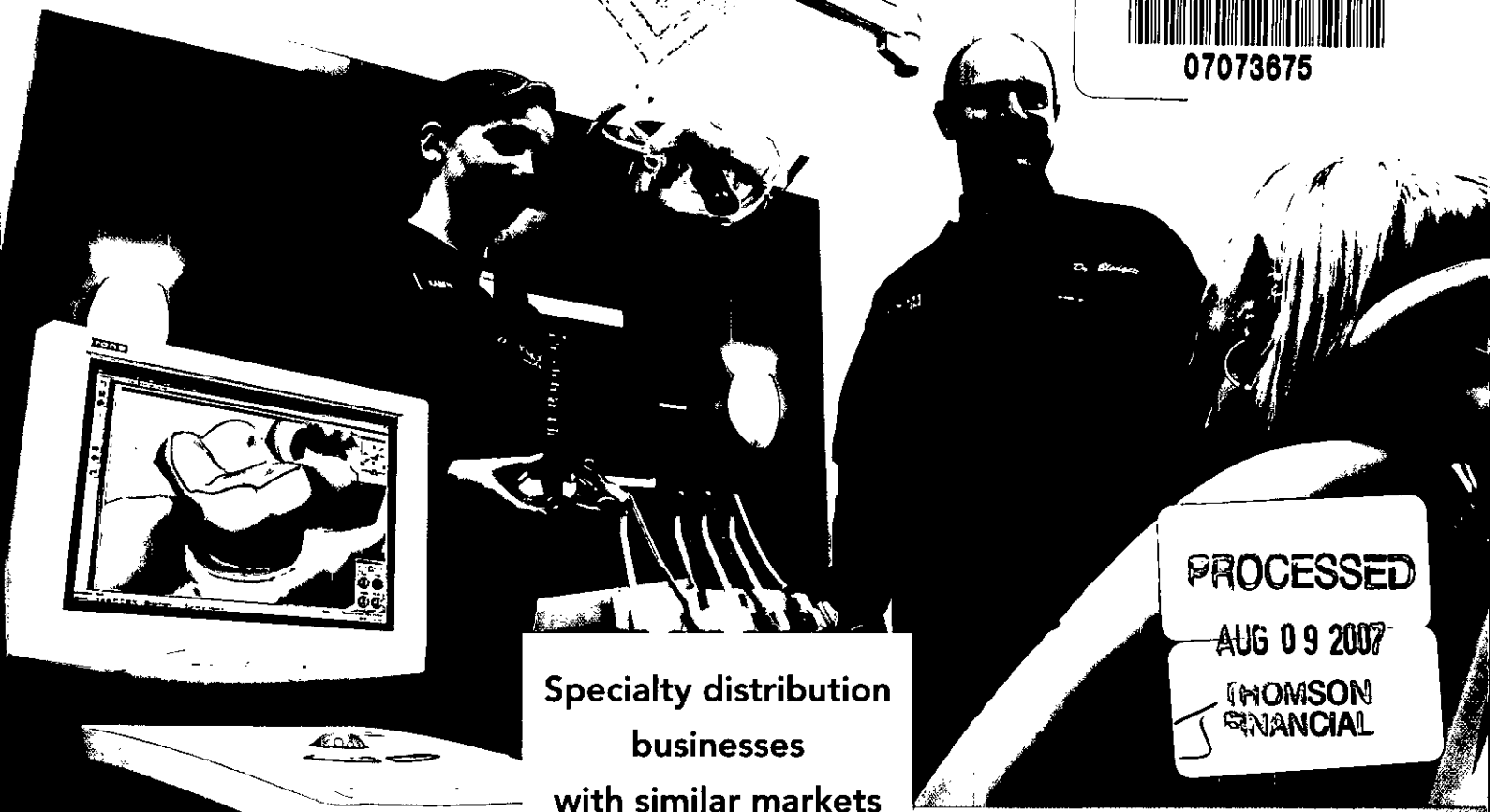
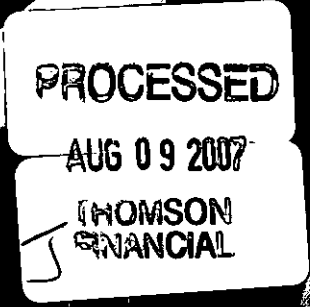


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**Specialty distribution
businesses
with similar markets
and sharing a
value-added
business model**



About Patterson Companies, Inc.

Industry-leading companies serving growing markets

Patterson Companies, Inc. is a value-added distributor serving the dental, companion-pet veterinarian and rehabilitation supply markets. • **Patterson Dental**, our largest business, provides a virtually complete range of consumable dental products, equipment and software, turnkey digital solutions and value-added services to dentists and dental laboratories throughout North America. • **Webster Veterinary** is the nation's second largest distributor of consumable veterinary supplies, equipment and software, diagnostic products, vaccines and pharmaceuticals to companion-pet veterinary clinics. • **Patterson Medical** is the world's leading distributor of rehabilitation supplies and non-wheelchair assistive patient products to the physical and occupational therapy markets.

Key Developments in Fiscal 2007

CEREC upgrades introduced

New, innovative software and a faster crown milling chamber were introduced as upgrades to the CEREC® 3D dental restorative system near the end of our third quarter. These enhancements, which have generated encouraging levels of customer interest, represent a significant advancement in dental CAD/CAM technology and take CEREC's performance to a new level.

Veterinary equipment strategy

Reflecting Webster Veterinary's strategic emphasis on meeting the capital needs of veterinary practices, sales of equipment, including digital radiography systems and IntraVet® practice management software, grew 70% in fiscal 2007. Webster's equipment and software initiative is part of the unit's overall strategy for strengthening its value-added proposition.

Medical branch offices

As part of the effort to strengthen its value-added platform in fiscal 2007, Patterson Medical started establishing full-service branch offices in selected markets through acquisitions of equipment dealers and by internal start-ups. During the past year, branches were opened in New York, Chicago, Greensboro and New Orleans.

Financial Highlights

(In thousands, except per share amounts)

| Year Ended | 4/28/2007 | 4/29/2006 | % Change | 4/30/2005 |
|---|-------------|-------------|----------|-------------|
| Net sales | \$2,798,398 | \$2,615,123 | 7% | \$2,421,457 |
| Gross profit | 968,872 | 914,429 | 6% | 862,511 |
| Operating income* | 335,690 | 323,012 | 4% | 302,136 |
| Net income* | 208,336 | 198,425 | 5% | 183,698 |
| Earnings per share-diluted* | \$ 1.51 | \$ 1.43 | 6% | \$ 1.32 |
| Cash, cash equivalents and short-term investments | \$ 241,791 | \$ 224,392 | | \$ 245,931 |
| Working capital | 509,021 | 437,727 | | 470,439 |
| Total assets | 1,940,320 | 1,911,718 | | 1,685,301 |
| Total debt | 180,024 | 300,041 | | 321,557 |
| Stockholders' equity | 1,379,214 | 1,242,521 | | 1,015,072 |

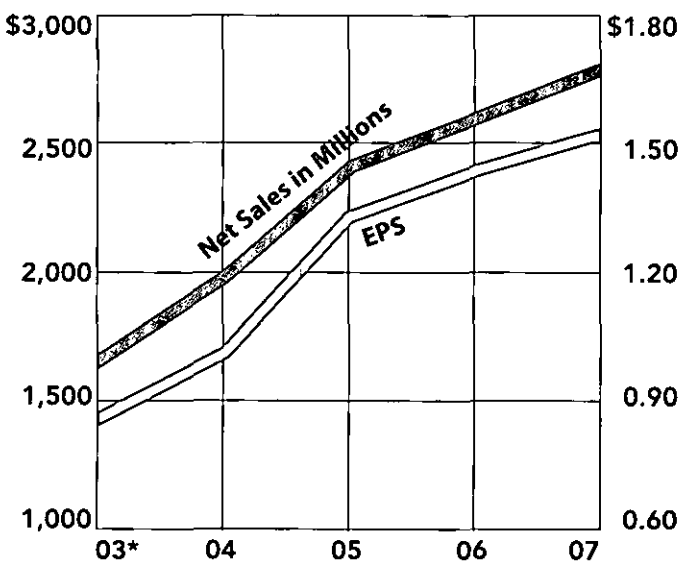
* During the year ended 4/28/2007, operating income, net income and earnings per share-diluted, were reduced by \$7,757, \$6,253, and \$0.05, respectively, due to the adoption of FASB Statement No. 123(R), "Share Based Payment", effective on April 30, 2006

Strongly Profitable Historic Growth

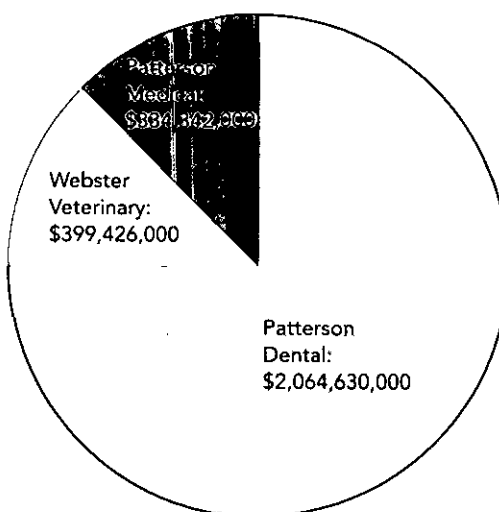
5-Year Compound Annual Growth Rates

Sales: 15%

EPS: 17%



Fiscal 2007 Revenues by Business Unit



* Excluding one-time, non-cash benefit of \$0.02 per diluted share related to impact of accounting change for goodwill

To Our Shareholders

To help ensure a successful future for Patterson, we worked hard at implementing a number of key initiatives and programs in fiscal 2007. Our veterinary and medical businesses increased their sales forces and added programs and systems to strengthen their value-added platform. At the same time, we started establishing a branch office structure for our medical unit through acquisitions and internal start-ups. In addition, to gain operating efficiencies and improve customer service at all three businesses, we continued to consolidate our distribution system and various business services as corporate functions. This undertaking and other key operating strategies are discussed in the following section of this report. Although the costs associated with our veterinary, medical and distribution initiatives affected our fiscal 2007 operating results, we believe

Patterson is increasingly well-positioned for generating solid levels of long-term sales growth and profitability. In all, we believe Patterson's future is very promising.

Financial Review

For the year ended April 28, 2007, consolidated sales increased 7% to \$2,798,398,000 from \$2,615,123,000 in fiscal 2006. On a comparable basis, which excludes the dental telemarketing operation of the former Accu-Bite business that was closed in May 2006,

consolidated sales increased approximately 8%. Net income of \$208,336,000 or \$1.51 per diluted share was up 5% from \$198,425,000 or \$1.43 per diluted share, in fiscal 2006. Fiscal 2007 earnings included stock compensation expense of approximately \$0.05 per diluted share.



From left: R. Stephen Armstrong, Executive Vice President and Chief Financial Officer; David P. Sproat, President, Patterson Medical; Gary D. Johnson, Vice President, Operations; George L. Henriques, President, Webster Veterinary; Scott P. Anderson, President, Patterson Dental; James W. Wiltz, President and Chief Executive Officer

Patterson Dental

Patterson Dental, which accounted for nearly three-quarters of our fiscal 2007 sales, is one of the largest dental distributors serving North American dentists and dental laboratories. Through its highly developed value-added business model, Patterson Dental is able to satisfy virtually all of the needs of dental practitioners in a convenient, efficient manner by providing a full range of consumable supplies, equipment,

software, and such specialized services as financing, equipment repair and office design. We deliver our products and services through the industry's largest field sales force, working out of more than 80 North American branch offices. In this way, Patterson Dental emphasizes close relationships with its customers.

Fiscal 2007 Results

Sales of Patterson Dental grew 8% to \$2,064,630,000 in fiscal 2007 on a comparable basis, or 5% when

Accu-Bite's telemarketing sales are included. The performance of this unit benefited from strong sales of consumable dental supplies and digital radiography systems and related software. Sales of basic equipment, including chairs, lighting and cabinetry, were inconsistent in fiscal 2007 but started rebounding during the latter stages of the year.

Positive CEREC Outlook

Sales of CEREC® 3D dental restorative systems, a new-technology product that enables a dentist to perform a crown restoration in one appointment rather than two, declined in fiscal 2007. Demand for this product was disrupted during the year as the market waited for the announcement of two significant CEREC enhancements that were ultimately introduced near the end of our third quarter. Innovative biogeneric software has made it much easier to design highly aesthetic and precise restorations. This new software also has simplified the learning process of the CEREC system for dentists. In addition, a much faster and more robust milling unit was introduced. These enhancements, which have generated encouraging levels of customer interest, represent a significant advancement in dental CAD/CAM technology and take



Digital radiography systems and related software remained Patterson Dental's fastest growing equipment category in fiscal 2007. This technology, which is expected to be installed eventually in most dental offices, has a current market penetration of approximately 30%. Patterson Dental is the exclusive North American distributor of Schick Technologies, whose sensors are used in the majority of digital radiography installations.

CEREC's performance to a new level. We largely completed the process of transitioning to these upgraded features in this year's first quarter, making us believe that CEREC sales should strengthen as we progress through fiscal 2008. All in all, we are optimistic about the prospects of this product line.

Webster Veterinary

Webster is the nation's second largest distributor of companion-pet or small animal veterinary supplies, equipment and pharmaceuticals. However, it is the leading distributor within its traditional markets in New England, the mid-

Atlantic states and the Southeast. As a result of strategic acquisitions and internal market start-ups over the past few years, Webster now serves companion-pet veterinary practices in most U.S. markets.

Fiscal 2007 Results

Webster's sales increased 15% in fiscal 2007 to \$399,426,000. Its core consumable supply business continued to perform strongly during the past year. In addition, reflecting Webster's strategic emphasis on meeting a broader range of veterinary needs, sales of

equipment, including digital radiography systems and IntraVet® practice management software, grew 70% in fiscal 2007.

Serving a Growing Market

Growing at an estimated 6% annual rate, the nearly \$3 billion U.S. companion-pet veterinary supply market is the fastest growing segment of the overall veterinary market. The growth of this market segment has been driven by rising pet ownership. It is estimated that over 60% of U.S. households own a companion pet. In addition, annual consumer spending on veterinary care is considerably higher today than a decade ago, reflecting new procedures and drugs that are significantly improving clinical outcomes as well as a commitment by owners to a higher level of care for their pets.

Strengthening Value-Added Platform

To capitalize on growth opportunities in the companion-pet market, Webster is focusing on strengthening its full-service, value-added platform. Increasing the size of its sales force and expanding its equipment and software offerings are critical elements of this



Growing at an estimated 6% annual rate, the nearly \$3 billion U.S. companion-pet veterinary supply market is the fastest growing segment of the overall veterinary market. Webster Veterinary, the nation's second largest distributor of small animal veterinary supplies and equipment, now serves veterinary practices in most U.S. markets as a result of strategic acquisitions and internal start-ups.

drive. Webster also has introduced an emerging range of related value-added services, including veterinary hospital design, equipment financing and local technical service. Webster will continue to move ahead aggressively with these initiatives in fiscal 2008.

Patterson Medical

Patterson Medical is the world's leading distributor of rehabilitation supplies, equipment and assistive living products, with a global market share that is three to four times larger than its nearest competitor. Patterson Medical also is the only distributor in

the rehabilitation marketplace that provides its customers with the convenience of a single source of supply for virtually all of their product needs. Owing many of the leading brands on the global rehabilitation market, no competitor can match the breadth and depth of Patterson Medical's offerings. Customers for its products include physical and occupational therapists in hospitals, long-term care facilities and rehabilitation clinics, in addition to dealers of rehabilitation supplies and equipment. Patterson Medical also has national account contracts with virtually every major provider of rehabilitation services.

Fiscal 2007 Results

Sales of Patterson Medical increased 11% in fiscal 2007 to \$334,342,000. Excluding the impact of three acquisitions related to the unit's branch office strategy and foreign currency translations, Patterson Medical's sales rose approximately 6%. Patterson Medical's sales growth improved on a sequential quarterly basis throughout the past year, making us believe this business is responding to the value-added strategies it is deploying. Expanding Patterson Medical's sales force is one such strategy. Also as part of the effort to strengthen Patterson Medical's value-added platform, we are establishing full-service branch offices in selected markets through acquisitions of equipment dealers and by internal start-ups. During the past year, branches were opened in New York, Chicago, Greensboro and New Orleans. Additional acquisitions and internal start-ups are under consideration.

Growing Rehabilitation Market

As a result of these and other strategies, we believe Patterson Medical is making solid progress toward attaining its full potential in the large and growing rehabilitation market, which is expanding at an



Patterson Medical is the world's leading distributor of rehabilitation supplies, equipment and assistive living products, with a global market share that is three to four times larger than its nearest competitor. Patterson Medical also is the only distributor in the rehabilitation market that provides its customers with the convenience of a single source of supply for virtually all of their product needs.

estimated 6% annual rate. This growth has been fueled by the aging baby-boomer population. Also spurring demand for rehabilitation products are today's more physically active lifestyles and new medical and surgical modalities that frequently include a rehabilitation therapy protocol.

Fiscal 2008 Outlook

We believe the investments made during the past year in consolidating our distribution infrastructure, expanding the sales forces of our veterinary and medical businesses, and initiating a branch network for our medical

unit should drive stronger operating results in fiscal 2008 and beyond. Our promising future is due largely to the hard work of Patterson's outstanding employees, and we thank our people for their dedicated efforts. We also appreciate the continued support of our shareholders and valued customers and suppliers.

Sincerely,

James W. Wiltz
President and Chief Executive Officer

Key Operating Strategies

Strengthening Value-Added Platform at Webster Veterinary and Patterson Medical

The markets served by Patterson Dental, Webster Veterinary and Patterson Medical share a common set of characteristics. They serve fragmented markets, composed of large numbers of individual practitioners and small practices. Many of these practitioners lack significant back-office support, causing them to attach considerable value to the relationships they establish with their key suppliers. In addition, these customers generate strong demand for relatively low-cost consumable supplies that do not account for a high percentage of the office's total operating expenses.

Patterson Dental's Value-Added Business Model

The value-added business model that Patterson Dental has been continually strengthening over the past 25 years is well-suited to the characteristics of Patterson's served markets. Today, we are positioned to meet a virtually complete set of customer needs.

- We offer the industry's broadest range of consumable supplies and front office products.
- Patterson Dental is the leading distributor of basic and new-technology dental equipment. We also are the exclusive or largest North American distributor of

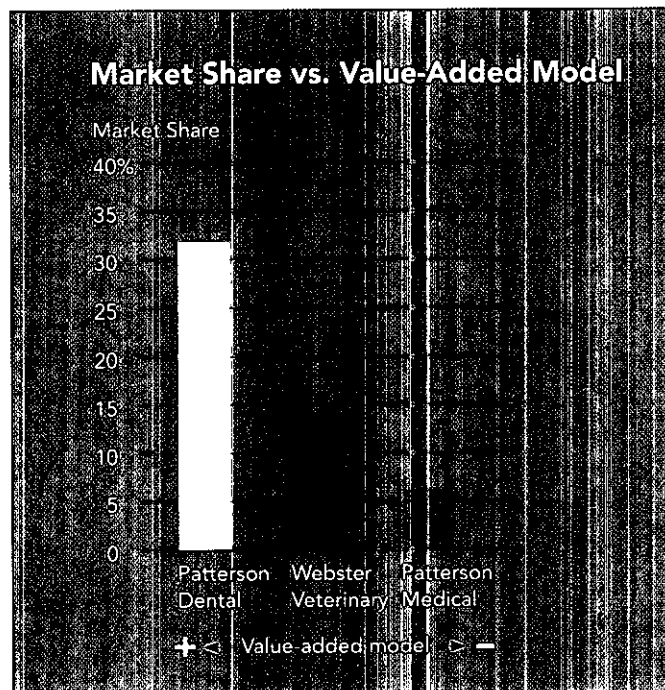
Patterson's Value-Added Model

- Full-service, single-source capabilities
 - Consumable supplies, equipment sales and repair, software, services
 - Meet customer's complete needs in convenient manner
 - Low cost of goods makes customer receptive to value-added proposition
- Large field sales force
 - Forge close customer relationships
 - Provide unsurpassed service
 - Specialization
- Use technology to enhance customer service
- Decentralized management

such premium equipment lines as Sirona's CEREC system and Schick Technologies sensors that are used in the majority of digital radiography installations; A-dec, the industry-leading manufacturer of chairs and related basic equipment; and Planmeca's dental radiography products. In addition, we provide a single-source solution for the high-growth area of digital radiography through the Patterson Technology Center (PTC). Among its many specialized capabilities, the PTC enables the seamless integration of all digital operatory components with clinical software, including our proprietary EagleSoft line, to create an electronic patient database.

- Supporting Patterson Dental's equipment business is the industry's largest network of locally-based and dispatched service technicians.
- We provide a wide range of value-added services, including equipment financing, loyalty programs, dental office design, electronic patient education services, and electronic insurance claims and customer statements.
- We deliver our products and services through

the industry's largest field sales force, which includes equipment, CEREC and digital x-ray specialists. Totalling nearly 1,550 representatives who work out of more than 80 North American branch offices,



Patterson Dental's sales force establishes close customer relationships through its dental industry expertise and by providing unsurpassed service.

- Each branch is accountable for its profitability. This decentralized management structure reinforces Patterson Dental's value-added model by placing each branch's decision-making close its local customers.
- Patterson Dental also deploys technology to strengthen the customer relationships established by its sales force. For example, Patterson pioneered electronic order/entry systems, making it easier for dental offices to order and maintain adequate inventories of consumable supplies. In fiscal 2007, more than 60% of all orders were generated by our web-based eMagine® order-entry system or one of our other remote ordering devices.

Correlation Between Value-Added Model and Market Share

We believe that our operating history has demonstrated a correlation between market share gains and the extent to which our value-added business model has been implemented. Having the longest experience with this strategy, Patterson Dental has recorded steady gains in market share, which now stands at approximately 32% and is expected to grow further. Webster Veterinary, with the next most developed value-added model, has an estimated market share of 14%. Patterson Medical's

The value-added business model that Patterson Dental has been continually strengthening over the past 25 years is well-suited to the characteristics of Patterson's served markets. Today, our dental business is positioned to meet a virtually complete set of customer needs, conveniently and efficiently.

value proposition is still emerging, and this unit only has an estimated share of 6%. We expect the market shares and account penetration of our veterinary and medical units to grow as they further strengthen their value-added platforms.

Webster Veterinary

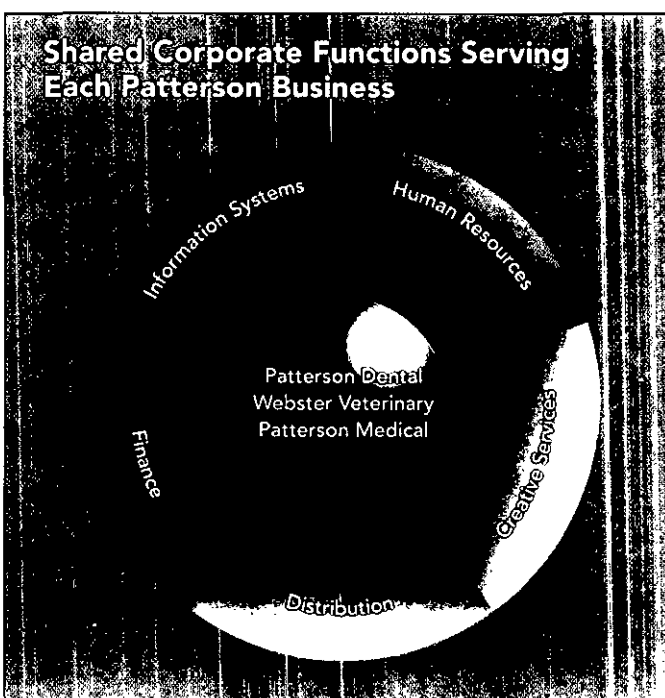
The basic elements of Patterson's value-added business model are currently in place at Webster. A branch office structure with local P&L accountability has been established. Webster provides its products and services through a large and growing field sales force, which now is supported by electronic order/entry. Over the past year, Webster also has been expanding its offerings of veterinary equipment, practice management software and value-added services, including veterinary hospital design, equipment financing and local technical service.

To strengthen its value-added strategy, Webster will continue expanding its equipment and software offerings. Key to the success of its equipment initiative is further development of Webster's local technical service

infrastructure, in addition to the implementation of sales force specialization along the lines of Patterson Dental. Moreover, Webster intends to increase its offerings of value-added services to deepen customer relationships by making its value-added proposition more tangible to the customer.

Patterson Medical

Patterson Medical's value-added platform is at a relatively early stage but significant progress has been made over the past year. During fiscal 2007, Patterson Medical started



establishing a branch office structure, and by year's end, branches were operating in New York, Chicago, New Orleans and Greensboro, N.C. Consistent with this effort, Patterson Medical also greatly expanded its sales force, making it the largest in the rehabilitation industry. However, the majority of Patterson Medical's sales are still generated by catalog. Although this unit sells rehabilitation equipment, sales force specialization remains limited, as do its offerings of value-added services.

Going forward, Patterson Medical will further strengthen and expand its value proposition through three initiatives. First, it will continue building its field sales force, in addition to rolling out electronic order/entry to its customers. Second, Patterson Medical expects to open additional branches through strategic acquisitions of full-service dealers in selected markets and by internal start-

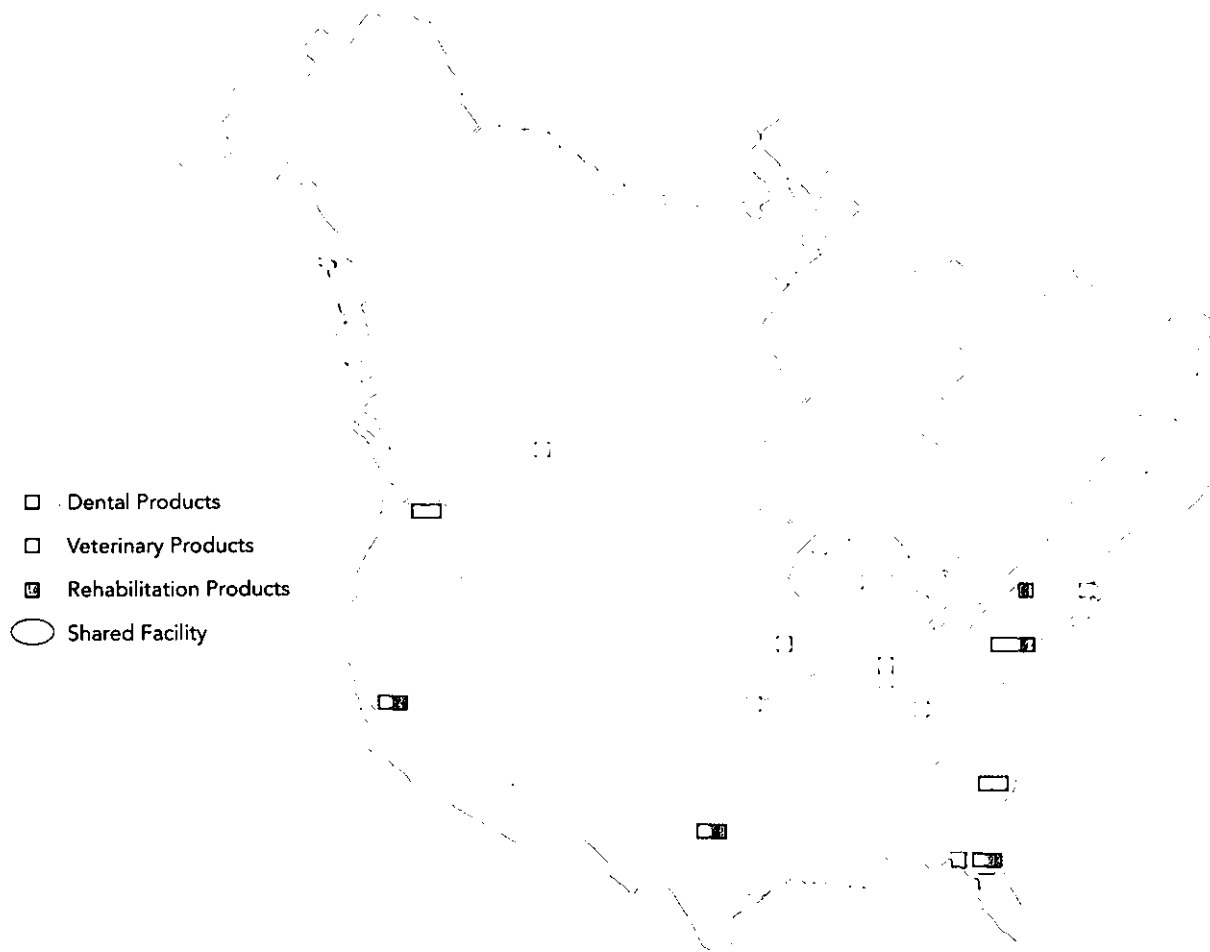
ups. And three, this unit will expand its value concept to enhance the tangible benefit to the practitioner.

Shared Corporate Services

To enhance operating efficiencies and improve customer service, Patterson has been consolidating a growing number of functions previously managed at each individual business. The most visible result of this initiative has been the ongoing consolidation of distribution infrastructure into a corporate function serving our three businesses.

The first step in this process came in March 2005 when we opened a facility in Columbia, SC, that replaced the individual dental and veterinary distribution centers that were serving this region. Next, we consolidated separate

Consolidating Distribution as Corporate Function

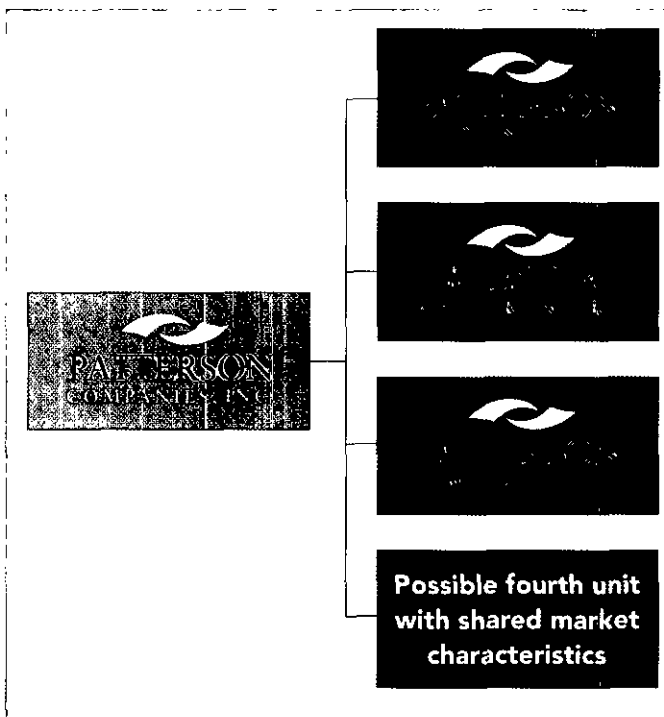


dental and veterinary facilities in Seattle into a new, shared distribution center in the first quarter of fiscal 2006. During the first quarter of fiscal 2007, a new distribution center was opened in eastern Pennsylvania that became our first facility to fulfill orders for all three of our businesses. This distribution center replaced separate dental and veterinary facilities serving this region, as well as the Patterson Medical facility in Chicago. As a result of these consolidations, we have been able to eliminate a net of four distribution centers. In addition, Patterson Medical products are now stocked in dental distribution centers in Dinuba, CA., Jacksonville, FL. and Fort Worth, TX., which has improved the service levels of consumable orders, a cornerstone of our value-added model. The second phase of our consolidation plan, which will run at a lower level of capital requirement than the preceding initiatives, is expected to start in fiscal 2008 with the renovation of the Dinuba facility to provide fulfillment for our three operating units.

Patterson has also consolidated a range of other business functions at the corporate level. Services now shared by Patterson Dental, Webster Veterinary and Patterson Medical include: information systems, human resources, finance and creative services. By eliminating

Shared Characteristics of Patterson's Served Markets

- Serve highly fragmented markets
 - Large numbers of practitioners and small practices
- Many practitioners lack back-office support
 - Customers value relationships with sales representatives
- Strong demand for relatively low-cost goods
 - Supplies do not account for high percentage of customer's operating expenses



committed to continue working to develop a preeminent position in their market. And while we are in healthcare-related markets today, we are not limiting our thinking to this segment of distribution.

many functional overlaps and duplications of effort, the sharing of these functions among our three businesses has also contributed to the streamlining of Patterson's expense structure.

Expanding Our Specialty Distribution Platform

Backed by our value-added business model, Patterson has created a specialty distribution platform capable of supporting multiple businesses. As demonstrated by our ability to extend this platform to Webster and Patterson Medical, our value-added model is highly scalable. As such, it can be applied to markets that are fragmented, utilize goods that are relatively low cost to the customer, and are populated by businesses that place a premium on a direct sales relationship.

As our current business units continue to enhance and solidify their value-added models, we will consider our strategic alternatives regarding new distribution markets. Any potential acquisition must have a strong management team

Selected Consolidated Financial and Operating Data Patterson Companies, Inc.

(In thousands, except per share and employee amounts)

| Year ended | 4/28/07 | 4/29/06 | 4/30/05 | 4/24/04 | 4/26/03 | 4/27/02 | 4/28/01 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Statement of Operations Data: | | | | | | | |
| Net sales | \$2,798,398 | \$2,615,123 | \$2,421,457 | \$1,969,349 | \$1,656,956 | \$1,415,515 | \$1,156,457 |
| Cost of sales | 1,829,526 | 1,700,694 | 1,558,946 | 1,267,005 | 1,082,370 | 921,335 | 747,307 |
| Gross margin | 968,872 | 914,429 | 862,511 | 702,344 | 574,586 | 494,180 | 409,150 |
| Operating expenses (2) | 633,182 | 591,417 | 560,375 | 459,844 | 395,638 | 347,000 | 294,031 |
| Operating income | 335,690 | 323,012 | 302,136 | 242,500 | 178,948 | 147,180 | 115,119 |
| Other income – net | (6,082) | (6,039) | (8,689) | (2,980) | 7,454 | 5,043 | 7,081 |
| Income before income taxes & cumulative effect of accounting change | 329,608 | 316,973 | 293,447 | 239,520 | 186,402 | 152,223 | 122,199 |
| Income taxes | 121,272 | 118,548 | 109,749 | 90,055 | 70,082 | 56,933 | 45,721 |
| Income before cumulative effect of accounting change | \$ 208,336 | \$ 198,425 | \$ 183,698 | \$ 149,465 | \$ 116,320 | \$ 95,290 | \$ 76,478 |
| Diluted earnings per share (1) (2) | \$ 1.51 | \$ 1.43 | \$ 1.32 | \$ 1.08 | \$ 0.85 | \$ 0.70 | \$ 0.59 |
| Weighted average shares and potentially dilutive shares outstanding (1) | 137,769 | 139,234 | 138,873 | 137,768 | 136,894 | 136,402 | 135,521 |
| Dividends per common share | – | – | – | – | – | – | – |
| Balance Sheet Data: | | | | | | | |
| Working capital | \$ 509,021 | \$ 437,727 | \$ 470,439 | \$ 507,145 | \$ 422,093 | \$ 331,413 | \$ 310,041 |
| Total assets | 1,940,320 | 1,911,718 | 1,685,301 | 1,588,957 | 823,978 | 718,376 | 549,187 |
| Total debt | 180,024 | 300,041 | 321,557 | 499,587 | 274 | 976 | 991 |
| Stockholders' equity | 1,379,214 | 1,242,521 | 1,015,072 | 801,758 | 633,686 | 514,360 | 408,505 |

Operating Data:

| | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|
| Number of sales representatives (fiscal year-end) | 1,923 | 1,864 | 1,683 | 1,582 | 1,353 | 1,308 | 1,051 |
| Number of employees (fiscal year-end) | 6,577 | 6,438 | 5,948 | 5,741 | 4,772 | 4,637 | 3,851 |
| Number of service technicians | 1,143 | 1,124 | 1,037 | 991 | 976 | 911 | 801 |

1. Amounts are adjusted for two-for-one stock splits on September 14, 2004 and June 13, 2000 and a three-for-two stock split on January 12, 1998.
2. Reflects the adoption of FASB Statement No. 142 "Goodwill and Other Intangible Assets" in fiscal year 2003. Had this standard been adopted at the beginning of fiscal 1998, income in fiscal years 1998 through 2002 would have been positively impacted by no more than \$0.02 per diluted share. In addition, the year ended April 28, 2007 includes the adoption of FASB Statement No. 123(R) "Share-Based Payment," which reduced diluted earnings per share by \$0.05. All prior years in this summary do not reflect expense under Statement 123(R).
3. See the Notes to the Consolidated Financial Statements included in Item 8. of this Annual Report on Form 10-K.

Market Information

The Company's common stock trades on the NASDAQ Global Select Market® under the symbol "PCO."

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.

| Quarter | 2007 | | 2006 | |
|---------|----------|----------|----------|----------|
| | High | Low | High | Low |
| First | \$ 36.13 | \$ 31.51 | \$ 53.85 | \$ 40.85 |
| Second | \$ 34.25 | \$ 29.61 | \$ 44.70 | \$ 37.71 |
| Third | \$ 38.29 | \$ 31.80 | \$ 43.15 | \$ 32.00 |
| Fourth | \$ 39.76 | \$ 31.71 | \$ 36.97 | \$ 32.26 |

Unaudited Quarterly Results

(In thousands, except per share amounts)

Quarterly results are determined in accordance with the accounting policies used for annual data and include certain items based upon estimates for the entire year. All fiscal quarters include results for 13 weeks. The following table summarizes results for fiscal 2007 and 2006.

| 4/29/00 | 4/24/99 | 4/25/98 |
|-----------|------------|------------|
| 1,045,883 | \$ 883,268 | \$ 782,284 |
| 678,766 | 571,698 | 505,069 |
| 367,117 | 311,570 | 277,215 |
| 269,658 | 234,098 | 212,833 |
| 97,459 | 77,472 | 64,382 |
| 5,540 | 2,239 | 1,324 |
| 102,999 | 79,711 | 65,706 |
| 38,527 | 29,815 | 24,937 |
| 64,472 | \$ 49,896 | \$ 40,769 |
| 0.48 | \$ 0.37 | \$ 0.31 |
| 135,088 | 133,986 | 132,650 |
| - | - | - |
| 238,502 | \$ 187,952 | \$ 133,256 |
| 451,976 | 373,250 | 316,373 |
| 1,719 | 2,097 | 7,202 |
| 330,470 | 265,199 | 210,303 |
| 1,046 | 986 | 886 |
| 3,789 | 3,623 | 3,214 |
| 793 | 721 | 670 |

| Quarter Ended | 4/28/07 | 1/27/07 | 10/28/06 | 7/29/06 |
|------------------------------|------------|------------|------------|------------|
| Net sales | \$ 739,143 | \$ 709,494 | \$ 694,273 | \$ 655,488 |
| Gross profit | 260,563 | 250,266 | 235,629 | 222,414 |
| Operating income | 96,446 | 92,686 | 78,021 | 68,537 |
| Net income | 59,924 | 58,591 | 48,237 | 41,584 |
| Earnings per share – basic | \$ 0.44 | \$ 0.43 | \$ 0.35 | \$ 0.30 |
| Earnings per share – diluted | \$ 0.44 | \$ 0.43 | \$ 0.35 | \$ 0.30 |

| Quarter Ended | 4/29/06 | 1/28/06 | 10/29/05 | 7/30/05 |
|------------------------------|------------|------------|------------|------------|
| Net sales | \$ 695,177 | \$ 682,402 | \$ 641,697 | \$ 595,847 |
| Gross profit | 247,002 | 240,969 | 219,214 | 207,244 |
| Operating income | 92,126 | 88,546 | 72,826 | 69,514 |
| Net income | 56,819 | 54,004 | 44,720 | 42,882 |
| Earnings per share – basic | \$ 0.41 | \$ 0.39 | \$ 0.33 | \$ 0.31 |
| Earnings per share – diluted | \$ 0.41 | \$ 0.39 | \$ 0.32 | \$ 0.31 |

Corporate Headquarters

1031 Mendota Heights Road
St. Paul, MN 55120-1419
651/686-1600
www.pattersoncompanies.com

Independent Auditors
Ernst & Young LLP
Minneapolis, MN

Legal Counsel
Briggs and Morgan, P.A.
Minneapolis, MN

Stock Transfer Agent and Registrar
Wells Fargo Bank, N.A.
South St. Paul, MN

Investor Relations Counsel
Equity Market Partners
Amelia Island, FL

Annual Meeting
The annual meeting of shareholders will be held at 4:30 p.m. on September 10, 2007 at the Minnesota Branch of Patterson Dental, 2930 Waters Road, Suite 100, Eagan, Minnesota.

Form 10-K
A copy of our annual report on Form 10-K is available to shareholders without charge in the investor relations section of the Patterson website (www.pattersoncompanies.com) or by writing to: R. Stephen Armstrong, Executive Vice President and Chief Financial Officer.

Directors

John D. Buck (3), (4)
Chief Executive Officer
Whitefish Ventures, LLC
Minneapolis, MN

Ronald E. Ezerski (2), (4)
Private Investor

Peter L. Frechette (1)
Chairman
Patterson Companies, Inc.

Andre B. Lacy (2), (4)
Chairman
LDI Ltd., LLC
Indianapolis, IN

Charles Reich (2), (4)
Executive Vice President (retired)
3M Company
St. Paul, MN

Ellen A. Rudnick (3), (4)
Executive Director
Michael P. Polsky Center for Entrepreneurship
University of Chicago Graduate School of Business
Chicago, IL

Harold C. Slavkin (3), (4)
Dean
School of Dentistry
University of Southern California
Los Angeles, CA

James W. Wiltz (1)
President and Chief Executive Officer
Patterson Companies, Inc.

- (1) Member of Executive Committee
- (2) Member of Audit Committee
- (3) Member of Compensation Committee
- (4) Member of Governance Committee

Executive Officers

Peter L. Frechette
Chairman

James W. Wiltz
President and Chief Executive Officer

R. Stephen Armstrong (1)
Executive Vice President, Chief Financial Officer and Treasurer

Corporate Officers and Officers of Operating Units

Lynn E. Askew
Vice President
Management Information Systems

Gary D. Johnson
Vice President
Operations

Matthew L. Levitt
Secretary and General Counsel

Scott P. Anderson
President
Patterson Dental

George L. Henriques
President
Webster Veterinary

David P. Sproat
President
Patterson Medical

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended April 28, 2007

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
(State or other jurisdiction of
incorporation or organization)

41-0886515
(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: None

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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

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 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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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 27, 2006, was approximately \$4,590,000,000. (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 25, 2007, there were 139,569,362 shares of Common Stock of the registrant issued and outstanding.

Documents Incorporated By Reference

Certain portions of the document listed below have been incorporated by reference into the indicated part of this Form 10-K.

| <u>Document Incorporated</u> | <u>Part of Form 10-K</u> |
|---|--------------------------|
| Proxy Statement for 2007 Annual Meeting of Shareholders | Part III |

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PART I

Item 1. BUSINESS

Certain information of a non-historical nature contained in Items 1, 2, 3 and 7 of this Form 10-K includes forward-looking statements. Reference is made to Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors that May Affect Future Operating Results, for a discussion of certain factors that could cause 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, formerly known as AbilityOne Products Corp.

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 non-wheelchair 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, Intra Corp., Patterson Medical Holdings, Inc., Patterson Medical Supply, Inc., Sammons Preston Canada, Inc., AO Liquidation, Inc., Tumble Forms, Inc., Midland Manufacturing Company, Inc., Patterson Logistics Services, Inc., Accu-Bite, Inc., Accu-Bite Dental Products Limited Liability Company, Williamston Industrial Center, LLC, Strategic Dental Marketing, Inc., AbilityOne Homecraft Limited, AbilityOne Limited, AbilityOne Kinetec S. A., AOC Vertriebs GmbH, Theraquip, Inc., Metro Medical, Inc., and Dale Surgical Professional Supply, Inc.

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 Minnesota.

The Company historically reported under 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.

Shared Services Initiative

To streamline Patterson’s cost structure, we continue to consolidate our distribution infrastructure and business systems. With respect to our distribution infrastructure, in late fiscal 2005 we opened a facility in

Columbia, SC that replaced the individual dental and veterinary distribution centers that were serving this region. In fiscal 2006, we consolidated separate dental and veterinary facilities in Seattle, WA into a new shared distribution center. In addition, we began stocking certain high-volume Patterson Medical inventory at shared distribution facilities in Dinuba, CA, Jacksonville, FL and Fort Worth, TX.

During fiscal 2007, we opened a new distribution center in eastern Pennsylvania that replaced nearby, separate dental and veterinary facilities. Patterson Medical moved into this new distribution center and closed its former primary distribution facility in Bolingbrook, IL. We expect to begin the modification of another existing facility that will accommodate products for multiple business units during fiscal 2008.

The first shared sales branch office location has been established in northern California and the Company plans to add shared branch facilities between two or three business units in select markets during fiscal 2008.

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 its 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 approximately 1,550 direct sales representatives, 391 of whom are equipment specialists.

Patterson Dental has over 125 years of experience providing quality service to dental professionals. Net sales of this segment have increased from \$165.8 million in fiscal 1986 to over \$2.0 billion in fiscal 2007 and profitability has increased from an operating loss in fiscal 1986 to operating income of \$262.4 million in fiscal 2007.

Patterson estimates the dental supply market it serves to be approximately \$6.4 billion annually and that its share of this market is approximately 32%. 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 160,000 dentists practicing in the United States in approximately 135,000 dental practices. In Canada, there are approximately 18,000 licensed dentists according to the Canadian Dental Association. The average general practitioner generated approximately \$560,000 in annual revenue in 2003, while the average specialty practitioner produced about \$800,000. 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 \$28,000 and \$39,000 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.

Total expenditures for dental services in the United States increased from \$31 billion in 1990 to \$84 billion in 2006. Domestic dental care expenditures are projected by the Centers for Medicare & Medicaid Services to grow 6% annually, reaching \$116 billion by the year 2010. 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 297 million in 2005, and is expected to reach 309 million by 2010. 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. The Centers for Medicare & Medicaid Services statistics on expenditures for dental services in the United States indicate that private dental insurance paid approximately 50% of the \$84 billion in total expenditures for 2006.

Strategy

Patterson's objective 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 has adopted a 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 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 meets its customer's requirements by delivering frequent, small quantity orders rapidly and reliably from its strategically located distribution centers. Equipment specialists, technology representatives, and service technicians also support the Company's value-added strategy in the dental supply market. Equipment specialists offer consultation on office design, equipment requirements and financing. Technology representatives 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, 7 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 65% of Patterson's consumable dental product volume or \$750 million in fiscal year 2007.

In fiscal 2002, the Company introduced its newest order entry system, eMAGINE[®]. eMAGINE[®] has become the standard platform for the sales representative and includes 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 two 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. These systems, including eMAGINE[®], are provided at no additional charge to customers who maintain certain minimum purchase requirements.

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, 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 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 Patterson Technology Center (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 we expect to be installed eventually in most dental offices, has a current market penetration of approximately 30%. 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. The PTC also will network the digital x-ray system throughout the entire office and provide all required custom computer hardware for the system. In addition, the PTC provides installation and customer training, as well as a call center for troubleshooting customer problems and arranging for local service.

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, the PTC 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 continues to implement programs designed to improve 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 while reducing overall communication costs. The Company has made substantial progress in the development of a new field service management tool for its technical service operations. This new tool will allow 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 in fiscal 2005. As of April 2007, the dental segment shares six distribution centers with one or both of the other operating units. In addition, the Company has begun to establish shared sales branch office locations between multiple segments, with the first location established in northern California. 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. The Company intends to continue to grow by opening additional sales offices, hiring established sales representatives, hiring and training college graduates as territory sales representatives, and acquiring other distributors in order to enter new 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 19 years the Company has made a number of acquisitions, including the following:

Dental distribution acquisitions in the United States

- In August 1987, Patterson acquired the D.L. Saslow Co., which at the time was the third largest distributor of dental products in the United States. Between 1989 and 2005, Patterson acquired certain assets of 25 smaller dental dealers throughout the United States. During fiscal 2002, the Company acquired Thompson Dental Company of Columbia, SC, a leading value-added distributor of dental supplies, equipment and services in the mid-Atlantic and southeastern U.S. Thompson ranked among the 10 largest dental distributors in the country. In September 2005, the Company acquired Accu-Bite, Inc., a Michigan-based dental distributor with approximately 60 field sales representatives.

Dental distribution acquisitions in Canada

- In October 1993, Patterson Dental completed the acquisition of Healthco International, Inc.'s Canadian subsidiary, Healthco Canada, Inc. In August 1997, the Company acquired Canadian Dental Supply Ltd., which expanded the Company's market share in British Columbia, Alberta, Saskatchewan and Ontario. In July 2002, the Company acquired Distribution Quebec Dentaire, Inc., augmenting the Company's market share in Quebec. As a combined operation known as Patterson Dental Canada Inc., this subsidiary, which the Company believes is one of the two largest full-service dental products distributors in Canada, employs approximately 495 people, 130 of whom are sales representatives.

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, CAESY provides dental practices with a range of communications media that educate patients about professional dental care, procedures and treatment alternatives with the goal of 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.

Products and Services

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---------------------------------------|-------------|-------------|-------------|
| Consumable and printed products | 56% | 55% | 54% |
| Equipment and software | 35 | 36 | 37 |
| Other ⁽¹⁾ | 9 | 9 | 9 |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> |

(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 compliment 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.

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

- The Company's dental and veterinary supply 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 dental and veterinary 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 x-rays; and inter-oral cameras.

Software. Patterson 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 Education Systems 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. The Company 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 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 2007, the Company originated over \$314 million of equipment finance contracts. The Company, or its vendor partner, financed approximately 37% of the equipment purchased by customers during fiscal 2007.

Since November 1998, Patterson has maintained one or more finance referral agreements with an outside finance company to provide a more extensive selection of finance opportunities to its customers. This might include financing for practice transactions, working capital, leasing, real estate and long-term capital. Currently this service is provided by GE Healthcare Financial Services. There are no recourse provisions under this agreement. Patterson receives referral fees under this agreement and GE Healthcare Financial extends credit and services the accounts.

Patterson generally does not hold the installment sale contracts initiated on equipment transactions. These contracts are sold to either a commercial paper conduit managed by JPMorgan Chase Bank, N.A., or to a group of banks led by U.S. Bank National Association.

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 installment sale contracts to the SPE. In turn, the SPE sells the contracts to the commercial paper conduit. The limit under this agreement, as amended, is \$440 million of contract purchases. There is no recourse to the Company for contracts purchased by the commercial paper conduit, but there is a holdback by the conduit equal to 10% of the principal of these contracts.

A second special purpose entity, PDC Funding Company II, LLC, can sell contracts through a Contract Purchase Agreement to a group of banks led by U.S. Bank. The agreement operates similarly to the Receivables Purchase Agreement described above, except that the holdback is equal to 6% of the principal and the capacity is \$110 million.

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 2007, 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, laboratories, institutions and other healthcare professionals. No single customer accounted for more than 1% of sales during fiscal 2007, and Patterson is not dependent on any single customer or geographic group of 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 complete compliment 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. The branches are grouped into seven regions in the U.S. and one in Canada.

A primary component of Patterson'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 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 to the dental supply market. 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 created a value-added benefit program for its preferred customers. The Patterson PlusSM program entitles its best dental customers to priority technical services, automated supply management systems at no charge, a variety of product discounts and reduced rates on financial products, practice management software and technical services.

Distribution

Patterson Dental believes that responsive delivery of quality supplies and equipment is a key element to providing complete customer satisfaction. Patterson ships dental consumable supplies from 10 strategically located distribution centers in the U.S. and 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 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 shipment 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 Company'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 2007, the Company processed 70% of its invoices from dental vendors using EDI capabilities. In addition, 60% of Patterson's dental purchase order volume was conducted employing EDI, which represented 65% of dental purchase order dollars placed during the fiscal year. Utilizing EDI allows the Company to improve efficiencies and reduce administrative costs.

Patterson Dental obtains products from approximately 1,100 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 digital x-rays. The Company is the only national dealer for A-dec equipment, including chairs, units and cabinetry. A-dec is the largest manufacturer of dental equipment in the U.S.

While 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 41% and 40% of the cost of dental products sold in fiscal years 2007 and 2006, respectively. Of these ten, the top two vendors accounted for 9% and 8%, and 9% and 9% of fiscal 2007 and fiscal 2006 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, Sullivan-Schein Dental, a unit of Henry Schein, Inc., there are at least 19 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 the leading distributor of veterinary supplies to companion-animal (dogs, cats and other common household pets) veterinary clinics in the eastern United States. Management believes Webster is the second largest distributor of companion-animal 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. 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 Sterling, 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 175 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 10%, a portion of which is shared with the direct sales personnel. Webster's agency commissions accounted for less than 2% of its net sales in fiscal 2007. Net sales by Webster in fiscal 2007 were \$399.4 million. Operating income totaled \$22.1 million.

The Company estimates the market for pharmaceuticals and supplies sold to companion animal and equine veterinarians through distribution is approximately \$2.8 billion on an annual basis. Based upon the estimated \$2.8 billion market, the Company believes its share of this market is approximately 14%. Similar to the dental supply market, the veterinary supply market is fragmented and geographically diverse. There are approximately 79,000 veterinarians practicing at 27,000 animal health clinics. The vast majority, approximately 67% of veterinarians, work in private animal health clinics specializing in small animals, predominately companion pets. The average private veterinary practice generates approximately \$770,000 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.

According to a market study prepared by KPMG LLP for three veterinary professional organizations in 1999, the demand for veterinary services has historically grown significantly faster than growth in the overall economy. Total expenditures for veterinary services in the United States grew at an inflation adjusted real annual rate of 7.2% from 1980 through 1997, and are projected to grow 5% on a real basis annually, through the year 2015. 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, 63% of U.S. households own a companion pet compared with 56% in 1988. Overall, 45% 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 pets is increasing substantially. The American Pet Products Manufacturers Association estimates that pet owners will spend \$38.4 billion in 2006 to care for the American pet population, or \$555 per household. This is a 125% increase over the \$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-animal 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, Pennsylvania, Kentucky, Texas and Florida. Most companion-animal 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 has approximately 2,200 software 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 made a solid contribution to Webster's fiscal 2006 and 2007 sales results. Further expansion of Webster's geographic marketplace is anticipated in the future.

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 its strategically located distribution centers.

Continuing to Improve Operating Efficiencies. Webster continuously pursues opportunities to lower costs and improve efficiencies. As of April 2007, Webster shares three distribution facilities with one or both of the other operating units. 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 new 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. For example, in the past year Webster's expansion of its product offerings included the entire companion animal products lines of Bayer Animal Health and Novartis Animal Health, the parasiticides Tri-Heart Plus, Iverhart Plus™ and Iverhart Max™, Clavamox® small animal antibiotic, the line of Purina Veterinary Diets®, Continuum™ feline vaccines, Calicivax feline vaccines, Sogeval dermatologic products, Reconcile™ separation anxiety medication for dogs, the SNAP 4DX diagnostic test, the small animal nutraceutical Dasuquin™, equine vaccines Prevenil and Prestige IV Foal Shot, Dickies Medical Uniforms and the exclusive products Opticide disinfectant and Caniplas canine plasma.

Webster also strives to consistently introduce innovative products. 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 been expanded since the initial launch 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 fiscal 2006 acquisition of the IntraVet practice management software product, new services and revenue opportunities become possible. In addition, with the growth in the equipment and software business, there is an opportunity for additional financing transactions.

Products and Services

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---------------------------------------|-------------|-------------|-------------|
| Consumable and printed products | 91% | 93% | 94% |
| Equipment and software | 7 | 5 | 4 |
| Other | <u>2</u> | <u>2</u> | <u>2</u> |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> |

Consumable and Printed Products

Webster offers its customers a broad selection of veterinary supply products including consumable supplies, pharmaceuticals, diagnostics, and biologicals. 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 to the dental supply market 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. Fiscal 2007 equipment sales increased 69% from fiscal 2006 and accounted for 7% of veterinary segment sales. Webster offers innovative, quality equipment that differentiates Webster from the competition. New equipment offerings in fiscal 2007 included the Fuji FCR-XC Digital Radiography System, the VJ-DR Digital X-ray System, Accent CCD Digital Imaging System, ScanX Duo Dental Digital Imaging System, Acclaim Intraoral Camera, Unico centrifuges, Cardell Max-1 Anesthetic Monitor, MacroView Veterinary Otoscope, Idexx VetLab UA Analyzer and the petMap Blood Pressure unit. About 50% of veterinary equipment orders are drop shipped directly to the customer, of which 15% are custom ordered from the manufacturer. The balance of veterinary equipment is distributed in a fashion similar to consumable supplies.

Other

Other products and services include commissions 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 twenty-four 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 28, 2007, veterinary products were stocked and shipped out of 12 distribution centers within the Patterson Logistics distribution network. 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 550 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 2007 and 2006, Webster's top 10 veterinary supply manufacturers comprised 63% and 67%, respectively, and the single largest supplier comprised 19% and 19%, 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.

Rehabilitation Supply

Overview

Patterson Medical, formerly known as AbilityOne Corporation, 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 Rolyan in North America and Homecraft in international markets.

Patterson Medical serves as the gateway through which over 30,000 rehabilitation products originating from more than 2,000 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 and median order size (approximately \$225 and \$70, respectively), 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 25% of its total revenue and purchases products representing the remaining 75%. Approximately 80% of its revenue is in North America.

Patterson Medical believes the rehabilitation medical supplies and assistive products industry is approximately \$4.6 billion in the U.S. and \$6.2 billion worldwide and is expected to grow 6% to 8% 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 compete in wheelchairs or scooters, a market estimated to be a combined \$2.2 billion worldwide. Therefore, Patterson Medical's addressable market (defined as the collective market for products sold by Patterson Medical) is approximately \$4.0 billion worldwide. Patterson Medical believes that it has an industry leading market share of approximately 5% 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, 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 more than triple from four million in 2000 to 14 million by 2040. The 65 to 84 year old population is expected to more than double during the same time period. 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 132,000 PTs and 78,000 OTs in the U.S. in 2000. Approximately two-thirds of PTs were employed in either hospitals or offices of physical therapists. The remaining one-third of PTs was employed in home health agencies, outpatient rehabilitation clinics, physician offices and nursing homes. The majority of OTs works 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-operative rehabilitation.

International Operations

Patterson Medical's international operations are based in the United Kingdom ("U.K.") and are made up of two divisions: Homecraft in the U.K. and Kinetec in France. The international operations broadly reflect the same business model as used in the North American market. In the U.K., Homecraft operations include sales and marketing, customer service, distribution, purchasing and administration. In France, Kinetec is a self-contained manufacturing unit with limited sales and marketing, distribution, administration and purchasing.

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 13 person sales force, telemarketing and in-market promotional and exhibition activity.

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, telemarketing and a 6 person 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 grow through internal expansion and acquisitions in both rehabilitation and related products. In the second half of fiscal 2006, a new management team was installed and is responsible for accelerating the unit's adoption of Patterson's value-added strategy.

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 30% of total revenues. During fiscal 2007, 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 in the future.

As of April 2007, the unit is distributing products from four shared distribution facilities that distribute products of two or all three Patterson operating units. In addition, the first shared branch office location has been created in Northern California. This branch location includes both dental and rehabilitation segment personnel, while allowing the two units to share in certain common expenses.

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 Patterson Medical 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 \$50 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 15 territory sales people. Medco markets to athletic trainers, schools and school nurses, daycare providers and healthcare professionals including podiatrists, chiropractors and physical therapists.

During fiscal 2007, the unit acquired three dealer/distributors which are operating as branch offices.

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 opportunistically pursue expansion opportunities in order to add products, customers and capabilities, which will further differentiate Patterson Medical from its competition.

Products and Services

The following table sets forth the sales by principal categories offered to rehabilitation segment customers:

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---------------------------------------|-------------|-------------|-------------|
| Consumable and printed products | 72% | 72% | 74% |
| Equipment | 23 | 23 | 22 |
| Other | <u>5</u> | <u>5</u> | <u>4</u> |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> |

Consumable and Printed Products

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

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.

Sales and Marketing

Its customers generally know Patterson Medical as Sammons Preston Rolyan in the U.S. and Canada, and Homecraft in the remainder of the world. The Sammons Preston Rolyan 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 Rolyan'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.

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 45 sales representatives since late in fiscal 2006 and now totals more than 170 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. As of April 2007, five branches had been established and this structure will continue to expand in fiscal 2008.

Sammons Preston Rolyan's national accounts group collaborates with its sales force to meet the changing needs of its expanding account base. The product management group works closely with customers, suppliers and the sales force to evaluate new products for inclusion in Sammons Preston Rolyan's product offering. Sammons Preston Rolyan adds approximately 2,500 new products to the catalog each year. Sammons Preston Rolyan's U.S. national accounts program is staffed by seasoned professionals who have developed a comprehensive portfolio of contracts. Furthermore, the integrated Sammons Preston Rolyan 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 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.

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 5,000 packages ship daily from six locations. A majority of products are shipped out of an eastern Pennsylvania distribution center that is shared between 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. 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 4,000 calls per day. Order entry capability from 7pm – 7am from Monday through Friday and weekends exists through an offsite, third-party contractor with limited systems access. The combination of in-house staff, supplemented with contracted, third party services, provide customers with 24 hours a day, seven days a week ordering capabilities. In addition, fax orders and EDI capabilities support the larger, more technologically advanced customers, including dealers, hospitals and long-term care facilities. While Internet ordering capabilities currently exist, customer reception to ordering products via the Internet is currently small, but growing.

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 2,000 suppliers and manufacturers. Although no single supplier accounted for more than 4% of Patterson Medical's total purchases in fiscal 2007, Patterson Medical frequently is the largest single customer of these manufacturers. Suppliers view the ability to distribute their products through Sammons Preston Rolyan and Homecraft positively due to reputation, longstanding industry-leading position, comprehensive catalogs, national account contracts, and sales force presence and distribution capabilities. Patterson Medical continually works at strengthening its supplier relationships through the introduction of supplier programs.

Competition

Patterson Medical believes it is the only national player to offer, "one-stop shopping" to its customers. Patterson Medical's competition is generally highly fragmented, locally or regionally focused and without the product offering necessary to be a "one-stop shop." 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 the trademarks "Patterson®," "PDXpress®," "EagleSoft®" and "eMAGINE®." With the addition of Patterson Medical, the Company acquired the marks Sammons, Preston, Rolyan, Homecraft and numerous other tradenames and trademarks. The Company believes that the Patterson trademark is well recognized in the dental products industry and by dental professionals, and is therefore a valuable asset of the Company.

Employees

As of April 28, 2007, the Company had approximately 6,580 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 under the "Corporate Governance" and "Investor Relations" captions.

We are not including the information maintained on our website as a part of, or incorporating it by reference into, our Annual Report on Form 10-K.

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 27, 2007.

| | | |
|----------------------------|----|---|
| James W. Wiltz | 62 | President and Chief Executive Officer—Patterson Companies, Inc. |
| Peter L. Frechette | 69 | Chairman of the Board—Patterson Companies, Inc. |
| R. Stephen Armstrong | 56 | Executive Vice President, Chief Financial Officer and Treasurer—Patterson Companies, Inc. |
| Gary D. Johnson | 60 | Vice President, Operations—Patterson Companies, Inc. |
| Lynn E. Askew | 44 | Vice President, Management Information Systems— |
| Jerome E. Thygesen | 49 | Patterson Companies, Inc. Vice President, Human Resources—Patterson Companies, Inc. |
| Scott P. Anderson | 40 | President—Patterson Dental Supply, Inc. |
| George L. Henriques | 46 | President—Webster Veterinary Supply, Inc. |
| David P. Sproat | 40 | 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

James W. Wiltz was named the Company's Chief Executive Officer in May 2005. Mr. Wiltz had held the position of President and Chief Operating Officer since April 2003. Upon being elected Chief Executive Officer, Mr. Wiltz retained the title of President, however the Company eliminated the Chief Operating Officer position. Mr. Wiltz also served as a Vice President of the Company from 1986 to 2003 and as President of Patterson Dental Supply, Inc., from 1996 to 2003. Patterson has employed him since September 1969, initially as a territory sales representative. Mr. Wiltz was appointed to the Board of Directors in March 2001.

Peter L. Frechette was Chief Executive Officer of the Company from September 1982 to May 2005. Mr. Frechette has been a Director of Patterson since March 1983 and was named Chairman of the Board in 1985. Mr. Frechette served as President and Chief Executive Officer of the Company from September 1982 to April 2003. 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. Prior to 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.

Gary D. Johnson was elected Vice President, Operations, Patterson Companies, Inc. in June 2004. Mr. Johnson held the position of Vice President, Sales, of Patterson Dental Supply, Inc. from October 1996 through May 2004. Mr. Johnson has served in various sales and management positions since he joined the Company in August 1981.

Lynn E. Askew became Vice President, Management Information Systems, in September 1999. Mr. Askew joined Patterson in 1994 as Manager, Distributed Systems, and was promoted to Director, Systems and Development in 1996. Prior to joining Patterson, Mr. Askew provided advanced technology consulting and project management services to various organizations, including Patterson.

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.

Scott P. Anderson was named President of the Company's subsidiary Patterson Dental Supply, Inc., in June 2006. Mr. Anderson most recently held the position of Vice President, Sales of Patterson Dental Supply, Inc. and prior to that was the unit's Vice President of Marketing. Mr. Anderson joined Patterson in 1993 and was recently elected to the board of directors of the Dental Trade Alliance, the trade association of dental manufacturers, distributors and laboratories.

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 risk factors are being disclosed based on instructions set forth in Item 503(c) of Regulation S-K.

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 resources 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.

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 are also 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.

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 intangible assets. Under generally accepted accounting principles in the United States, if impairment of our goodwill or other intangible assets is determined we may be required to record a significant charge to earnings in the period of such determination.

We are exposed to the risk of an increase in interest rates.

Our balance sheet includes 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.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company owns its principal executive offices 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 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 28, 2007, PLSI operates 18 distribution centers totaling approximately 900,000 square feet of distribution space as follows:

- 2 dental distribution centers located in Indiana and Iowa.
- 9 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, Arizona, Colorado, Florida, Indiana, Kentucky, Massachusetts, Missouri and Texas.
- 1 rehabilitation distribution center in New York State.
- 3 distribution centers located in California, Florida and Texas, which stock and distribute both dental and rehabilitation product.
- 2 distribution centers which stock and distribute dental and veterinary products, located in South Carolina and Washington state; and,

- 1 distribution center located in eastern Pennsylvania distributes product for all three of the business units. This location replaced nearby dental and veterinary distribution centers, as well as the primary rehabilitation distribution center in Illinois.

Approximately 80% of the of the PLSI distribution center space is owned.

Dental Supply

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

The dental supply segment is headquartered in the Company's principal executive offices. 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. Substantially all of these locations are leased.

Veterinary Supply

Headquartered in Sterling, Massachusetts, Webster Veterinary's sales and administrative personnel generally reside within the PLSI distribution center locations.

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. In fiscal 2007, five branch sales offices were established through acquisitions and internal start-ups. These branch offices are located in New York, North Carolina, Louisiana, Illinois and California. The California location is shared with branch operations of the dental supply segment.

Internationally, this segment has facilities located in the U.K., France and Canada.

Item 3. LEGAL PROCEEDINGS

Commencing in August 2005, five purported class action lawsuits were filed in the United States District Court for the District of Minnesota, naming the Company and certain officers and directors and alleging certain violations of the federal securities laws. On August 31, 2005, the Court entered an order consolidating the cases into a single action captioned *In Re Patterson Companies, Inc. Securities Litigation* docketed as File No. 05cv1757 DSD/NMJ. On September 16, 2005, a derivative lawsuit was filed in the United States District Court for the District of Minnesota captioned *Vance Cadd, Derivatively On Behalf of Patterson Companies, Inc. vs. James W. Wiltz, et al.*, docketed as File No. 05-cv-02155 RHK/AJB. This lawsuit named certain officers and directors of the Company as defendants and alleged breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. On October 11, 2005, a class action lawsuit was filed in the United States District Court for the District of Minnesota captioned *Tamara Dolliver, On Behalf of Herself and All Others Similarly Situated vs. Patterson Companies, Inc., et al* docketed as File No. 05-cv-02383 JNE/SRN. This class action lawsuit was brought on behalf of the participants in the Company's Employee Stock Ownership Plan against the Company and certain officers and directors, and alleged violations of the federal Employee Retirement Income Security Act. The *Cadd* and *Dolliver* cases were predicated on essentially the same factual allegations alleged in, and are related cases to, the class action lawsuits consolidated as *In Re Patterson Companies, Inc. Securities Litigation*.

In March 2006, pursuant to the Court's order, lead plaintiffs were selected in *In Re Patterson Companies, Inc. Securities Litigation* and Amended Complaints were filed in all three cases. On May 30, 2006, the Company

filed its Motion to Dismiss all three cases. On March 20, 2007, the Court granted the Company's Motion to Dismiss with prejudice in the Securities and ERISA case, and granted the Motion to Dismiss without prejudice in the Derivative case (the *Cadd* case). A notice of appeal was timely filed only in the *Cadd* case. The Company believes that the allegations made in the *Cadd* case are without merit and it intends to continue to vigorously defend the claim.

The Company has also been involved in various product-related and employment-related legal proceedings arising in the ordinary course of business. Some of these proceedings involve product liability claims arising out of the use of dental products manufactured by third parties and distributed by the Company. The Company believes that if any such product liability cases were determined in favor of the claimants, the manufacturers of such products would have primary responsibility for any damages because Patterson is a distributor of finished goods manufactured by third parties. In the event a manufacturer of a defective product is unable to pay a judgment for which the Company may be jointly liable, the Company could have liability for the entire judgment.

Since May 1985, the Company has maintained product liability insurance coverage for any potential liability for claims arising out of products sold by the Company. The Company believes that any liabilities which might result from claims relating to events occurring after May 1985, would be adequately covered by such insurance and that any unfavorable results in such cases would not have a material adverse effect on the Company's business or financial condition. With respect to claims relating to events occurring prior to May 1985, the agreement providing for the acquisition of Patterson from The Beatrice Companies, Inc. provides that Beatrice and its successors are obligated to indemnify the Company for losses exceeding a litigation reserve established at the time of the acquisition. To date, the successor to Beatrice has not been asked to indemnify the Company regarding any matters. Although the Company has insurance coverage for product liability claims relating to events occurring after May 1985 and may be entitled to indemnification from third parties under certain circumstances, any additional litigation could have a material adverse effect on the Company's business or financial condition in the future.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the Company's shareholders during the three-month period ended April 28, 2007.

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.

| | <u>High</u> | <u>Low</u> |
|----------------------|-------------|------------|
| Fiscal 2007 | | |
| First Quarter | \$36.13 | \$31.51 |
| Second Quarter | \$34.25 | \$29.61 |
| Third Quarter | \$38.29 | \$31.80 |
| Fourth Quarter | \$39.76 | \$31.71 |
| Fiscal 2006 | | |
| First Quarter | \$53.85 | \$40.85 |
| Second Quarter | \$44.70 | \$37.71 |
| Third Quarter | \$43.15 | \$32.00 |
| Fourth Quarter | \$36.97 | \$32.26 |

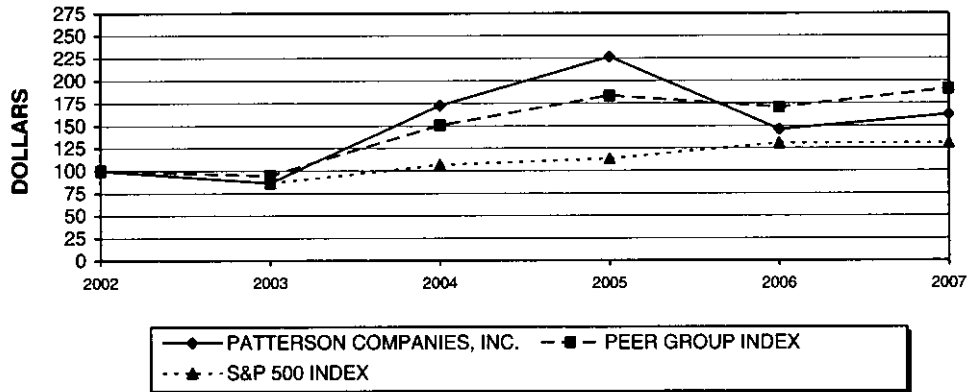
On June 25, 2007, the number of holders of record of common stock was 3,733. The transfer agent for the Company's common stock is Wells Fargo Bank, N.A., 161 North Concord Exchange, South St. Paul, Minnesota, 55075-0738, telephone: (651) 450-4064.

The Company has not paid any cash dividends on its common stock since its initial public offering in 1992 and expects that for the foreseeable future it will follow a policy of retaining earnings in order to finance the continued development of its business. 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. The Company did not repurchase any of its common stock during fiscal 2007.

The graph below compares the cumulative total shareholder return on \$100 invested at the market close on April 26, 2002, the last trading day before the beginning of our fifth preceding fiscal year, through and including April 27, 2007, the last trading day before the end of our most recently completed fiscal year, with the cumulative total return of the same time period on the same amount invested in the S&P 500 Index and a Peer Group Index, consisting of 9 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.

**COMPARE 5-YEAR CUMULATIVE TOTAL RETURN
AMONG PATTERSON COMPANIES, INC.,
S&P COMPOSITE INDEX AND SIC CODE INDEX**



ASSUMES \$100 INVESTED ON APR. 26, 2002
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING APR. 28, 2007

| <u>COMPANY/INDEX/MARKET</u> | <u>4/27/2002</u> | <u>4/26/2003</u> | <u>4/24/2004</u> | <u>4/30/2005</u> | <u>4/29/2006</u> | <u>4/28/2007</u> |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Patterson Companies Inc | 100.00 | 86.50 | 172.40 | 226.33 | 145.87 | 162.44 |
| Peer Group Index | 100.00 | 94.86 | 150.79 | 183.37 | 170.44 | 190.82 |
| S&P Composite | 100.00 | 86.69 | 106.52 | 113.28 | 130.74 | 130.74 |

* The current composition of SIC Code 5047—Medical & Hospital Equipment—is as follows:

ANIMAL HEALTH INTERNATIONAL, INC., CHINDEX INTERNATIONAL, INC., HENRY SCHEIN, INC., MWI VETERINARY SUPPLY, INC., NYER MEDICAL GROUP, INC., OWENS & MINOR, INC., PATTERSON COMPANIES, INC., PSS WORLD MEDICAL INC., TUTOGEN MEDICAL, INC.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share amounts)

| | Fiscal Year Ended | | | | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | April 28, 2007 | April 29, 2006 | April 30, 2005 | April 24, 2004 | April 26, 2003 | April 27, 2002 | April 28, 2001 | April 29, 2000 | April 24, 1999 | April 25, 1998 |
| Statement of Operations Data: | | | | | | | | | | |
| Net sales | \$2,798,398 | \$2,615,123 | \$2,421,457 | \$1,969,349 | \$1,656,956 | \$1,415,515 | \$1,156,455 | \$1,045,883 | \$883,268 | \$782,284 |
| Cost of sales | 1,829,526 | 1,700,694 | 1,558,946 | 1,267,005 | 1,082,370 | 921,335 | 747,301 | 678,766 | 571,698 | 505,069 |
| Gross margin | 968,872 | 914,429 | 862,511 | 702,344 | 574,586 | 494,180 | 409,154 | 367,117 | 311,570 | 277,215 |
| Operating expenses ⁽²⁾ | 633,182 | 591,417 | 560,375 | 459,844 | 395,638 | 347,000 | 294,039 | 269,658 | 234,098 | 212,833 |
| Operating income | 335,690 | 323,012 | 302,136 | 242,500 | 178,948 | 147,180 | 115,115 | 97,459 | 77,472 | 64,382 |
| Other income-net ⁽²⁾ | (6,082) | (6,039) | (8,689) | (2,980) | 7,454 | 5,043 | 7,081 | 5,540 | 2,239 | 1,324 |
| Income before income taxes and cumulative effect of accounting change | 329,608 | 316,973 | 293,447 | 239,520 | 186,402 | 152,223 | 122,196 | 102,999 | 79,711 | 65,706 |
| Income taxes | 121,272 | 118,548 | 109,749 | 90,055 | 70,082 | 56,933 | 45,721 | 38,527 | 29,815 | 24,937 |
| Income before cumulative effect of accounting change | \$ 208,336 | \$ 198,425 | \$ 183,698 | \$ 149,465 | \$ 116,320 | \$ 95,290 | \$ 76,475 | \$ 64,472 | \$ 49,896 | \$ 40,769 |
| Diluted earnings per share ⁽¹⁾⁽²⁾ | \$ 1.51 | \$ 1.43 | \$ 1.32 | \$ 1.08 | \$ 0.85 | \$ 0.70 | \$ 0.56 | \$ 0.48 | \$ 0.37 | \$ 0.31 |
| Weighted average shares and potentially dilutive shares outstanding ⁽¹⁾ | 137,769 | 139,234 | 138,873 | 137,768 | 136,894 | 136,402 | 135,526 | 135,088 | 133,986 | 132,650 |
| Dividends per common share | — | — | — | — | — | — | — | — | — | — |
| Balance Sheet Data: | | | | | | | | | | |
| Working capital | \$ 509,021 | \$ 437,727 | \$ 470,439 | \$ 507,145 | \$ 422,093 | \$ 331,413 | \$ 310,046 | \$ 238,502 | \$187,952 | \$133,256 |
| Total assets | 1,940,320 | 1,911,718 | 1,685,301 | 1,588,957 | 823,978 | 718,376 | 549,180 | 451,976 | 373,250 | 316,373 |
| Total debt | 180,024 | 300,041 | 321,557 | 499,587 | 274 | 976 | 990 | 1,719 | 2,097 | 7,202 |
| Stockholders' equity | 1,379,214 | 1,242,521 | 1,015,072 | 801,758 | 633,686 | 514,360 | 408,515 | 330,470 | 265,199 | 210,303 |

- (1) Amounts are adjusted for two-for-one stock splits on September 14, 2004 and June 13, 2000 and a three-for-two stock split on January 12, 1998.
- (2) Reflects the adoption of FASB Statement No. 142 "Goodwill and Other Intangible Assets" in fiscal year 2003. Had this standard been adopted at the beginning of fiscal 1998, income in fiscal years 1998 through 2002 would have been positively impacted by no more than \$0.02 per diluted share. In addition, the year ended April 28, 2007 includes the adoption of FASB Statement No. 123(R) "Share-Based Compensation", which reduced diluted earnings per share by \$0.05. All prior years in this summary do not reflect expense under Statement 123(R).
- (3) See the Notes to the Consolidated Financial Statements included in Item 8. of this Annual Report on Form 10-K.

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

Overview

The Company's fiscal 2007 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.

The historical operating performance of the veterinary supply and rehabilitation supply businesses are somewhat different than the dental supply business. Operating margins of the veterinary business are considerably lower than the dental supply business. While operating expenses run at a lower rate in the veterinary business, its gross margin is substantially lower. Veterinary gross margins have been in the low-to-mid 20's as compared to dental gross margins in the mid 30's. The rehabilitation business has realized gross margins in the high 30's to low 40's.

There are several important aspects of the Company's business, 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, that are useful in analyzing the Company. 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. With these factors in mind, management has established certain operating objectives, which include increasing net sales four percentage points faster than the average market growth rate at each business unit and improving operating margins by 50 basis points annually. In response to lower-than-expected operating results at Patterson Medical, the Company put a new management team into place during the second half of fiscal 2006. In fiscal 2007, the Company committed a portion of its operating leverage improvement to investments in the sales and marketing organization at Patterson Medical, which entailed a significant expansion of the sales force as well as other marketing initiatives. The actions in fiscal 2007 at Patterson Medical were expected to diminish the opportunity to expand operating margins by 50 basis points. In addition, fiscal 2007 operating results include expense of \$7.8 million from the adoption of FASB Statement No. 123(R) at the beginning of the year.

Results of Operations

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

| | <u>2007 (a)</u> | <u>2006</u> | <u>2005</u> |
|---------------------------|--------------------|--------------------|--------------------|
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | <u>65.4%</u> | <u>65.0%</u> | <u>64.4%</u> |
| Gross margin | 34.6% | 35.0% | 35.6% |
| Operating expenses | <u>22.6%</u> | <u>22.6%</u> | <u>23.1%</u> |
| Operating income | 12.0% | 12.4% | 12.5% |
| Other income, net | 0.3% | 0.2% | 0.2% |
| Interest expense | <u>0.5%</u> | <u>0.5%</u> | <u>0.6%</u> |
| Income before taxes | 11.8% | 12.1% | 12.1% |
| Income taxes | <u>4.3%</u> | <u>4.5%</u> | <u>4.5%</u> |
| Net income | <u><u>7.5%</u></u> | <u><u>7.6%</u></u> | <u><u>7.6%</u></u> |

(a) Includes a 30 basis point impact of share-based compensation expense from the adoption of SFAS No. 123(R) in fiscal 2007.

Fiscal 2007 Compared to Fiscal 2006

Net Sales. Net sales for the year ended April 28, 2007 totaled \$2,798.4 million, an increase of 7.0% from \$2,615.1 million in fiscal 2006. The favorable impact of foreign currency translation on sales growth was 0.5%. Acquisitions contributed approximately one percentage point to sales growth.

The Company acquired Accu-Bite in September 2005. This business included both a field sales organization similar to our traditional dental sales model, as well as a low-margin telesales business. For approximately eight months of fiscal 2006, from the date of acquisition through the end of fiscal year, the dental segment operated Accu-Bite's telesales business. In early May 2006, the telesales operations were closed for business reasons. In closing the business, as much of the sales volume that could be, was moved into the field organization. However, as the Company expected, much of this sales volume went to dental suppliers who approach the market with a low-price model. The closing of the telesales business had a negative impact on consolidated fiscal 2007 sales growth of approximately one percentage point.

Sales of our dental supply unit increased 5.0% in fiscal 2007 to \$2,064.6 million. Sales of dental consumable supplies grew 5.7%. The Accu-Bite telesales negative impact on sales growth of the dental unit's total sales and sales of consumable supplies was approximately 1.5% and 2.5%, respectively. Equipment sales grew 1.6%, led by basic equipment growth of 6.1%. Largely offsetting the increase in basic equipment growth was a decline in the sales of CEREC® 3D dental restorative systems.

Late in the third quarter of fiscal 2007, CEREC's manufacturer, Sirona, introduced several important enhancements. First, CEREC's software was significantly improved; making it easier to design highly aesthetic and precise restorations, while also greatly streamlining the system's learning curve. In addition, a faster and more robust milling unit was introduced as an option on new installations, as well as an upgrade to all existing CEREC users. The Company believes the news of the impending enhancements to CEREC, which reached the market early in fiscal 2007, as well as the timing of the introduction at the end of the third fiscal quarter, and the process of transitioning to these upgraded features, which was still underway at the end of fiscal 2007, had a negative impact on sales throughout the year.

Other dental sales, consisting primarily of technical service parts and labor, software support services and teeth, grew 14.1% in fiscal 2007.

Sales at the Webster Veterinary unit grew 15.4% to \$399.4 million from \$346.1 million. The business has strategically emphasized expansion of its value-added platform, including its equipment and software initiatives. Webster's core consumables business performed well throughout the year and equipment and software increased 69.6%. Excluding the acquisition impact of Intra Corp, developer and marketer of IntraVet® practice management software, total veterinary sales exceeded prior year sales by 14.2%.

Patterson Medical consistently grew sales throughout the year, improving 10.7% over fiscal 2006. Three acquisitions related to the unit's branch office strategy contributed 3 percentage points of the growth and foreign currency translation added an additional 1.5% of sales improvement. During fiscal 2007 Patterson Medical established five full-service branch offices in selected markets through acquisitions and internal start-ups. Additional acquisitions and internal start-ups are under consideration as the business continues to increase its sales force and add programs and systems to advance their value-added offerings.

Gross Margin. Consolidated gross margin declined 40 basis points in fiscal 2007 to 34.6%, primarily due to lower margins of Patterson Medical. In addition, the sales growth of Webster Veterinary outpaced both the dental and rehabilitation segments, resulting in a dilutive impact to consolidated gross margin, since Veterinary gross margins are lower than the other two businesses.

The Dental segment's gross margin improved 20 basis points in fiscal 2007. The closing of the Accu-Bite telesales business which operated for eight months in fiscal 2006 and was dilutive to overall dental gross margin during that period, acted to improve Dental gross margins in 2007. The telesales business produced substantially lower gross margins than the traditional dental sales operations. A decline in sales of the high-margin CEREC dental restorative systems during fiscal 2007 negatively impacted gross margin.

The gross margin of the Veterinary business decreased by 10 basis points over fiscal year 2006. The negative impact on gross margin of lower agency commissions and vendor rebates in fiscal 2007 was mostly offset by the sales growth of equipment and software, which carry higher margins than core consumables.

Patterson Medical's gross margin declined 250 basis points due to several factors. Higher freight costs have impacted this business more than the Dental and Veterinary segments due to the nature of the average order size and related package levels. In addition, this segment has fixed price contracts with certain large group customers and price increases from vendors created some margin compression in this customer group. These contracts are renewed periodically, at which time pricing may be renegotiated to address changes in vendor pricing. Many of the contracts were amended in the latter part of fiscal 2007. A third factor in the gross margin decline at Patterson Medical is that the business hired a number of new sales representatives during the past fiscal year who have been given some short-term latitude to establish their book of business through discretionary discounting. This latitude will be phased out as these new representatives reach their sales targets.

Operating Expenses. The consolidated operating expense ratio remained unchanged from a year ago at 22.6%, however the ratio in fiscal 2007 was negatively impacted by 30 basis points due to \$7.8 million of share-based compensation expense related to the Company's adoption of SFAS No. 123(R) in fiscal 2007.

Excluding the impact of SFAS No. 123(R), the Dental segment experienced a 10 basis point improvement in its operating expense ratio. The Veterinary segment experienced a 60 basis points decrease in its operating expense ratio, due primarily to leverage on sales growth. In addition, during fiscal 2006 the business incurred costs from the initial expense structure of its greenfield expansion into California. Fiscal 2007 was a year of investment for Patterson Medical in sales and marketing personnel and programs, however the business was able to maintain their operating expense ratio due to growth in sales.

Operating Income. Operating income was \$335.7 million, or 12.0% of net sales. Excluding \$7.8 million of expense under SFAS No. 123(R), operating income was 12.3% of net sales, totaling \$343.4 million, an increase of 6.3% from \$323.0 million in fiscal 2006.

Interest Expense. Interest expense was \$14.2 million compared to \$13.4 million in fiscal 2006. For more than half of fiscal 2006, an interest rate swap on \$100 million of variable rate debt effectively fixed interest rate expense on the \$100 million at 2.6% until the agreement terminated in November 2005. The average debt balance carried in fiscal 2007 was lower than fiscal 2006; however, the weighted average interest rate on the \$100 million of variable rate debt was approximately 6.0% in fiscal 2007, resulting in an overall increase in interest expense.

Other Income, net. Other income, net of other expenses, increased to \$8.1 million from \$7.3 million. Composed primarily of finance interest income in both years, the increase was due primarily to higher interest rates.

Income Taxes. The effective income tax rate was 36.8% in fiscal year 2007 compared to 37.4% in the prior year. During fiscal 2007, the Company finalized several years of Canadian income tax returns and the reversal of related tax reserves lowered the effective income tax rate by approximately one percentage point. The impact of SFAS No. 123(R) on our effective tax rate partially offset the finalization of the Canadian tax returns since certain compensation expense under SFAS No. 123(R) is non-deductible.

Earnings Per Share. Earnings per diluted share of \$1.51 represents an increase of \$0.08 or 5.6% from the \$1.43 earnings per share reported in fiscal 2006. The adoptions of SFAS No. 123(R) in fiscal 2007 lowered earnings per share by \$0.05.

Fiscal 2006 Compared to Fiscal 2005

Net Sales. Net sales for the year ended April 29, 2006 totaled \$2,615.1 million, an 8.0% increase from \$2,421.5 million reported for the previous year. The Company utilizes a fifty-two, fifty-three week fiscal year ending on the last Saturday in April. Due to the Company's fiscal year policy, fiscal 2005 included an additional or fifty-third week as compared to fiscal 2006. The Company estimates the additional week in fiscal 2005 had a one to two percentage point adverse impact on the growth rate in fiscal 2006.

Sales of our largest business unit, dental supply, increased 7.2%. Excluding the impact of the Accu-Bite acquisition and favorable foreign currency exchange translation related to our Canadian operations, sales grew approximately 4% in fiscal 2006.

Sales of dental consumable supplies experienced strong growth of 9.5%. Excluding the 4.1 percentage point impact to growth from the Accu-Bite acquisition, and considering the additional week in fiscal 2005, consumables growth was on the high end of our estimated market growth rate of 5% to 7%. Equipment sales growth of 3.7% was below historic norms. In the second half of fiscal 2006, programs were implemented to improve the sluggish sales performance for basic equipment, such as chairs, units, cabinetry and lights, back to more historic growth rates.

With respect to new-technology equipment, digital radiography continued to see significant practitioner demand and related sales grew 20% compared to fiscal 2005. Sales of the CEREC® 3D dental restorative system were virtually unchanged from fiscal 2005.

Sales of other services and products, including parts, technical service, software support and insurance e-claims, grew 8.2% in fiscal 2006.

Sales at the Webster Veterinary unit grew 18.6% to \$346.1 million from \$292.0 million. The impact from the October 2004 Milburn and December 2005 IntraVet acquisitions was approximately \$24.7 million, or 8.5 percentage points of the growth. Webster's sales growth was strong throughout the year and was complimented by several factors. First, the business began its greenfield expansion into the large California market, which represents its most successful greenfield initiative to date. Second, for the past few years, Webster has been

laying the groundwork for expanding its position in the equipment market and this growing emphasis resulted in strong results. Equipment sales for the year grew 49% from fiscal 2005. Finally, another source of growth in fiscal 2006 sales were new pharmaceutical distribution agreements, including a canine pain medication previously sold direct by the manufacturer.

Patterson Medical's sales growth was only 2.3%. A modest improvement in North American sales was largely offset by a slight decline in sales of the overseas operations. In the second half of fiscal 2006, a new management team was put in place and a range of strategic initiatives were begun. Late in the third quarter, a small, non-core portion of the segment was sold which also negatively impacted the growth rate of sales.

Gross Margin. Consolidated gross margin declined 60 basis points in fiscal 2006 to 35.0%. Sales from the Webster Veterinary unit made up a larger portion of sales in fiscal 2006 due to its strong sales growth. Because gross margin at the Veterinary unit is lower than both the Dental and Medical units, the unit's sales growth had a dilutive effect on consolidated gross margin.

The Dental unit's gross margin decrease of nearly 50 basis points was largely due to the acquisition of Accu-Bite. Acquired territory sales reps were integrated within existing Patterson branches, however, Accu-Bite also had a telesales operation that was not integrated and produced substantially lower gross margins than the traditional dental sales operations. The telesales business was shutdown in early May of 2006, however, it did operate from the September 2005 date of acquisition through the end of fiscal 2006.

The gross margin of the Veterinary business was virtually unchanged. A full year of Milburn operations, which carry lower margins than the historical Webster business, were included in fiscal 2006 results compared to approximately six months in fiscal 2005 and negatively impacted the overall gross margin of the unit. However, this impact was largely offset by the sales growth of equipment and software, which carry higher margins than the rest of the unit's product offerings.

Patterson Medical's gross margin fell 100 basis points, largely due to sales mix, including lower sales levels of the overseas operations, which have carried higher gross margins than the North American operations.

Operating Expenses. The consolidated operating expense ratio decreased to 22.6%, down 50 basis points from 23.1% in fiscal 2005.

The Dental segment experienced a 30 basis point decrease, reflecting operating leverage on additional sales and reduced incentive compensation. This improvement was partially offset by costs associated with the integration of the Accu-Bite acquisition.

The Veterinary segment also improved its operating expense ratio by 30 basis points, due primarily to operating leverage on improved sales. Costs associated with the initial expense structure of the California greenfield expansion somewhat offset this improvement.

The operating expense ratio at Patterson Medical declined by 170 basis points due to lower levels of amortization of intangibles.

Consolidated amortization expense in fiscal 2006 and fiscal 2005 was \$7.0 million and \$12.2 million, respectively. The \$5.2 million decrease was due primarily to amortization on certain intangible assets related to the acquisition of Patterson Medical, some of which were being amortized on an accelerated basis due to their period of benefit.

Operating Income. Operating income increased 6.9% and decreased 10 basis points as a percent of sales. As discussed above, consolidated gross margins declined 60 basis points, while the consolidated operating expense ratio improved 50 basis points.

Interest Expense. Interest expense decreased from \$15.1 million to \$13.4 million. The average debt balance carried in fiscal 2006 was lower than in fiscal 2005 because the Company paid down substantial amounts of debt near the end of fiscal 2005. However, in November 2005, an interest rate swap on \$100 million of variable rate debt terminated. This swap had existed throughout all of fiscal 2005 and under the terms of the agreement, the Company effectively paid a low, fixed rate on the variable rate debt. Due to the termination of the swap agreement and rising interest rates, the Company experienced a higher weighted average interest rate in fiscal 2006 and was not able to recognize significantly lower levels of interest expense as compared to fiscal 2005.

Other Income, net. Other income, net of other expenses, was consistent year over year. Composed primarily of finance interest income in both years, net other income was \$7.3 million in fiscal 2006 compared to \$6.5 million in fiscal 2005 and results primarily from the growth of the business.

Income Taxes. The effective income tax rate was 37.4% in both fiscal years 2006 and 2005. The Company's effective tax rate is higher than the statutory federal rate primarily because of state, local and international taxes the Company must pay.

Earnings Per Share. Earnings per share increased to \$1.43, up \$0.11 or 8% from the \$1.32 earnings per share reported in fiscal 2005.

Liquidity and Capital Resources

Patterson's operating cash flow has been the Company's principal source of liquidity in fiscal 2007, 2006, and 2005. Operating activities generated cash of \$243.5 million in fiscal 2007 compared with \$164.0 million in fiscal 2006 and \$207.3 million in fiscal 2005. In fiscal 2006, the Company did not sell approximately \$30 million of short-duration finance contracts that were generated as a part of our traditional calendar year-end financing programs. These contracts have an average maturity of less than 24 months and will generate interest income at rates approximating what cash would earn, thus the Company elected not to incur the administrative expense of selling these contracts. Had these contracts been sold, cash from operations would have been approximately \$200 million. The majority of the principal balance on these contracts has been collected from customers as of fiscal 2007 year end.

Capital expenditures were \$19.5, \$49.2 and \$31.5 million in fiscal years 2007, 2006 and 2005, respectively. Fiscal 2006 included several significant projects, including expenditures for shared distribution centers in Kent, WA and eastern Pennsylvania. In addition, 2006 included expenditures for a new distribution facility for the Patterson Medical operations in the U.K.

The Company expects to invest approximately \$30 million in capital expenditures during fiscal 2008, including the expansion of an existing distribution center to accommodate multiple business units, and the continuing expansion of information systems.

Two buildings were sold during fiscal 2007, with proceeds totaling \$9.2 million. One building was the former distribution facility for Patterson Medical's U.K. operations and the other was a vacant building acquired in the acquisition of AbilityOne.

Cash used for acquisitions totaled \$12.7 million in fiscal 2007 and included the acquisition of three dealer/distributors by Patterson Medical as well as earn-outs on acquisitions from previous years. The \$39.2 million invested in fiscal 2006 included the acquisitions of Accu-Bite and IntraCorp. In fiscal 2005, the Company used \$72.9 million of cash for acquisitions, including Medco, CAESY and Milburn.

A cash payment of \$100 million was made to Sirona in fiscal 2006, representing a distribution fee that extends the Company's exclusive North American distribution agreement of Sirona's CEREC equipment for a ten-year period which begins in October 2007.

The Company did not repurchase any of its common stock in fiscal years 2007, 2006 or 2005, but does have authorization from the board of directors to repurchase up to six million shares. This authorization expires September 30, 2009. During fiscal 2007, the Company loaned its ESOP \$105 million, which was used by the ESOP to purchase approximately 3.2 million shares of the Company's common stock on the open market.

Payments on long-term debt were \$120 million in fiscal 2007. In addition to \$70 million of fixed rate debt that matured during the year and \$20 million of scheduled payments on its variable rate bank term loans, the Company paid off the remaining \$30 million of the term loans near the end of the fiscal year. An amount of \$200 million is available to the Company under this revolving credit facility until November 2008. For fiscal 2008, \$50 million of fixed rate private notes loan repayments are scheduled.

Management continues to expect funds generated from operations and existing cash and short-term investments 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. The Company's short-term and long-term debt facilities are believed to be adequate as a supplement to internally generated cash flows to fund anticipated expansion plans and strategic initiatives.

The Company sells a significant portion of its installment sale 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 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. The Company's financing business is described in further detail in Note 6 of the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

Contractual Obligations

A summary of the Company's contractual obligations as of April 28, 2007 follows (in thousands):

| <u>Contractual Obligations</u> | <u>Payment due by year</u> | | | | |
|--------------------------------|----------------------------|-----------------------------|------------------|------------------|------------------------------|
| | <u>Total</u> | <u>Less than 1 year</u> | <u>1-3 years</u> | <u>3-5 years</u> | <u>More than 5 years</u> |
| Long-Term Debt | \$180,024 | \$50,014 | \$130,010 | — | — |
| Operating Leases | 52,079 | 12,633 | 22,396 | \$12,059 | \$4,991 |

For a more complete description of our contractual obligations, please see Notes 7 and 9 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 and acquisitions. The Company's growth strategy will continue to focus on these key elements. Maintaining financial flexibility is also a key component of the Company's future growth. 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 strategic initiatives that the Company has implemented in the past two years, as well as those that will be implemented in fiscal 2008 and beyond, will strengthen the Company's operational platform and contribute to continuing 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. The Company believes that the sustainable, long-term growth rate of its North American dental operation is four percentage points in excess of the market's 7% to 9% estimated rate of growth. The Company also believes its Webster

Veterinary and Patterson Medical units can grow faster than the estimated 6% to 7% growth rate of the U.S. companion-pet veterinary supply market and the estimated 6% growth rate of the rehabilitation market.

Asset Management

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|-------------|
| Days sales outstanding | 44 | 47 | 46 |
| Inventory turnover ⁽¹⁾ | 7.2 | 7.3 | 7.9 |

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

Foreign Operations

Foreign sales are derived primarily from Patterson Dental and Patterson Medical operations in Canada and from Patterson Medical's operations in the U.K. and France. Fluctuations in currency exchange rates have not significantly impacted earnings. However, net sales in fiscal 2007, 2006 and 2005 were enhanced by changes in the exchange rate. Without foreign currency effects, net sales would have been \$12.3 million, \$9.3 million and \$12.6 million lower in fiscal years 2007, 2006 and 2005, respectively. Changes in currency exchange rates are a risk accompanying foreign operations, but this risk is not considered material with respect to the net operations of the Company's business.

Critical Accounting Policies and Estimates

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

Revenue Recognition—Our revenue recognition processes involve establishing estimates for returns, damaged goods, rebates and other revenue allowances. These estimates are based on historical experience and the facts known at the date of the preparation of the financial statements, but future events could cause actual results to vary from our estimates.

Inventory and Reserves—Inventory consists primarily of merchandise held for sale and is stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for all inventories, except for foreign inventories and manufactured inventories, which are valued using the first-in, first-out (FIFO) method. We continually assess the valuation of our inventories and reduce the carrying value of those inventories that are

obsolete or in excess of our forecasted usage to estimated realizable value. We estimate the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements.

Goodwill and Other Intangible Assets—Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Other intangible assets include customer lists, a distribution agreement and other amortizable intangible assets. In addition, other intangible assets consist of trademarks and trade names that are unamortized intangible assets.

Statement of Financial Accounting Standards (SFAS) No. 142, “*Goodwill and Other Intangible Assets*”, requires that goodwill for each reporting unit be reviewed for impairment at least annually. The Company has three reporting units at April 28, 2007. The Company tests goodwill for impairment using the two-step process prescribed in SFAS No. 142. In the first step, the Company compares the fair value of each reporting unit, as computed primarily by present value cash flow calculations, to its book carrying value, including goodwill. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and the Company would then complete step 2 in order to measure the impairment loss. In step 2, the Company would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in step 1). If the implied fair value of goodwill is less than the carrying value of goodwill, the Company would recognize an impairment loss equal to the difference.

Management also reviews other intangible assets with finite lives for impairment at least annually to determine if any adverse conditions exist that would indicate impairment. If the carrying value of the finite-lived intangible assets exceeds the expected undiscounted cash flows resulting from the use and disposition of the asset, the carrying value is written down to fair value in the period identified. Indefinite-lived intangible assets are reviewed at least annually for impairment by calculating the fair value of the assets and comparing with their carrying value. In assessing fair value, management generally utilizes present value cash flow calculations using an expected cash flow approach.

During the fourth quarters of fiscal 2007 and 2006, management completed its annual goodwill and intangible asset impairment reviews with no impairments to the carrying values identified.

The discount rate and sales growth assumptions are the two most significant assumptions utilized in the Company’s calculations of the present value cash flows used to estimate the fair value of the reporting units when performing the annual goodwill impairment test and in testing indefinite-lived intangible assets for impairment. The Company utilizes an expected cash flow approach in estimating the fair value of the reporting units, where the discount reflects a risk-free rate of interest and utilizes various probability-weighted scenarios to estimate future sales. The cash flow model used to derive fair value is most sensitive to the discount rate and sales growth assumptions used. The estimated fair value of the reporting units and indefinite-lived intangible assets has historically exceeded the carrying value of such reporting unit or indefinite-lived intangible asset by a substantial amount. The Company performs a sensitivity analysis on the discount rate, sales growth and operating margin assumptions. Either the discount rate could be increased by 50% of the discount rate utilized, or the sales growth assumption could be reduced by 20%, and the Company’s reporting units and indefinite-lived intangible assets would continue to have fair values in excess of the carrying values.

Share-based Compensation—The Company accounts for share-based payment awards in accordance with SFAS No. 123(R). The Company recognizes share-based compensation based on certain assumptions including inputs within the Black-Scholes Model and estimated forfeitures. These assumptions require subjective judgment and changes in the assumptions can materially affect fair value estimates. Management assesses the assumptions and methodologies used to estimate forfeitures and to calculate estimated fair value of share-based compensation on a regular basis. Circumstances may change, and additional data may become available over time, which could result in changes to these assumptions and methodologies and thereby materially impact our fair value

determination or estimates of forfeitures. If factors change and the Company employs different assumptions in the application of SFAS No. 123(R), the amount of compensation expense associated with SFAS No. 123(R) may differ significantly from what was recorded in the current period.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes—an interpretation of FAS No. 109*" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "*Accounting for Income Taxes.*" FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on future changes, classification, interest and penalties, accounting in interim periods, disclosures and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have completed our initial evaluation of the impact of the adoption of FIN 48 and determined that such adoption is not expected to have a material impact on our financial position or results from operations.

In September 2006, the FASB issued Statement No. 157, "*Fair Value Measurements.*" FAS 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 applies under other previously issued accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of FAS 157 on our consolidated financial statements.

Factors That May Affect Future Operating Results

Certain information of a non-historical nature contained in Items 1, 2, 3 and 7 of this Form 10-K include forward-looking statements. Words such as "believes," "expects," "plans," "estimates," "intends" and variations of such words are intended to identify such forward-looking statements. The statements are not guaranties of future performance and are subject to certain risks, uncertainties or assumptions that are difficult to predict; therefore, the Company cautions shareholders and prospective investors that the following important factors, among others, could cause the Company's actual operating results to differ materially from those expressed in any forward-looking statements. The factors listed under this caption are intended to serve as cautionary statements within the meaning of the Private Securities Litigation Reform Act of 1995. The following information is not intended to limit in any way the characterization of other statements or information under other captions as cautionary statements for such purpose. The order in which such factors appear below should not be construed to indicate their relative importance or priority.

- The Company's ability to meet increased competition from national, regional and local full-service distributors and mail-order distributors of dental, veterinary and rehabilitation products, while maintaining current or improved profit margins.
- The ability of the Company to retain its base of customers and to increase its market share.
- The ability of the Company to maintain satisfactory relationships with qualified and motivated sales personnel.
- The continued ability of the Company to maintain satisfactory relationships with key vendors and the ability of the Company to create relationships with additional manufacturers of quality, innovative products.
- Changes in the economics of dentistry affecting dental practice growth and the demand for dental products, including the ability and willingness of dentists to invest in high-technology diagnostic and therapeutic products.
- Reduced growth in expenditures for dental services by private dental insurance plans.

- The accuracy of the Company's assumptions concerning future per capita expenditures for dental services, including assumptions as to population growth and the demand for preventive and specialty dental services such as periodontic, endodontic and orthodontic procedures.
- The rate of growth in demand for infection control products currently used for prevention of the spread of communicable diseases such as AIDS, hepatitis and herpes.
- Changes in the economics of the veterinary supply market, including reduced growth in per capita expenditures for veterinary services and reduced growth in the number of households owning pets.
- The effects of healthcare related legislation and regulation, which may affect expenditures or reimbursements for rehabilitation and assistive products.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The Company is exposed to market risk consisting of foreign currency rate fluctuations and changes in interest rates.

The Company is exposed to foreign currency exchange rate fluctuations in its operating statement due to transactions denominated primarily in Canadian Dollars, British Pounds and Euros. Although historically the Company has elected not to enter into any hedging contracts, it continually evaluates its foreign currency exchange rate risk and the different mechanisms for use in managing such risk. A hypothetical 10% change in the value of the U.S. dollar in relation to the Company's most significant foreign currency exposures would have had an impact of approximately \$23.0 million on fiscal 2007 net sales. This amount is not indicative of the hypothetical net earnings impact due to the partially offsetting impact of the currency exchange movements on cost of sales and operating expenses.

The Company's earnings are also affected by fluctuations in short-term interest rates through the investment of its cash balances, borrowings under LIBOR-based debt instruments and the practice of selling fixed rate equipment finance contracts under agreements with both a commercial paper conduit and a group of banks that provide for pricing based on variable interest rates.

As of April 28, 2007, the Company had \$180 million of long-term debt outstanding of which \$100 million was variable interest rate based debt. The Company views its variable interest rate debt position on a net basis that gives effect to the Company's cash and short term investments balances.

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

The Company estimates that if interest rates had been 10% higher during the year, the annual impact would have been to reduce earnings before income tax by approximately \$3 million.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Patterson Companies, Inc.

We have audited management's assessment, included in Management's Annual Report on Internal Control over Financial Reporting appearing in Item 9A, *Controls and Procedures*, of this Annual Report on Form 10-K, that Patterson Companies, Inc. maintained effective internal control over financial reporting as of April 28, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Patterson Companies, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Patterson Companies, Inc. maintained effective internal control over financial reporting as of April 28, 2007, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Patterson Companies, Inc. maintained, in all material respects, effective internal control over financial reporting as of April 28, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Patterson Companies, Inc. as of April 28, 2007, and April 29, 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three fiscal years in the period ended April 28, 2007 of Patterson Companies, Inc. and our report dated June 25, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
June 25, 2007

The Board of Directors and
Shareholders of Patterson Companies, Inc.

We have audited the accompanying consolidated balance sheets of Patterson Companies, Inc. as of April 28, 2007, and April 29, 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three fiscal years in the period ended April 28, 2007. Our audits also included the financial statement schedule listed in Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Patterson Companies, Inc. at April 28, 2007, and April 29, 2006, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended April 28, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth herein.

As discussed in Note 1 to the financial statements, effective April 30, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123 (revised 2004), *Share-Based Payment*, using the modified prospective method.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Patterson Companies, Inc.'s internal control over financial reporting as of April 28, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 25, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
June 25, 2007

PATTERSON COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

| | <u>April 28, 2007</u> | <u>April 29, 2006</u> |
|--|---------------------------|---------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 241,791 | \$ 224,392 |
| Receivables, net of allowance for doubtful accounts of \$6,547 and \$7,031 at April 28, 2007 and April 29, 2006, respectively | 361,401 | 350,299 |
| Inventory | 250,207 | 244,709 |
| Prepaid expenses and other current assets | <u>33,091</u> | <u>27,974</u> |
| Total current assets | 886,490 | 847,374 |
| Property and equipment, net | 131,952 | 141,541 |
| Long-term receivables, net | 52,019 | 49,277 |
| Goodwill | 660,573 | 656,206 |
| Identifiable intangibles, net | 102,357 | 108,008 |
| Distribution agreement | 100,000 | 100,000 |
| Other | <u>6,929</u> | <u>9,312</u> |
| Total assets | <u>\$1,940,320</u> | <u>\$1,911,718</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 182,761 | \$ 173,957 |
| Accrued payroll expense | 54,101 | 34,111 |
| Other accrued expense | 86,348 | 85,396 |
| Income taxes payable | 4,245 | 26,156 |
| Current maturities of long-term debt | <u>50,014</u> | <u>90,027</u> |
| Total current liabilities | 377,469 | 409,647 |
| Long-term debt | 130,010 | 210,014 |
| Deferred income taxes | <u>53,627</u> | <u>49,536</u> |
| Total liabilities | 561,106 | 669,197 |
| Stockholders' equity: | | |
| Common Stock, \$.01 par value: | | |
| Authorized shares—1,200,000 | | |
| Issued and outstanding shares—139,490 and 138,751 at April 28, 2007, and April 29, 2006, respectively | 1,395 | 1,388 |
| Additional paid-in capital | 174,420 | 146,807 |
| Accumulated other comprehensive income | 18,372 | 13,837 |
| Retained earnings | 1,308,590 | 1,100,254 |
| Notes receivable from ESOP | <u>(123,563)</u> | <u>(19,765)</u> |
| Total stockholders' equity | 1,379,214 | 1,242,521 |
| Total liabilities and stockholders' equity | <u>\$1,940,320</u> | <u>\$1,911,718</u> |

See accompanying notes

PATTERSON COMPANIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

| | Fiscal Year Ended | | |
|----------------------------------|-------------------|-------------------|-------------------|
| | April 28, 2007 | April 29, 2006 | April 30, 2005 |
| Net sales | \$2,798,398 | \$2,615,123 | \$2,421,457 |
| Cost of sales | 1,829,526 | 1,700,694 | 1,558,946 |
| Gross profit | 968,872 | 914,429 | 862,511 |
| Operating expenses | 633,182 | 591,417 | 560,375 |
| Operating income | 335,690 | 323,012 | 302,136 |
| Other income and expense: | | | |
| Other income, net | 8,148 | 7,336 | 6,452 |
| Interest expense | (14,230) | (13,375) | (15,141) |
| Income before income taxes | 329,608 | 316,973 | 293,447 |
| Income taxes | 121,272 | 118,548 | 109,749 |
| Net income | <u>\$ 208,336</u> | <u>\$ 198,425</u> | <u>\$ 183,698</u> |
| Earnings per share: | | | |
| Basic | <u>\$ 1.52</u> | <u>\$ 1.44</u> | <u>\$ 1.34</u> |
| Diluted | <u>\$ 1.51</u> | <u>\$ 1.43</u> | <u>\$ 1.32</u> |
| Weighted average shares: | | | |
| Basic | 136,815 | 137,690 | 136,839 |
| Diluted | 137,769 | 139,234 | 138,873 |

See accompanying notes

PATTERSON COMPANIES, INC.
CONSOLIDATED STATEMENTS OF
CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Notes Receivable from ESOP | Total |
|--|--------------------|----------------|----------------------------------|--|----------------------|----------------------------------|--------------------|
| | Number | Amount | | | | | |
| Balance at April 24, 2004 | 68,450,336 | \$ 685 | \$100,995 | \$ 2,901 | \$ 718,818 | \$ (21,641) | \$ 801,758 |
| Derivative financial instrument change in unrealized gain | — | — | — | 251 | — | — | 251 |
| Foreign currency translation adjustment | — | — | — | 5,367 | — | — | 5,367 |
| Net income | — | — | — | — | 183,698 | — | 183,698 |
| Comprehensive income | | | | | | | 189,316 |
| Common stock issued | 625,574 | 6 | 20,217 | — | — | — | 20,223 |
| Stock split | 68,699,134 | 687 | — | — | (687) | — | — |
| Conversion of debenture | 58,846 | — | 3,000 | — | — | — | 3,000 |
| Payment on ESOP note | — | — | — | — | — | 775 | 775 |
| Balance at April 30, 2005 | 137,833,890 | 1,378 | 124,212 | 8,519 | 901,829 | (20,866) | 1,015,072 |
| Derivative financial instrument change in unrealized gain | — | — | — | (877) | — | — | (877) |
| Foreign currency translation adjustment | — | — | — | 6,195 | — | — | 6,195 |
| Net income | — | — | — | — | 198,425 | — | 198,425 |
| Comprehensive income | | | | | | | 203,743 |
| Common stock issued | 858,285 | 9 | 21,095 | — | — | — | 21,104 |
| Conversion of debenture | 58,846 | 1 | 1,500 | — | — | — | 1,501 |
| Payment on ESOP note | — | — | — | — | — | 1,101 | 1,101 |
| Balance at April 29, 2006 | 138,751,021 | 1,388 | 146,807 | 13,837 | 1,100,254 | (19,765) | 1,242,521 |
| Foreign currency translation adjustment | — | — | — | 4,535 | — | — | 4,535 |
| Net income | — | — | — | — | 208,336 | — | 208,336 |
| Comprehensive income | | | | | | | 212,871 |
| Common stock issued and related tax benefits | 739,225 | 7 | 19,856 | — | — | — | 19,863 |
| Share-based compensation | — | — | 7,757 | — | — | — | 7,757 |
| Loan to ESOP | — | — | — | — | — | (105,000) | (105,000) |
| Payment on ESOP note | — | — | — | — | — | 1,202 | 1,202 |
| Balance at April 28, 2007 | <u>139,490,246</u> | <u>\$1,395</u> | <u>\$174,420</u> | <u>\$18,372</u> | <u>\$1,308,590</u> | <u>\$(123,563)</u> | <u>\$1,379,214</u> |

See accompanying notes

PATTERSON COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

| | Fiscal Year Ended | | |
|---|-------------------|-------------------|-------------------|
| | April 28, 2007 | April 29, 2006 | April 30, 2005 |
| Operating activities: | | | |
| Net income | \$ 208,336 | \$ 198,425 | \$ 183,698 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 19,791 | 16,693 | 14,648 |
| Amortization | 5,710 | 6,983 | 12,214 |
| Bad debt expense | 2,040 | 2,764 | 1,546 |
| Share-based compensation | 7,757 | 750 | — |
| Excess tax benefits from share-based compensation | (658) | | |
| Deferred income taxes | 124 | 3,860 | 840 |
| Change in assets and liabilities net of acquired: | | | |
| Increase in receivables | (12,246) | (24,112) | (31,365) |
| Increase in inventory | (3,817) | (26,539) | (22,033) |
| Increase in accounts payable | 7,739 | 4,562 | 18,600 |
| Increase (decrease) in accrued liabilities | 2,633 | (560) | 28,170 |
| Increase in long-term receivables | (2,742) | (15,704) | (7,733) |
| Other changes from operating activities, net | 8,838 | (3,164) | 8,720 |
| Net cash provided by operating activities | 243,505 | 163,958 | 207,305 |
| Investing activities: | | | |
| Additions to property and equipment, net of acquisitions | (19,507) | (49,153) | (31,533) |
| Proceeds from disposals of property and equipment | 9,163 | — | — |
| Distribution agreement | — | (100,000) | — |
| Sale of investments | — | 35,062 | 16,777 |
| Purchase of investments | — | (21,680) | (22,141) |
| Acquisitions, net of cash | (12,665) | (39,228) | (72,855) |
| Net cash used in investing activities | (23,009) | (174,999) | (109,752) |
| Financing activities: | | | |
| Payments of long-term debt | (120,017) | (20,031) | (176,269) |
| Cash payments received on notes receivable from ESOP | 1,202 | 1,101 | 775 |
| Loan to ESOP | (105,000) | — | — |
| Common stock issued, net | 19,205 | 20,354 | 20,223 |
| Excess tax benefits from share-based compensation | 658 | — | — |
| Net cash (used in) provided by financing activities | (203,952) | 1,424 | (155,271) |
| Effect of exchange rate changes on cash | 855 | 1,460 | 3,107 |
| Net increase (decrease) in cash and cash equivalents | 17,399 | (8,157) | (54,611) |
| Cash and cash equivalents at beginning of period | 224,392 | 232,549 | 287,160 |
| Cash and cash equivalents at end of period | <u>\$ 241,791</u> | <u>\$ 224,392</u> | <u>\$ 232,549</u> |
| Supplemental disclosures: | | | |
| Income taxes paid | \$ 143,183 | \$ 110,652 | \$ 90,815 |
| Interest paid | 15,207 | 11,914 | 13,652 |
| Convertible debenture conversion | — | 1,500 | 3,000 |

See accompanying notes

PATTERSON COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 28, 2007

(Dollars in thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies

Description of Business

Patterson Companies, Inc., "Patterson" or "the Company", is a value-added distributor serving the dental, companion-pet veterinarian and rehabilitation supply markets. The Company has three reportable segments: dental supply, veterinary supply and rehabilitation supply.

Basis of Presentation

The consolidated financial statements include the accounts of the Company's wholly owned subsidiaries. Significant inter-company transactions and balances have been eliminated in consolidation. The respective assets of PDC Funding Company, LLC and PDC Funding Company II, LLC, would be available first and foremost to satisfy the claims of their respective creditors. There are no known creditors of PDC Funding Company, LLC or PDC Funding Company II, LLC.

Fiscal Year End

The Company utilizes a fifty-two, fifty-three week fiscal year ending on the last Saturday in April. Accordingly, fiscal years 2007 and 2006 included fifty-two weeks while fiscal year 2005 included fifty-three weeks.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist primarily of investments in money market funds, highly-rated commercial paper and government securities. The maturity of these securities at the time of purchase is 90 days or less. All cash equivalents are classified as available-for-sale and carried at market value, which approximates cost.

Inventory

Inventory consists of merchandise held for sale and is stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for all inventories, except for foreign inventories and manufactured inventories, which are valued using the first-in, first-out (FIFO) method. Inventories valued at LIFO represent 84% and 86% of total inventories at April 28, 2007 and April 29, 2006.

The accumulated LIFO reserve was \$39,309 at April 28, 2007, and \$33,984 at April 29, 2006. The Company believes that inventory replacement cost exceeds the inventory balance by an amount approximating the LIFO reserve.

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Property and Equipment

Property and equipment are stated at cost. The Company provides depreciation on the straight-line method over estimated useful lives of up to 40 years for buildings or the expected remaining life of purchased buildings, 3 to 20 years for leasehold improvements or the term of the lease, if less, 5 years for data processing equipment, and 5 to 10 years for office furniture and equipment.

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Other intangible assets consist of customer lists and other amortizable intangible assets and are amortized using estimated useful lives ranging from 3 to 18 years. The net balance of amortizable intangible assets at April 28, 2007 is expected to be amortized over a weighted-average period of approximately 5 years. Other intangible assets also include trademarks and trade names that are indefinite lived intangible assets.

Statement of Financial Accounting Standards (SFAS) No. 142 "*Goodwill and Other Intangible Assets*" requires that goodwill for each reporting unit be reviewed for impairment at least annually. The Company has three reporting units at April 28, 2007, consisting of its three operating segments. The Company tests goodwill for impairment using the two-step process prescribed in SFAS No. 142. In the first step, the Company compares the fair value of each reporting unit, determined primarily based on valuation studies performed by the Company, to its book carrying value, including goodwill. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and the Company would then complete step 2 in order to measure the impairment loss. In step 2, the Company would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in step 1). If the implied fair value of goodwill is less than the carrying value of goodwill, the Company would recognize an impairment loss equal to the difference.

Management also reviews other intangible assets for impairment at least annually to determine if any adverse conditions exist that would indicate impairment. If the carrying value of other intangible assets exceeds the expected undiscounted cash flows, the carrying value is written down to fair value in the period identified. Indefinite-lived intangible assets are reviewed at least annually for impairment by calculating the fair value of the assets and comparing with carrying value. In assessing fair value, management generally utilizes present value cash flow calculations using an expected cash flow approach.

The Company performed its annual goodwill and other intangible asset impairment tests during the fourth quarters of fiscal 2007 and fiscal 2006 using the methodologies described above. As a result of the annual impairment tests performed, the Company recorded no impairment loss.

Financial Instruments

The Company accounts for derivative financial instruments pursuant to SFAS No. 133, "Accounting for Derivatives and Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS No. 133." SFAS No. 133 and No. 138 require that all derivative financial instruments be recorded on the balance sheet at their respective fair value.

The Company's use of derivative financial instruments is generally limited to managing well-defined interest rate risks. The Company does not use financial instruments or derivatives for any trading or other speculative purposes.

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Revenue Recognition

Revenues recognized include product sales, billings for freight and delivery charges, and fees earned for services provided. Consumable and printed product sales and billings for freight and delivery charges are recorded upon delivery, except in those circumstances where terms of the sale are FOB shipping point. Equipment and software product revenues are also recognized upon delivery. Revenues for these products are recorded upon delivery since at that time risk of loss has transferred to the customer, there is persuasive evidence that an arrangement exists, the price is fixed and final, and there is reasonable assurance of collection of the sales. In those circumstances where terms of the sale are FOB shipping point, revenues are recognized when products are transferred to the shipping carrier. Estimates for returns, damaged goods, rebates and other revenue allowances are made at the time of sale based on the historical experience for such items. Revenue derived from post contract customer support for software is deferred and recognized ratably over the period in which the support is provided. Other service revenues are recorded on the date services are completed.

Freight and Delivery Charges

Freight and delivery charges incurred by the Company are included in cost of sales.

Advertising

The Company expenses all advertising and promotional costs as incurred, except for direct marketing expenses, which are expensed over the shorter of the life of the asset or one year. Total advertising and promotional expenses were \$21,775, \$22,435, and \$20,736 for fiscal years 2007, 2006 and 2005, respectively. Deferred direct-marketing expenses included in prepaid and other current assets on the consolidated balance sheet as of April 28, 2007 and April 29, 2006 were \$3,198 and \$3,433, respectively.

Distribution Agreement

In the first quarter of fiscal 2006, the Company extended its exclusive North American distribution agreement with Sirona Dental Systems GmbH ("Sirona") for Sirona's CEREC 3D dental restorative system. The Company paid a \$100 million distribution fee to extend the agreement for a 10-year period that begins in October 2007. The distribution fee is reflected as a non-current asset in the consolidated balance sheet. The amortization of this fee will occur over the 10-year period and will reflect the pattern in which the economic benefits of the fee are realized.

Income Taxes

The liability method is used to account for income tax expense. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Employee Stock Ownership Plan (ESOP)

Compensation expense related to the Company's defined contribution ESOP is computed based on the shares allocated method.

Share-Based Compensation

Effective April 30, 2006, the Company adopted FASB Statement No. 123(R), "Share-based Payment" ("SFAS No. 123(R)"). Prior to the adoption of SFAS No. 123(R), the Company utilized the intrinsic value

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

method under APB Opinion No. 25, "Accounting for Stock Issued to Employee". As permitted by SFAS No. 123(R), the Company has adopted the requirements of No. 123(R) using the modified prospective method. In accordance with the modified prospective method of adoption, the financial statement amounts for periods prior to April 30, 2006 have not been restated to reflect the fair value method of recognizing compensation cost.

Comprehensive Income

Comprehensive income is computed as net income plus certain other items that are recorded directly to stockholders' equity. The only significant other item included in comprehensive income is foreign currency translation adjustments. Foreign currency translation adjustments do not include a provision for income tax because earnings from foreign operations are considered to be indefinitely reinvested outside the U.S.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of outstanding common shares during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of outstanding common shares and common share equivalents, when dilutive, during the period.

The following table sets forth the denominator for the computation of basic and diluted earnings per share. There were no material adjustments to the numerator.

| | Fiscal Year | | |
|---|----------------|----------------|----------------|
| | 2007 | 2006 | 2005 |
| | (in thousands) | | |
| Denominator: | | | |
| Denominator for basic earnings per share—weighted average shares | 136,815 | 137,690 | 136,839 |
| Effect of dilutive securities: | | | |
| Stock options | 773 | 1,296 | 1,744 |
| Restricted stock | 16 | — | — |
| Employee stock purchase plan | 38 | 43 | 44 |
| Capital accumulation plan | 127 | 172 | 187 |
| Convertible debentures | — | 33 | 59 |
| Dilutive potential common shares | <u>954</u> | <u>1,544</u> | <u>2,034</u> |
| Denominator for diluted earnings per share—adjusted weighted average shares | <u>137,769</u> | <u>139,234</u> | <u>138,873</u> |

Options to purchase 764, 257, and 0 shares of common stock during fiscal years 2007, 2006 and 2005, respectively, were excluded from the calculation of diluted earnings per share because the effect would have been anti-dilutive. Unvested restricted stock awards outstanding which were excluded from the calculation of diluted earnings per share during fiscal years 2007 and 2006 were 76 and 78, respectively, because the effect would have been anti-dilutive. No restricted stock awards were issued by the Company prior to fiscal 2006.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FAS Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FAS No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on future changes,

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

classification, interest and penalties, accounting in interim periods, disclosures and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have completed our initial evaluation of the impact of the adoption of FIN 48 and determined that such adoption is not expected to have a material impact on our financial position or results from operations.

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements." FAS 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 applies under other previously issued accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of FAS 157 on our consolidated financial statements.

2. Cash Equivalents

At April 28, 2007 and April 29, 2006, cash equivalents consisted of the following:

| | <u>April 28, 2007</u> | <u>April 29, 2006</u> |
|-----------------------------|---------------------------|---------------------------|
| Cash on hand | \$144,611 | \$104,887 |
| Cash equivalents: | | |
| Government securities | 82,170 | 112,050 |
| Money market funds | <u>15,010</u> | <u>7,455</u> |
| | 97,180 | 119,505 |
| Total | <u>\$241,791</u> | <u>\$224,392</u> |

Cash on hand is generally in interest earning accounts. Short-term investments have original maturities of one year or less.

3. Goodwill and Other Intangible Assets

The changes in the carrying value of goodwill for each of the Company's reportable segments for the fiscal year ended April 28, 2007 are as follows:

| | <u>Balance at April 29, 2006</u> | <u>Acquisition Activity</u> | <u>Other Activity</u> | <u>Balance at April 28, 2007</u> |
|-----------------------------|--------------------------------------|---------------------------------|---------------------------|--------------------------------------|
| Dental supply | \$ 90,063 | 2,457 | 9 | \$ 92,529 |
| Rehabilitation supply | 482,535 | 6,362 | (9,062) | 479,835 |
| Veterinary supply | <u>83,608</u> | <u>4,601</u> | <u> </u> | <u>88,209</u> |
| Total | <u>\$656,206</u> | <u>13,420</u> | <u>(9,053)</u> | <u>\$660,573</u> |

The acquisition activity column represents the finalization of the purchase price allocation of a fiscal year 2006 acquisition, the preliminary purchase price allocation of fiscal year 2007 acquisitions and a contingent earn-out payment related to an acquisition made in a prior year. The reduction in goodwill within the rehabilitation supply segment's other activity column relates to the settlement of an income tax matter that resulted from the AbilityOne acquisition in September 2003. The settlement was finalized in the current fiscal year for an amount lower than the estimated liability that was included in purchase accounting. Accordingly, the liability and related goodwill were reduced. Preliminary purchase price allocations are subject to adjustment for changes in the preliminary assumptions pending additional information, including final asset valuations.

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Balances of acquired intangible assets excluding goodwill are as follows:

| | April 28, 2007 | April 29, 2006 |
|--|-------------------|-------------------|
| Unamortized—indefinite lived: | | |
| Copyrights, trade names and trademarks | \$ 76,402 | \$ 76,402 |
| Amortized: | | |
| Customer lists and other amortizable intangible assets | 59,638 | 60,629 |
| Less: Accumulated amortization | (33,683) | (29,023) |
| Net amortized | 25,955 | 31,606 |
| Total identifiable intangible assets, net | \$102,357 | \$108,008 |

Future amortization expense is expected to approximate \$4,800, \$4,400, \$3,200, \$2,200, and \$2,100 for fiscal years 2008, 2009, 2010, 2011 and 2012, respectively. The preceding expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, finalization of preliminary valuations, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets and other events.

4. Acquisitions

The Company made the following acquisitions during the periods covered by these financial statements:

| Entity | Closing date | Consideration |
|---|--------------------|-----------------|
| Theraquip, Inc. | December 20, 2006 | Cash & Earn-out |
| Metro Medical, Inc. | December 7, 2006 | Cash & Earn-out |
| Dale Surgical Professional Supply, Inc. | June 19, 2006 | Cash & Earn-out |
| Intra Corp. | December 16, 2005 | Cash & Earn-out |
| Accu-Bite, Inc. | September 6, 2005 | Cash & Earn-out |
| Milburn Distributions, Inc. | October 12, 2004 | Cash |
| Blue Ribbon Dental | September 17, 2004 | Cash |
| CAESY Education Systems, Inc. | May 12, 2004 | Cash & Earn-out |
| Medco Supply Company, Inc. | May 3, 2004 | Cash |

The above acquisitions have been recorded using the purchase method of accounting. The aggregate purchase price for the acquisitions was allocated as follows:

| | Fiscal Year | | |
|--------------------------------|-------------|----------|----------|
| | 2007 | 2006 | 2005 |
| Purchase price | \$ 6,972 | \$33,576 | \$72,855 |
| Allocated to the following: | | | |
| Accounts receivable | 1,396 | 11,283 | 8,546 |
| Inventory | 1,681 | 11,767 | 10,163 |
| Fixed assets | 208 | 2,949 | 2,532 |
| Identifiable intangibles | — | 525 | 25,228 |
| Other assets | 17 | 630 | 891 |
| Accounts payable | (1,065) | (8,441) | (5,586) |
| Accrued expenses | (1,627) | (6,988) | (1,697) |
| Long-term debt | — | (15) | — |
| Goodwill | \$ 6,362 | \$21,866 | \$32,778 |

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The operating results of each of these acquisitions are included in the Company's consolidated statements of income from the date of each acquisition. Pro forma results of operations have not been presented for these acquisitions since the effects of these business acquisitions were not material to the Company either individually or in the aggregate.

5. Property and Equipment

| | <u>April 28, 2007</u> | <u>April 29, 2006</u> |
|---------------------------------|---------------------------|---------------------------|
| Land | \$ 10,990 | \$ 9,050 |
| Buildings | 71,129 | 72,772 |
| Leasehold improvements | 9,978 | 7,812 |
| Furniture and equipment | 73,433 | 64,478 |
| Data processing equipment | 55,597 | 49,943 |
| Construction-in-progress | <u>3,919</u> | <u>15,958</u> |
| | 225,046 | 220,013 |
| Accumulated depreciation | <u>(93,094)</u> | <u>(78,472)</u> |
| | <u>\$131,952</u> | <u>\$141,541</u> |

Construction-in-progress was comprised mostly of separate distribution warehouse projects as of April 29, 2006. There were no individually significant items in the construction-in-progress balance as of April 28, 2007.

6. Customer Financing

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

In fiscal 2003, the Company initiated an agreement to sell its equipment contracts to a commercial paper conduit managed by JPMorgan Chase Bank N.A. To participate in the commercial paper conduit, the Company was required to establish a special purpose entity ("SPE"), PDC Funding Company, LLC, a consolidated, wholly owned subsidiary. The Company transfers installment sale contracts to the SPE and in turn, the SPE sells the contracts to the commercial paper conduit administered by JPMorgan Chase Bank N.A. The SPE does not issue any debt. While there is no recourse to the Company by the commercial paper conduit on the sale of contracts, the Company receives only 90% of the principal amount of the contracts upon the sale. The remaining 10% of the proceeds is held by the conduit as security against the eventual performance of the portfolio. The holdback receivable from the conduit is recorded as a non-current asset, which is carried at its estimated fair market value. The capacity of this arrangement with the conduit is a maximum of \$440 million.

The Company also maintains an agreement with U.S. Bank National Association, as agent, whereby the U.S. Bank group purchases customers' installment sale contracts. During fiscal 2007, the agreement with U.S. Bank was restructured. The Company established a new SPE, PDC Funding LLC II, LLC ("PDC II"), as a consolidated, wholly owned subsidiary, which sells the installment contracts to the U.S. Bank group. The

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Company receives 94% of the principal amounts of the contracts upon sale with the remaining 6% of the proceeds held by the bank as security against the eventual performance of the portfolio. The capacity under the agreement is \$110 million. Under the previous structure, the Company received 100% of the principal of the contracts and provided a 25% contingent guarantee of collection.

These financing arrangements are accounted for as a sale of assets under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." During fiscal 2007, 2006 and 2005, the Company sold approximately \$247.0, \$277.6, and \$279.5 million, respectively, of its contracts under these arrangements. The Company retains servicing responsibilities under both agreements, for which it is paid a servicing fee. The servicing fees received by the Company are considered adequate compensation for services rendered. Accordingly, no servicing asset or liability has been recorded. The agreements require the Company to maintain a minimum current ratio, maximum leverage ratio and minimum net worth. The Company was in compliance with the covenants at April 28, 2007.

A total of \$436.4 million of installment contracts receivable sold under the agreements were outstanding at April 28, 2007. The residual receivable under the JPMorgan Chase Bank N.A. arrangement was approximately \$37.9 and \$38.3 million at April 28, 2007 and April 29, 2006, respectively. The residual receivable under the April 2007 U.S. Bank agreement was approximately \$8.5 million as of April 28, 2007. Since the internal financing program began in 1994, bad debt write-offs have amounted to less than one-percent of the loans originated.

7. Long-Term Debt

During fiscal 2007, \$30 million of variable rate term loan principal was paid off early. Long-term debt was composed of the following at year-end:

| | April 28, 2007 | April 29, 2006 |
|---|-------------------|-------------------|
| Variable rate (Libor plus 1.00%) term loan due fiscal 2009 | \$ — | \$ 50,000 |
| Fixed rate (3.14 % to 4.14%) senior notes due fiscal 2007 to 2009 | 80,000 | 150,000 |
| Variable rate (Libor plus 0.75%) senior notes due fiscal 2009 | 100,000 | 100,000 |
| Other debt | 24 | 41 |
| | \$180,024 | \$300,041 |
| Less current maturities | (50,014) | (90,027) |
| Long-term debt | \$130,010 | \$210,014 |

Maturities of long-term debt by fiscal year are as follows:

| | |
|----------------------------|-----------|
| 2008 | \$ 50,014 |
| 2009 | 130,010 |
| Total long-term debt | \$180,024 |

The debt agreements contain various financial covenants including certain leverage and interest coverage ratios in addition to a minimum net worth covenant as defined in the Company's debt agreements. The Company met the financial covenants under the debt agreements as of April 28, 2007.

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

8. Derivative Financial Instruments

In the first quarter of fiscal 2006, the Company entered into certain offsetting and identical interest rate cap agreements. These cap agreements are not designated for hedge accounting treatment and were entered into to fulfill certain covenants of a sale agreement between a commercial paper conduit managed by JPMorgan Chase Bank, N.A. and PDC Funding. The cap agreements provide a credit enhancement feature for the installment contracts sold by PDC Funding to the commercial paper conduit, and replace a minimum interest rate margin previously required under the sale agreement.

PDC Funding purchased two interest rate caps from banks with combined amortizing notional amounts of \$400 million. At the same time, Patterson Companies, Inc. sold two identical interest rate caps to the same banks. In the fourth quarter of fiscal 2006, these caps were amended to adjust the notional amounts to a combined amortizing total of \$440 million. The estimated unrealized gain of the two purchased interest rate caps were \$0.3 million and \$1.0 million as of April 28, 2007 and April 29, 2006, respectively. These amounts were completely offset by the estimated unrealized loss of the two sold interest rate caps of \$0.3 million and \$1.0 million, respectively. Accordingly, the impact to consolidated earnings of the Company is zero.

In fiscal 2006, the Company entered into an interest rate swap agreement with a bank under which the Company pays a fixed rate and receives a floating rate based on an amortizing notional amount. This agreement does not qualify for hedge accounting treatment and, accordingly, the Company records the fair value (estimated unrealized gain or loss) of the agreement as an asset or liability and the change in any period as income or expense of the period in which the change occurs. As of April 28, 2007 this agreement had a notional amount of approximately \$14 million and an estimated unrealized gain of less than \$0.1 million. As of April 29, 2006, the agreement had a notional amount of approximately \$39 million and an estimated unrealized gain of less than \$0.1 million. In the second quarter of fiscal 2007, the Company entered into a similar interest rate swap agreement that, as of April 28, 2007, had a notional amount of approximately \$52 million and an estimated unrealized loss of (\$0.7) million.

The total net unrealized loss recognized in the statement of income under these interest rate swaps during fiscal 2007 was approximately \$0.7 million. The impact to the statement of income during fiscal year 2006 was nominal.

The Company does not use financial instruments or derivatives for any trading or other speculative purposes.

9. Leases and Non-cancelable Purchase Commitments

The Company leases facilities for its branch office locations, a number of distribution facilities, and also certain equipment. These leases are accounted for as operating leases. Future minimum rental payments under non-cancelable operating leases are as follows at April 28, 2007:

| | |
|---------------------------------------|-----------------|
| 2008 | \$12,633 |
| 2009 | 11,819 |
| 2010 | 10,577 |
| 2011 | 7,183 |
| 2012 | 4,876 |
| Thereafter | <u>4,991</u> |
| Total minimum payments required | <u>\$52,079</u> |

Rent expense was \$15,552, \$15,171 and \$13,867 for the years ended April 28, 2007, April 29, 2006 and April 30, 2005, respectively.

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

10. Income Taxes

Significant components of the provision for income taxes are as follows:

| | Fiscal Year | | |
|----------------------------------|------------------|------------------|------------------|
| | 2007 | 2006 | 2005 |
| Current: | | | |
| Federal | \$ 96,677 | \$ 90,752 | \$ 86,470 |
| Foreign | 12,536 | 13,609 | 10,451 |
| State | 11,935 | 10,327 | 11,988 |
| Total current | 121,148 | 114,688 | 108,909 |
| Deferred: | | | |
| Federal | 178 | 3,887 | 1,737 |
| Foreign | (70) | (361) | (1,063) |
| State | 16 | 334 | 166 |
| Total deferred | 124 | 3,860 | 840 |
| Provision for income taxes | <u>\$121,272</u> | <u>\$118,548</u> | <u>\$109,749</u> |

Deferred tax assets and liabilities are included in prepaid expenses and other current assets and in non-current liabilities on the balance sheet. Significant components of the Company's deferred tax assets (liabilities) as of April 28, 2007 and April 29, 2006 are as follows:

| | Fiscal Year | |
|---|-------------------|-------------------|
| | 2007 | 2006 |
| Deferred current income tax asset (liability): | | |
| Capital Accumulation Plan | \$ 7,149 | \$ 7,510 |
| Inventory Obsolescence | 1,952 | 2,414 |
| Health insurance | 3,340 | 2,415 |
| Bad debt allowance | 1,153 | 903 |
| LIFO reserve | (1,492) | (2,747) |
| Other | 6,808 | 4,727 |
| Deferred net current income tax asset | 18,910 | 15,222 |
| Deferred long-term income tax (liability) asset: | | |
| Amortizable intangibles | \$(28,050) | \$(26,649) |
| Goodwill | (23,440) | (19,082) |
| Property, plant and equipment | (4,495) | (4,877) |
| Stock based compensation expense | 1,929 | 516 |
| Other | 429 | 556 |
| Deferred net long-term income tax liability | (53,627) | (49,536) |
| Net deferred income tax liability | <u>\$(34,717)</u> | <u>\$(34,314)</u> |

Income tax expense varies from the amount computed using the U.S. statutory rate. The reasons for this difference and the related tax effects are shown below:

| | Fiscal Year | | |
|---|------------------|------------------|------------------|
| | 2007 | 2006 | 2005 |
| Tax at U.S. statutory rate | \$115,363 | \$110,941 | \$102,707 |
| State tax provision, net of federal benefit | 5,611 | 5,341 | 5,463 |
| Effect of foreign taxes | 1,854 | 803 | (1,379) |
| Other | (1,556) | 1,463 | 2,958 |
| | <u>\$121,272</u> | <u>\$118,548</u> | <u>\$109,749</u> |

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

11. Segment and Geographic Data

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

The Company evaluates segment performance based on operating income. The corporate office general and administrative expenses are included in the dental supply segment and consist of home office support costs in areas such as informational technology, marketing, purchasing, finance, human resources and facilities.

The operating income amounts in the table below for fiscal year 2007 include the following stock-based compensation expense under SFAS No. 123(R) for each segment: dental supply: \$6,025; rehabilitation supply: \$973; veterinary supply: \$759. There was no corresponding expense recorded in fiscal years 2006 and 2005, since SFAS No. 123(R) was adopted at the beginning of fiscal 2007 using the modified prospective method as discussed in Note 1.

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

| | Fiscal Year | | |
|--|--------------------|--------------------|--------------------|
| | 2007 | 2006 | 2005 |
| Net sales | | | |
| Dental supply | \$2,064,630 | \$1,966,954 | \$1,834,203 |
| Rehabilitation supply | 334,342 | 302,021 | 295,299 |
| Veterinary supply | 399,426 | 346,148 | 291,955 |
| Consolidated net sales | <u>\$2,798,398</u> | <u>\$2,615,123</u> | <u>\$2,421,457</u> |
| Operating income | | | |
| Dental supply | \$ 262,359 | \$ 249,820 | \$ 235,428 |
| Rehabilitation supply | 51,185 | 54,786 | 51,758 |
| Veterinary supply | 22,146 | 18,406 | 14,950 |
| Consolidated operating income | <u>\$ 335,690</u> | <u>\$ 323,012</u> | <u>\$ 302,136</u> |
| Depreciation and amortization | | | |
| Dental supply | \$ 16,748 | \$ 14,435 | \$ 12,227 |
| Rehabilitation supply | 5,871 | 6,299 | 11,630 |
| Veterinary supply | 2,882 | 2,942 | 3,005 |
| Consolidated depreciation and amortization | <u>\$ 25,501</u> | <u>\$ 23,676</u> | <u>\$ 26,862</u> |
| Capital expenditures | | | |
| Dental supply | \$ 16,560 | \$ 36,245 | \$ 28,821 |
| Rehabilitation supply | 1,961 | 12,374 | 1,546 |
| Veterinary supply | 986 | 534 | 1,166 |
| Consolidated capital expenditures | <u>\$ 19,507</u> | <u>\$ 49,153</u> | <u>\$ 31,533</u> |

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | Fiscal Year | | |
|-------------------------------------|--------------------|--------------------|--------------------|
| | 2007 | 2006 | 2005 |
| Total assets | | | |
| Dental supply | \$1,023,248 | \$1,019,863 | \$ 805,006 |
| Rehabilitation supply | 712,009 | 696,928 | 701,104 |
| Veterinary supply | 205,063 | 194,927 | 179,191 |
| Consolidated total assets | <u>\$1,940,320</u> | <u>\$1,911,718</u> | <u>\$1,685,301</u> |

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

| | Fiscal Year | | |
|---|--------------------|--------------------|--------------------|
| | 2007 | 2006 | 2005 |
| Net sales | | | |
| Consumable and printed products | \$1,757,472 | \$1,633,544 | \$1,489,708 |
| Equipment and software | 821,091 | 789,263 | 753,914 |
| Other | 219,835 | 192,316 | 177,835 |
| Total | <u>\$2,798,398</u> | <u>\$2,615,123</u> | <u>\$2,421,457</u> |

The following table presents information about the Company by geographic area. No individual country, except for the United States, generated sales greater than 10% of consolidated net sales. There were no material sales between geographic areas.

| | Fiscal Year | | |
|-----------------------------|--------------------|--------------------|--------------------|
| | 2007 | 2006 | 2005 |
| Net sales | | | |
| United States | \$2,540,899 | \$2,391,249 | \$2,211,861 |
| International | 257,499 | 223,874 | 209,596 |
| Total | <u>\$2,798,398</u> | <u>\$2,615,123</u> | <u>\$2,421,457</u> |
| Income before tax | | | |
| United States | \$ 296,564 | \$ 284,767 | \$ 263,134 |
| International | 33,044 | 32,206 | 30,313 |
| Total | <u>\$ 329,608</u> | <u>\$ 316,973</u> | <u>\$ 293,447</u> |
| Long-lived assets | | | |
| United States | \$ 970,390 | \$ 981,381 | \$ 839,298 |
| International | 83,440 | 82,963 | 53,276 |
| Total | <u>\$1,053,830</u> | <u>\$1,064,344</u> | <u>\$ 892,574</u> |

12. Stockholders' Equity

Share Repurchases

In September 1999, the Board of Directors authorized the repurchase of up to four million shares of the Company's common stock over a five-year period ending in September 2004. In September 2004, the Board of Directors authorized the repurchase of up to six million shares of the Company's common stock over the period ending September 30, 2009. The Company did not repurchase any of its common stock during fiscal 2007, 2006 or 2005.

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Employee Stock Ownership Plan (ESOP)

During 1990, the Company's Board of Directors adopted a leveraged ESOP. During fiscal 1991, under the provisions of the plan and related financing arrangements, the Company loaned the ESOP \$22,000 (the "1990 note") for the purpose of acquiring its then outstanding preferred stock which was subsequently converted to common stock. At April 28, 2007 and April 29, 2006, indebtedness of the ESOP to the Company is shown as a deduction from stockholders' equity in the consolidated balance sheets. The cost of the ESOP is borne by the Company through annual contributions to the plan in amounts determined by the Board of Directors. Shares of stock acquired by the plan are allocated to each participant who has completed 1,000 hours of service during the plan year.

The Company's ESOP and an ESOP sponsored by the Thompson Dental Company ("Thompson") were used to facilitate the acquisition and merger of Thompson into the Company. The net result of this transaction was an additional loan of \$12,612 being made to the ESOP and the ESOP acquiring 665,978 shares of common stock of the Company. Under current accounting standards, these shares are not considered outstanding for the computation of earnings per share until the shares are allocated to the participants. When the shares are allocated to the participants, the expense to the Company will be determined based on the fair market value of the shares in the year of the allocation. The loan bears interest at current rates but principal does not begin to amortize until 2011. A total of 665,978 shares were issued in the transaction of which 97,810 were previously allocated to Thompson employees. The remaining 568,168 shares began to be allocated in fiscal 2004 but only to the extent of interest on the loan. The non-cash expense is not expected to materially impact the consolidated results of operations of the Company.

During fiscal 2007, 2006 and 2005, shares secured by the 1990 note with a cost of \$1,202, \$1,101, and \$775, respectively, were earned and allocated to ESOP participants. These amounts represented the Company's contribution for each fiscal year.

At April 28, 2007, a total of 10,667,090 shares of the common stock were allocated to participants and had a fair market value of \$387,002. With respect to the 1990 note, shares allocated were 11,606,390, committed-to-be-released shares were 1,262,638 and suspense shares were 6,262,618. Related to the shares from the Thompson transaction, shares allocated were 131,197, committed-to-be-released shares were 16,089 and suspense shares were 518,692.

On September 11, 2006, the Company entered into a third loan agreement with the ESOP and loaned \$105 million (the "2006 note") for the sole purpose of enabling the ESOP to purchase shares of the Company's common stock (the "Securities") in the open market and pay any corresponding broker commissions.

The 2006 note is payable in full on September 10, 2026. Interest on the unpaid principal balance accrues at a rate equal to six-month LIBOR, with the rate resetting semi-annually. Interest payments are not required during the period from and including September 11, 2006 through April 30, 2010. On April 30, 2010, any accrued and unpaid interest will be added to the outstanding principal balance under the note, with interest thereafter accruing on the increased principal amount. Unpaid interest accruing after April 30, 2010 is due and payable on April 30, 2011 and each successive April 30 occurring through September 10, 2026.

As of April 28, 2007, the ESOP had purchased approximately 3.2 million shares with the proceeds from the 2006 note. This loan and related shares are being accounted for under SOP 93-6, "Employers' Accounting for Stock Ownership Plans" and accordingly, unallocated shares held by the Trust are not considered outstanding in the computation of earnings per share. The Company anticipates the allocation of these shares to begin in fiscal 2012 over a period of approximately 10 to 15 years.

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

13. Share-based Compensation

Effective April 30, 2006, the Company adopted SFAS No. 123(R). SFAS No. 123(R) is a revision of Statement No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”), and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS No. 123(R) eliminates the ability to account for share-based compensation transactions using the intrinsic value method under APB Opinion No. 25 and requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

Prior to the adoption of SFAS No. 123(R), the Company utilized the intrinsic value method under APB Opinion No. 25. In addition, the Company followed the pro forma disclosure requirements of SFAS 123, as amended by Statement No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123* (“SFAS 148”).

As permitted by SFAS No. 123(R), the Company has adopted the requirements of the standard using the modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based awards granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. With respect to (b) above, the related compensation cost is based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS 123 and SFAS 148. Share-based compensation expense is recognized over the requisite service period using the straight-line method. In accordance with the modified prospective method of adoption, the financial statement amounts for periods prior to April 30, 2006 have not been restated to reflect the fair value method of recognizing compensation cost.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to share-based employee compensation for the years ended April 29, 2006 and April 30, 2005:

| | <u>April 29, 2006</u> | <u>April 30, 2005</u> |
|---|---------------------------|---------------------------|
| Net income, as reported | \$198,425 | \$183,698, |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | 600 | — |
| Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | <u>(5,326)</u> | <u>(3,424)</u> |
| Pro forma net earnings | <u>\$193,699</u> | <u>\$ 180,274</u> |
| Earnings per share—basic: | | |
| As reported | \$ 1.44 | \$ 1.34 |
| Pro forma | \$ 1.41 | \$ 1.32 |
| Earnings per share—diluted: | | |
| As reported | \$ 1.43 | \$ 1.32 |
| Pro forma | \$ 1.39 | \$ 1.30 |

The consolidated statements of income for the year ended April 28, 2007 include pre-tax share-based compensation expense of \$7.8 million (\$6.3 after-tax), all of which is included in operating expenses within the consolidated statements of income. This expense reduced diluted earnings per share by \$0.05 for the year ended

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

April 28, 2007. The consolidated statement of cash flows for the year ended April 28, 2007 presents the pre-tax share-based compensation expense as an adjustment to reconcile net income to net cash provided by operating activities. In addition, prior to the adoption of SFAS No. 123(R), benefits associated with tax deductions in excess of recognized compensation expense were presented as part of operating cash flows in the Company's consolidated statements of cash flows. SFAS No. 123(R) requires that such excess tax benefits be presented as a cash inflow from financing activities and the Company has classified these cash flows, totaling \$0.7 million, in accordance with SFAS No. 123(R) for the year ended April 28, 2007. Prior year amounts have not been reclassified.

As of April 28, 2007 the total compensation cost, before income taxes, related to non-vested awards yet to be recognized was \$12.5 million, and it is expected to be recognized over a weighted average period of approximately 5.4 years.

Description of General Methods and Assumptions Used to Estimate Fair Value

Described below are certain methods and assumptions used to estimate the fair value of share-based compensation awards. Further information is presented below within this Note 3 that may be unique to a particular award or group of awards.

Expected dividend yield—the Company has not and does not expect to pay dividends. Accordingly, the expected dividend yield used is 0%.

Expected stock price volatility—the Company considers historical volatility trends, implied future volatility based on certain traded options of the Company, and other factors.

Risk-free interest rate—the Company bases the risk-free interest rate on the U.S. Treasury yield curve in effect at the grant date with similar terms to the expected term of the award.

Expected term of stock options and restricted stock—the Company uses the “simplified” method for “plain vanilla” options as described in SEC Staff Accounting Bulletin No. 107. For all other options, the Company estimates the expected term, or life, of awards based on several factors, including grantee types, vesting schedules, contractual terms and various factors surrounding exercise behavior of different groups.

Director and Employee Stock Option Plans

In June 1992, the Company adopted a Director Stock Option Plan. Options were granted at the fair market value of the underlying stock on the date of grant, vest over one year, and are exercisable for a period of four years commencing one year after the date of grant. This plan terminated during fiscal 2002.

In September 2001, the Company adopted a new Director Stock Option Plan. A total of 800,000 shares of common stock have been reserved for issuance under this plan. Options are granted at fair market value of the underlying stock on the option grant date, vest over one year, and are exercisable for a period of nine years commencing one year after the grant date. In addition, each eligible director will have the right to elect to receive additional options in lieu of the amount of the director's annual fee for service on the board of directors.

In June 1992, the Company adopted the Patterson Dental Company 1992 Stock Option Plan, a plan for employees. Due to the expiration of this plan in fiscal 2003, no options remain available for future issuance under this plan. In September 2002, the Company adopted a new employee equity award plan. A total of 6,000,000 shares of common stock were reserved for issuance under the plan. In September 2004, the Company's shareholders voted to approve the Amended and Restated 2002 Stock Option Plan, a restatement of the 2002 plan. Upon approval, the Plan was renamed the “Patterson Companies, Inc. Equity Incentive Plan” (“Equity Incentive Plan”).

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Equity Incentive Plan amendments did not change the number of shares reserved for awards under the plan. The Equity Incentive Plan authorizes various award types to be issued under the plan, including stock options, restricted stock and restricted stock units, stock bonuses, cash bonuses, stock appreciation rights, performance awards and dividend equivalents. Awards may have a term no longer than ten years and vesting terms are determined by the compensation committee of the board of directors. The minimum restriction period for restricted stock and restricted stock units is three years, or one year in the case of performance-based awards. Additionally, the maximum number of shares that may be issued pursuant to awards of restricted stock, restricted stock awards and stock bonuses is 2,000,000 shares. Prior to fiscal 2006, only stock option awards had been granted under the Equity Incentive Plan.

The fair value of stock options granted was estimated as of the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions during fiscal years 2007, 2006 and 2005:

| | April 28, 2007 | April 29, 2006 (pro forma) | April 30, 2005 (pro forma) |
|--|-------------------|----------------------------------|----------------------------------|
| Expected dividend yield | — | — | — |
| Expected stock price volatility | 28.0% | 30.0% | 31.4% |
| Risk-free interest rate | 4.9% | 4.1% | 3.4% |
| Expected life of options (years) | 7.1 | 6.0 | 6.7 |

Following is a summary of stock option activity for all plans during fiscal years 2007, 2006 and 2005:

| | <u>Total Outstanding</u> | | |
|---|----------------------------------|-------------------------------|----------------------------|
| | <u>Number of Options</u> | <u>Exercise Price (a)</u> | <u>Intrinsic Value</u> |
| Balance as of April 24, 2004 | 3,367 | \$17.10 | |
| Granted | 516 | 36.24 | |
| Exercised | (365) | 12.44 | |
| Canceled | (380) | 18.60 | |
| Balance as of April 30, 2005 | 3,138 | 20.61 | |
| Granted | 74 | 44.01 | |
| Exercised | (267) | 12.81 | |
| Canceled | (39) | 15.93 | |
| Balance as of April 29, 2006 | 2,906 | \$21.99 | |
| Granted | 77 | 32.98 | |
| Exercised | (273) | 16.03 | |
| Canceled | (159) | 23.30 | |
| Balance as of April 28, 2007 | <u>2,551</u> | <u>\$22.88</u> | <u>\$34,183</u> |
| Vested or expected to vest as of April 28, 2007 | <u>1,893</u> | <u>\$23.21</u> | <u>\$24,742</u> |
| Options exercisable as of April 28, 2007 | <u>675</u> | <u>\$21.78</u> | <u>\$ 9,788</u> |

(a) Weighted-average exercise price

The weighted average fair value of options granted during fiscal 2007 was \$13.44. Related to stock options exercised during fiscal 2007, total intrinsic value was \$4.7 million, cash received was \$4.5 million and tax benefits realized were \$1.3 million. The Company settles stock option exercises with newly issued common shares. The weighted average remaining contractual lives of options outstanding and options exercisable as of April 28, 2007 were 5.3 and 4.8 years, respectively.

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Restricted Stock and Performance Unit Awards

Beginning in fiscal 2006, the Company issued restricted stock and performance unit awards under the Equity Incentive Plan. The grant date fair value is based on the closing stock price on the day of the grant. Restricted stock awards vest over a seven or nine-year period and are subject to forfeiture provisions. Certain restricted stock awards, which are held by line management, are subject to accelerated vesting provisions beginning three years after the grant date, based on certain operating goals. The performance unit awards, issued primarily to executive management, are earned at the end of a three-year period if certain operating goals are met, and are settled in an equivalent number of common shares or in cash as determined by the compensation committee of the board of directors. The satisfaction of operating goals will not be finally determined until the end of a three-year period. Accordingly, the Company recognizes expense related to performance unit awards over the requisite service period using the straight-line method based on the outcome that is probable. During fiscal 2007, total expense recognized related to restricted stock and performance unit awards was \$0.9 million and \$0, respectively.

Through April 28, 2007, no restricted stock or performance unit awards have vested. The following tables summarize information concerning non-vested restricted stock awards and performance unit awards for fiscal years 2007 and 2006:

| | Restricted Stock Awards | |
|-------------------------------------|--------------------------------|---|
| | Shares | Weighted Average Grant-Date Fair Value |
| Outstanding at April 30, 2005 | — | — |
| Granted | 94 | \$50.28 |
| Forfeitures | (15) | 49.28 |
| Outstanding at April 29, 2006 | 79 | \$50.47 |
| Granted | 161 | 32.21 |
| Forfeitures | (7) | 44.90 |
| Outstanding at April 28, 2007 | 233 | \$38.02 |
| | Performance Unit Awards | |
| | Shares | Weighted Average Grant-Date Fair Value |
| Outstanding at April 30, 2005 | — | — |
| Granted | 13 | \$52.12 |
| Forfeitures | — | — |
| Outstanding at April 29, 2006 | 13 | \$51.12 |
| Granted | 20 | 32.15 |
| Forfeitures | (5) | 49.35 |
| Outstanding at April 28, 2007 | 28 | \$36.98 |

Employee Stock Purchase Plan

In June 1992, Company adopted an Employee Stock Purchase Plan (the "Stock Purchase Plan"). A total of 4,750,000 shares of common stock are reserved for issuance under the Stock Purchase Plan. The Stock Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code, is administered by the Board of Directors of the Company or by a committee appointed by the Board of Directors and follows a calendar plan

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

year. Employees are eligible to participate after nine months of employment with the Company if they are employed for at least 20 hours per week and more than five months per year. The Stock Purchase Plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 10 percent of an employee's compensation, at 85 percent of the lower of the fair market value of the common stock on the offering date or at the end of each three-month period following the offering date during the applicable offering period. Employees may end their participation in the offering at any time during the offering period, and participation ends automatically on termination of employment with the Company. At April 28, 2007, there were 1,873,381 shares available for purchase under the Stock Purchase Plan.

Based on the provisions of the Stock Purchase Plan and guidance provided in FASB Technical Bulletin No. 97-1, *Accounting Under Statement 123 for Certain Employee Stock Purchase Plans with a Look-back Option* ("FTB 97-1"), there are several option elements for which the fair value is estimated on the grant date using the Black-Scholes option-pricing model. During fiscal 2007, total expense recognized related to the employee stock purchase plan was \$2.1 million. The following table summarizes the weighted-average assumptions relating to the Stock Purchase Plan for fiscal years 2007, 2006 and 2005:

| | <u>2007</u> | <u>(pro forma)</u> <u>2006</u> | <u>(pro forma)</u> <u>2005</u> |
|--|-------------|-----------------------------------|-----------------------------------|
| Expected dividend yield | — | — | — |
| Expected stock price volatility | 28.0% | 30.0% | 31.2% |
| Risk-free interest rate | 4.5% | 3.2% | 3.0% |
| Expected life of options (years) | 0.5 | 0.5 | 0.5 |

Capital Accumulation Plan

In 1996, the Company adopted an employee Capital Accumulation Plan (the "CAP Plan"). A total of 6,000,000 shares of common stock are reserved for issuance under the CAP Plan. Key employees of the Company or its subsidiaries are eligible to participate by purchasing common stock through payroll deductions, which must be between 5% and 25% of an employee's compensation, at 75% of the price of the common stock at the beginning of or the end of the calendar year, whichever is lower. The shares issued are restricted stock and are held in the custody of the Company until the restrictions lapse. The restriction period is three years from the beginning of the plan year, but restricted shares are subject to forfeiture provisions. At April 28, 2007, 2,968,448 shares were available for purchase under the CAP Plan.

Based on the provisions of the CAP Plan and guidance provided in FTB 97-1 there are option elements for which the fair value is estimated on the grant date using the Black-Scholes option-pricing model. During fiscal 2007, total expense recognized related to the employee stock purchase plan was \$1.9 million. The following table summarizes the weighted-average assumptions relating to the CAP Plan for fiscal years 2007, 2006 and 2005:

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|-------------|-------------|-------------|
| Expected dividend yield | — | — | — |
| Expected stock price volatility | 28.0% | 31.4% | 31.4% |
| Risk-free interest rate | 4.2% | 3.2% | 3.0% |
| Expected life of options (years) | 1.0 | 1.0 | 1.0 |

14. Litigation

Commencing in August 2005, five purported class action lawsuits were filed in the United States District Court for the District of Minnesota, naming the Company and certain officers and directors and alleging certain

PATTERSON COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

violations of the federal securities laws. The Court entered an order consolidating the cases into a single action captioned *In Re Patterson Companies, Inc. Securities Litigation*. On September 16, 2005, a derivative lawsuit was filed in the United States District Court for the District of Minnesota captioned *Vance Cadd, Derivatively On Behalf of Patterson Companies, Inc. vs. James W. Wiltz, et al.* This lawsuit named certain officers and directors of the Company as defendants and alleged breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. On October 11, 2005, a class action lawsuit was filed in the United States District Court for the District of Minnesota captioned *Tamara Dolliver, On Behalf of Herself and All Others Similarly Situated vs. Patterson Companies, Inc., et al.* This class action lawsuit was brought on behalf of the participants in the Company's Employee Stock Ownership Plan against the Company and certain officers and directors, and alleged violations of the federal Employee Retirement Income Security Act. The *Cadd* and *Dolliver* cases were predicated on essentially the same factual allegations alleged in, and are related cases to, the class action lawsuits consolidated as *In Re Patterson Companies, Inc. Securities Litigation*.

On May 30, 2006, the Company filed its Motion to Dismiss all three cases. On March 20, 2007, the Court granted the Company's Motion to Dismiss with prejudice in the Securities and ERISA case, and granted the Motion to Dismiss without prejudice in the Derivative case (the *Cadd* case). A notice of appeal was timely filed only in the *Cadd* case. The Company believes that the allegations made in the *Cadd* case are without merit and it intends to continue to vigorously defend the claim.

In the ordinary course of business, the Company is subject to a variety of product-related and employment-related liability claims. The Company's management believes that the loss, if any, resulting from these claims will be substantially covered by insurance or third-party indemnification and any uninsured losses from such claims will not have a materially adverse effect on the Company's operations or financial position.

15. Quarterly Results (unaudited)

Quarterly results are determined in accordance with the accounting policies used for annual data and include certain items based upon estimates for the entire year. All fiscal quarters include results for 13 weeks. The following table summarizes results for fiscal 2007 and 2006.

| | Quarter Ended | | | |
|----------------------------|------------------|------------------|------------------|------------------|
| | Apr. 28, 2007 | Jan. 27, 2007 | Oct. 28, 2006 | July 29, 2006 |
| Net sales | \$739,143 | \$709,494 | \$694,273 | 655,488 |
| Gross profit | 260,563 | 250,266 | 235,629 | 222,414 |
| Operating income | 96,446 | 92,686 | 78,021 | 68,537 |
| Net income | 59,924 | 58,591 | 48,237 | 41,584 |
| Earnings per share—basic | \$ 0.44 | \$ 0.43 | \$ 0.35 | \$ 0.30 |
| Earnings per share—diluted | \$ 0.44 | \$ 0.43 | \$ 0.35 | \$ 0.30 |

| | Quarter Ended | | | |
|----------------------------|------------------|------------------|------------------|------------------|
| | Apr. 29, 2006 | Jan. 28, 2006 | Oct. 29, 2005 | July 30, 2005 |
| Net sales | \$695,177 | \$682,402 | \$641,697 | \$595,847 |
| Gross profit | 247,002 | 240,969 | 219,214 | 207,244 |
| Operating income | 92,126 | 88,546 | 72,826 | 69,514 |
| Net income | 56,819 | 54,004 | 44,720 | 42,882 |
| Earnings per share—basic | \$ 0.41 | \$ 0.39 | \$ 0.33 | \$ 0.31 |
| Earnings per share—diluted | \$ 0.41 | \$ 0.39 | \$ 0.32 | \$ 0.31 |

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Management's Annual Report on Internal Control Over Financial Reporting

The management of Patterson Companies, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we assessed the effectiveness of our internal control over financial reporting as of April 28, 2007, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on its assessment, management has concluded that our internal control over financial reporting was effective as of April 28, 2007. During its assessment, management did not identify any material weaknesses in our internal control over financial reporting. Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K, has issued an unqualified report on management's assessment of internal control over financial reporting.

/s/ JAMES W. WILTZ

President and Chief Executive Officer

/s/ R. STEPHEN ARMSTRONG

Executive Vice President, Chief Financial
Officer and Treasurer

Evaluation of Disclosure Controls and Procedures

As of April 28, 2007, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities and Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by the Company in reports filed with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the fiscal year ended April 28, 2007, there were no significant changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the directors of the Company is incorporated herein by reference to the descriptions set forth under the caption "Proposal No. 1 Election of Directors" in the Company's Proxy Statement for its Annual Meeting of Shareholders to be held on September 10, 2007 (the "2007 Proxy Statement"). Information regarding executive officers of the Company is incorporated herein by reference to Item 1 of Part I of this Form 10-K under the caption "Executive Officers of the Registrant." Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference to the information set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2007 Proxy Statement. The information called for by Item 10, as to the audit committee and the audit committee financial expert, is set forth under the captions "Proposal No. 1 Election of Directors" and "Our Board of Directors and Committees" in Patterson's 2007 Proxy Statement and such information is incorporated by reference herein.

Code of Ethics

The Company has adopted Principles of Business Conduct and Code of Ethics for its Chief Executive Officer, Chief Financial Officer, Directors and all employees. The Company has made its Code of Ethics available on its website (www.pattersoncompanies.com) under the section "Corporate Governance." The Company intends to satisfy the disclosure requirement of Form 8-K regarding an amendment to, or waiver from, a provision of its Code of Ethics by posting such information on its website at the address and location specified above.

Item 11. EXECUTIVE COMPENSATION

Information regarding executive compensation and director compensation is incorporated herein by reference to the information set forth under the captions "Non-Employee Director Compensation" and "Executive Compensation" in the 2007 Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding the security ownership of certain beneficial owners and management is incorporated herein by reference to the information set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the 2007 Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information called for by Item 13 is incorporated herein by reference to the information set forth under the caption "Certain Relationships and Related Transactions" in the 2007 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information relating to principal accounting fees and services and pre-approval policies and procedures is set forth under the captions "Proposal No. 3 Ratification of Selection of Independent Registered Public Accounting Firm—Principal Accountant Fees and Services" and "Proposal No. 3 Ratification of Selection of Independent Registered Public Accounting Firm—Pre-Approval Policies and Procedures of the Audit Committee" in the 2007 Proxy Statement and such information is incorporated by reference herein.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements.

The following Consolidated Financial Statements and supplementary data of the Company and its subsidiaries are included in Part II, Item 8:

| | |
|--|----|
| Reports of Independent Registered Public Accounting Firm | 43 |
| Consolidated Balance Sheets as of April 28, 2007 and April 29, 2006 | 45 |
| Consolidated Statements of Income for the Years Ended April 28, 2007, April 29, 2006, and April 30, 2005 | 46 |
| Consolidated Statement of Changes in Stockholders' Equity for the Years Ended April 28, 2007, April 29, 2006, and April 30, 2005 | 47 |
| Consolidated Statements of Cash Flows for the Years Ended April 28, 2007, April 29, 2006, and April 30, 2005 | 48 |
| Notes to Consolidated Financial Statements | 49 |

2. Financial Statement Schedules.

The following financial statement schedule is filed herewith: Schedule II—Valuation and Qualifying Accounts for the Years Ended April 28, 2007, April 29, 2006, and April 30, 2005.

Schedules other than that listed above have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

3. Exhibits.

Exhibit

- 2.1 Article of Merger and Plan of Merger dated June 23, 2004¹⁰
- 3.1 The Company's Restated Articles of Incorporation¹⁰
- 3.2 The Company's Bylaws, as amended¹
- 4.1 Specimen form of the Company's Common Stock Certificate¹⁰
- 4.2 Pursuant to Item 601 (b)(4)(iii)(A) of Regulation S-K, the registrant has omitted to file certain unregistered convertible debentures. The total amount of securities authorized thereunder does not exceed 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant hereby agrees to furnish a copy of such convertible debentures to the Commission upon request.⁸
- 4.3 Credit Agreement dated as of November 25, 2003 among Patterson Dental Company, as the Company, the Subsidiary Borrowers from time to time parties hereto, the Lenders from time to time parties hereto, Bank One, NA (main office Chicago), as Administrative Agent, Bank of America, N.A., as Syndication Agent and Suntrust Bank, the Northern Trust Company, and U.S. Bank National Association, as Documentation Agents⁹
- 4.4 Note Purchase Agreement dated as of November 15, 2003 among Patterson Dental Company, AbilityOne Products Corp., AbilityOne Corporation, Patterson Dental Supply, Inc., Webster Veterinary Supply, Inc. and Webster Management, LP⁹

Exhibit

- 10.1 Patterson Dental Company Employee Stock Ownership Plan, as amended ¹
- 10.2 Patterson Dental Company 1992 Stock Option Plan ¹
- 10.3 Patterson Dental Company 1992 Director Stock Option Plan ¹
- 10.4 Patterson Dental Company Employee Stock Purchase Plan ¹
- 10.5 Patterson Dental Company Capital Accumulation Plan ²
- 10.6 Patterson Companies, Inc. Fiscal 2008 Incentive Plan
- 10.7 ESOP Loan Agreement dated June 15, 1990 as amended July 13, 1992 ¹
- 10.8 Amended and Restated Term Promissory Note dated July 13, 1992 ¹
- 10.9 Second Amended and Restated Contract Purchase Agreement dated April 28, 2000 between Patterson Dental Company and U.S. Bank National Association ³
- 10.10 Amended and Restated Credit Agreement dated April 28, 2000 between Patterson Dental Company and U.S. Bank National Association ³
- 10.11 Asset Purchase Agreement by and among Patterson Dental Company and J. A. Webster, Inc. ⁴
- 10.12 Third Amended and Restated Contract Purchase Agreement dated June 19, 2002 between Patterson Dental Company and U. S. Bank National Association ⁵
- 10.13 Amended and Restated Receivables Purchase Agreement dated October 7, 2004 between PDC Funding Company, LLC, Patterson Companies, Inc. and Bank One. ¹²
- 10.14 Receivables Sale Agreement dated May 10, 2002 among PDC Funding Company, LLC, Patterson Dental Supply, Inc., and Webster Veterinary Supply, Inc. ⁵
- 10.15 2001 Non-Employee Director Stock Option Plan ⁵
- 10.16 Amendments to Restated Employee Stock Purchase Plan ⁵
- 10.17 Amended and Restated Employee Stock Ownership Plan ⁵
- 10.18 Stock Option Plan for Canadian Employees ⁶
- 10.19 Patterson Companies, Inc. Equity Incentive Plan ¹¹
- 10.20 ESOP Loan Agreement dated April 1, 2002 ⁷
- 10.21 Promissory Note dated April 1, 2002 between GreatBanc Trust Company, an Illinois corporation, not in its individual or corporate capacity, but solely as trustee of the Thompson Dental Company Employee Stock Ownership Plan and Trust and Thompson Dental Company ⁷
- 10.22 Bridge Credit Facility dated as of September 12, 2003 among Patterson Dental Company as the borrower and Banc One Mezzanine Corporation, as Administrative Agent and Bank of America, N.A., as Syndication Agent. ⁸
- 10.23 ESOP Loan Agreement dated September 11, 2006 ¹³
- 10.24 ESOP Note dated September 11, 2006 ¹³
- 10.25 Receivables Sale Agreement dated April 27, 2007 among PDC Funding Company II, LLC, Patterson Dental Supply, Inc., and Webster Veterinary Supply, Inc. ¹⁴
- 10.26 Contract Purchase Agreement dated April 27, 2007 among PDC Funding Company II, LLC, Patterson Companies, Inc., U.S. Bank National Association and The Northern Trust Company ¹⁴
- 21 Subsidiaries
- 23 Consent of Independent Registered Public Accounting Firm

Exhibit

- 31.1 Certification of the Chief Executive Officer pursuant to Rules 13a-4(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-4(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

-
- 1 Incorporated by reference to the Registrant's Registration Statement on Form S-1 (No. 33-51304) filed with the Securities and Exchange Commission August 26, 1992.
 - 2 Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended April 27, 1996.
 - 3 Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended April 29, 2000.
 - 4 Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended April 28, 2001.
 - 5 Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended April 27, 2002.
 - 6 Incorporated by reference to the Registrant's Form 10-Q for the quarterly period ended January 25, 2003.
 - 7 Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended April 26, 2003.
 - 8 Incorporated by reference to the Registrant's Form 10-Q for the quarterly period ended October 25, 2003.
 - 9 Incorporated by reference to the Registrant's Form 10-Q for the quarterly period ended January 24, 2004.
 - 10 Incorporated by reference to the Registrant's Form 10-Q for the quarterly period ended July 31, 2004.
 - 11 Incorporated by reference to the Registrant's Form 8-K/A dated September 14, 2004, filed on September 29, 2004.
 - 12 Incorporated by reference to the Registrant's Form 8-K dated October 7, 2004, filed on October 12, 2004.
 - 13 Incorporated by reference to the Registrant's Form 8-K dated September 11, 2006, filed on September 12, 2006.
 - 14 Incorporated by reference to the Registrant's Form 8-K dated April 27, 2007, filed on May 3, 2007.

(b) See Schedule II.

(c) See Index to Exhibits.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PATTERSON COMPANIES, INC.

Dated: June 27, 2007

By /s/ JAMES W. WILTZ
James W. Wiltz,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | <u>Date</u> |
|---|--|---------------|
| <u> /s/ JAMES W. WILTZ </u> James W. Wiltz | President and Chief Executive Officer (Principal Executive Officer) | June 27, 2007 |
| <u> /s/ R. STEPHEN ARMSTRONG </u> R. Stephen Armstrong | Executive Vice President, Treasurer, and Chief Financial Officer (Principal Financial and Accounting Officer) | June 27, 2007 |
| <u> /s/ PETER L. FRECHETTE </u> Peter L. Frechette | Director (Chairman of the Board of Directors) | June 27, 2007 |
| <u> /s/ JOHN D. BUCK </u> John D. Buck | Director | June 27, 2007 |
| <u> /s/ RONALD E. EZERSKI </u> Ronald E. Ezerski | Director | June 27, 2007 |
| <u> /s/ ANDRE B. LACY </u> Andre B. Lacy | Director | June 27, 2007 |
| <u> /s/ CHARLES REICH </u> Charles Reich | Director | June 27, 2007 |
| <u> /s/ ELLEN A. RUDNICK </u> Ellen A. Rudnick | Director | June 27, 2007 |
| <u> /s/ HAROLD C. SLAVKIN </u> Harold C. Slavkin | Director | June 27, 2007 |

**SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS**

PATTERSON COMPANIES, INC.

(Dollars in thousands)

| | <u>Balance at Beginning of Period</u> | <u>Charged to Costs and Expenses</u> | <u>Charged to Other Accounts</u> | <u>Deductions</u> | <u>Balance at End of Period</u> |
|---------------------------------------|---|--|--|------------------------|---|
| Year ended April 28, 2007: | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | \$ 7,031 | \$ 2,040 | \$ 500 ⁽³⁾ | \$3,024 ⁽¹⁾ | \$ 6,547 |
| LIFO inventory adjustment | \$33,984 | \$ 5,325 | \$ — | \$ — | \$39,309 |
| Inventory obsolescence reserve | 6,040 | 7,206 | 73 ⁽³⁾ | 7,781 ⁽²⁾ | 5,538 |
| Total inventory reserve | <u>\$40,024</u> | <u>\$12,531</u> | <u>\$ 73</u> | <u>\$7,781</u> | <u>\$44,847</u> |
| Year ended April 29, 2006: | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | \$ 5,189 | \$ 2,764 | \$1,692 ⁽³⁾ | \$2,614 ⁽¹⁾ | \$ 7,031 |
| LIFO inventory adjustment | \$28,994 | \$ 4,990 | \$ — | \$ — | \$33,984 |
| Inventory obsolescence reserve | 4,899 | 5,446 | 702 ⁽³⁾ | 5,007 ⁽²⁾ | 6,040 |
| Total inventory reserve | <u>\$33,893</u> | <u>\$10,436</u> | <u>\$ 702</u> | <u>\$5,007</u> | <u>\$40,024</u> |
| Year ended April 30, 2005: | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | \$ 5,437 | \$ 1,546 | \$ 211 ⁽³⁾ | \$2,005 ⁽¹⁾ | \$ 5,189 |
| LIFO inventory adjustment | \$24,864 | \$ 4,130 | \$ — | \$ — | \$28,994 |
| Inventory obsolescence reserve | 7,001 | 3,626 | 230 ⁽³⁾ | 5,958 ⁽²⁾ | 4,899 |
| Total inventory reserve | <u>\$31,865</u> | <u>\$ 7,756</u> | <u>\$ 230</u> | <u>\$5,958</u> | <u>\$33,893</u> |

- (1) Uncollectible accounts written off, net of recoveries.
(2) Inventory disposed of or written off.
(3) Impact of acquisitions and foreign currency translation adjustments.

INDEX TO EXHIBITS

- Exhibit 10.6 Patterson Companies, Inc. Fiscal 2008 Incentive Compensation Plan
- Exhibit 21 Subsidiaries
- Exhibit 23 Consent of Independent Registered Public Accounting Firm
- Exhibit 31.1 Certification of the Chief Executive Officer pursuant to Rules 13a-4(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification of the Chief Financial Officer pursuant to Rules 13a-4(a) and 15d-14(a), under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

PATTERSON COMPANIES, INC.
Fiscal 2008
Incentive Plan

PLAN PURPOSE

The objective of Fiscal 2008 Patterson Companies, Inc. (PDCO) Incentive Compensation Plan (the "Plan") is to encourage greater initiative, resourcefulness, teamwork, and efficiency on the part of its employees. The day-to-day performance and responsibilities of each individual have a direct impact on our internal and external customer satisfaction, sales and operational goals, which ultimately affects the profitability of the Company.

ELIGIBILITY

Participation

This Incentive Program is designed to include designated employees across the organization. Incentive opportunity for targeted groups of employees is specified in the Plan schedules attached to this document. Newly hired, transferred, or employees who become participants during the Plan year will be eligible on a prorated basis under the respective schedule.

Participation in the Plan is determined by the CEO with approval of the President of each respective subsidiary or operating unit and is based on level of responsibility and organizational impact of the participant.

Participants are eligible for participation in only one Patterson Companies, Inc. (or subsidiary thereof) incentive, bonus, or other variable pay program, unless so authorized by specific provisions included in this Plan and the respective Patterson Companies, Inc. variable pay Plan document(s).

Award Payments

To receive an award several criteria must be met:

1. Employment—To be eligible to receive an award, the individual must be employed by Patterson Companies, Inc., or a subsidiary thereof, on the date awards are made;
 - a. Job elimination—Participants whose positions are eliminated may, at the discretion of management, be eligible for prorated awards based on tenure in the qualifying position, overall performance level, actual results attained, and other criteria determined by management;
 - b. Job transfer—Participants who transfer into or out of eligible positions within the Company may be eligible for prorated awards based on tenure in the qualifying position, overall performance level, actual results attained, and management discretion;
2. Performance—Continued participation in the Plan is dependent upon the participant remaining an employee in good standing as defined by Patterson Companies, Inc. or its subsidiary. To qualify for an award, a participant must have a satisfactory performance rating and not be on a formal performance improvement plan. A participant on written warning or disciplinary status at any time during the Plan year may have his/her incentive award reduced or denied at management's discretion;
3. Ethical and Legal Standards—Participants are required to be in compliance with, and abide by, Patterson Companies, Inc. Code of Ethics and comply with the letter and spirit of its provisions at all times.

No awards are considered earned until they are paid.

BASIS FOR AWARDS

The management of Patterson Companies, Inc. will approve participant objectives and evaluate performance of the business unit. Performance will be evaluated based on the specific goals and measures described in the attached plan schedules, the effective management of customer and employee relations, and compliance with Company expectations of good business practices and ethical conduct.

Patterson Companies, Inc. reserves the right to make changes to the Plan at any time, including but not limited to: withdraw or withhold from the Plan any transaction, product or service it might select; revise territories; establish specific account, customer, or portfolio representation; and assign or reassign specific accounts, customers, or portfolios within a participant's location service area at any time during the fiscal year.

Goals, incentive targets, territory assignments, and any other factors affecting this Plan may be reviewed and changed at any time during the Plan year.

APPROVAL OF AWARD PAYMENTS

The President of each respective subsidiary or operating unit will review and approve all award recommendations prior to submission to payroll for payment. Management may adjust payments at its own discretion to reflect the impact of any event that distorts actual results achieved and effective management of customer and employee relations. All awards are paid at the discretion of management.

DISTRIBUTION OF AWARD PAYMENTS

Generally, awards are calculated following the end of the fiscal year and payments are scheduled within 75 days after the end of the fiscal year.

Award payments are made by the same means as the individual's normal payroll. Applicable withholdings are deducted from all payments. Payments made under this Plan will be used in the calculation of benefits only as allowed under the applicable benefit plan. Awards are considered as earned by the participant on the date of actual distribution.

Generally, awards are determined and paid according to the provisions of this Plan document. Any exceptions require the approval of the President of each respective subsidiary or operating unit.

CHANGES IN EMPLOYMENT STATUS

In the event a participant dies, becomes disabled (as defined by Patterson's Group Long Term Disability Plan provisions), retires, or is on a leave of absence (as defined by applicable Patterson policies), he/she may be eligible for an award based on management's discretionary review of the participant's actual performance and actual work done while at work. In the event of death, the award payment, if any, is issued in the name of the deceased and made payable to the estate.

ADOPTION AND ADMINISTRATION

The President and Chief Executive Officer of Patterson Companies, Inc., and the President of the subsidiary or operating unit, or the Vice President—Human Resources on their behalf, must approve the attached Plan schedules. The Plan schedules are effective for each fiscal year of the Company and are updated annually.

The President of each respective subsidiary or operating unit holds general authority and on-going responsibility for Plan administration. Any exceptions to the provisions in this Plan require approval of the President of Patterson Companies, Inc. and the President of the respective subsidiary or operating unit. The foregoing officers and the Executive Vice President of Patterson Companies, Inc., or the Vice President of Human Resources acting on their behalf, have the authority to interpret the terms of this Plan.

This Plan supersedes all prior Incentive Plans. No agreements or understandings will modify this Plan unless they are in writing and approved by the President and Chief Executive Officer of Patterson Companies, Inc. and the President of the respective subsidiary or operating unit. This Plan is reviewed annually to determine the appropriateness of future continuation.

NO CONTRACT

Participation in this Plan does not constitute a contract of employment and shall not affect the right of Patterson Companies, Inc. to discharge, transfer, or change the position of a participant. The employment of any person participating in the Plan may be terminated at any time and no promise or representation is made regarding continued employment because of participation in the Plan.

The Plan shall not be construed to limit or prevent Patterson Companies, Inc. from adopting or changing, from time to time, any rules, standards, or procedures affecting a participant's employment with Patterson Companies, Inc. or any Patterson Companies, Inc. affiliate, including those which affect award payments, with or without notice to the participant.

ETHICAL AND LEGAL STANDARDS

A participant shall not pay, offer to pay, assign or give any part of his/her compensation or any other money to any agent, customer, or representative of the customer or any other person as an inducement or reward for assistance in making a sale. Moreover, no rights under this Plan shall be assignable or subject to any pledge or encumbrance of any nature.

If a participant fails to comply with the Patterson Companies, Inc. Code of Ethics or the provisions included in this Plan document or violates any other Company policy, his/her award may be adjusted, reduced, or denied at the discretion of Patterson Companies, Inc. management.

Approved

James W. Wiltz
President & Chief Executive Officer

R. Stephen Armstrong
Chief Financial Officer and
Executive Vice President

Date

Date

SUBSIDIARIES

| <u>NAME</u> | <u>JURISDICTION OF INCORPORATION</u> |
|--|--------------------------------------|
| Patterson Dental Holdings, Inc. | Minnesota |
| Patterson Dental Supply, Inc. | Minnesota |
| Direct Dental Supply Co. | Nevada |
| Patterson Dental Canada Inc. | Canada |
| Patterson Technology Center, Inc. | Minnesota |
| Patterson Office Supplies, Inc. | Minnesota |
| Accu-Bite, Inc. | Michigan |
| Accu-Bite Dental Products Limited Liability Company | Michigan |
| Williamston Industrial Center, LLC | Michigan |
| Strategic Dental Marketing, Inc. | Michigan |
| PDC Funding Company, LLC | Minnesota |
| PDC Funding Company II, LLC | Minnesota |
| Webster Veterinary Supply, Inc. | Minnesota |
| Webster Management LP | Minnesota |
| Intra Corp. | Ohio |
| Patterson Medical Holdings, Inc. | Delaware |
| Patterson Medical Supply, Inc. | Minnesota |
| AO Liquidation, Inc. | Michigan |
| Tumble Forms, Inc. | New York |
| Midland Manufacturing Company, Inc. | South Carolina |
| Sammons Preston Canada, Inc. | Ontario |
| AbilityOne Homecraft Limited | England & Wales |
| AbilityOne Kinetec S.A. | France |
| AOC Vertriebs GmbH | Germany |
| AbilityOne Limited | England & Wales |
| Dale Surgical Professional Supply, Inc | New York |
| Metro Medical, Inc. | Louisiana |
| Theraquip, Inc. | North Carolina |
| Patterson Logistics Services, Inc. | Minnesota |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-137497) pertaining to the Patterson Companies Amended and Restated Employee Stock Purchase Plan, the Registration Statement (Form S-8 No. 33-56764) pertaining to the 1992 Stock Option Plan, 1992 Director Stock Option Plan, Employee Stock Purchase Plan, and Employee Stock Ownership Plan, the Registration Statement (Form S-8 No. 333-03583) pertaining to the Patterson Dental Company Capital Accumulation Plan, the Registration Statement (Form S-8 No. 333-45742) pertaining to the Patterson Dental Company Employee Stock Purchase Plan, the Registration Statement (Form S-8 No. 333-87488) pertaining to the Patterson Dental Company 2001 Non-Employee Directors' Stock Option Plan and the Patterson Dental Company Employee Stock Ownership Plan or the Thompson Dental Company Stock Ownership Plan, the Registration Statements on Form S-3 (Nos. 333-19951, 333-41199, 333-61489, 333-79147, and 333-116226), the Registration Statement (Form S-8 No. 333-101691) pertaining to the Patterson Companies, Inc. Equity Incentive Plan, and the Post-Effective Amendment No. 1 to the Registration Statement (Form S-8 No. 333-114643) pertaining to the Patterson Dental Company's Stock Option Plan for Canadian Employees of our reports dated June 25, 2007, with respect to the consolidated financial statements and schedule of Patterson Companies, Inc., Patterson Companies, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Patterson Companies, Inc., included in this Annual Report (Form 10-K) for the year ended April 28, 2007.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
June 25, 2007

**Certification of the Chief Executive Officer Pursuant to
Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as
adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, James W. Wiltz, President and Chief Executive Officer of Patterson Companies, Inc., certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended April 28, 2007 of Patterson Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 27, 2007

/s/ JAMES W. WILTZ

James W. Wiltz
President and Chief Executive Officer

**Certification of the Chief Financial Officer Pursuant to
Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as
adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, R. Stephen Armstrong, Executive Vice President, Chief Financial Officer and Treasurer of Patterson Companies, Inc., certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended April 28, 2007 of Patterson Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 27, 2007

/s/ R. STEPHEN ARMSTRONG

R. Stephen Armstrong
Executive Vice President, Chief Financial Officer and
Treasurer

**Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as
adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Patterson Companies, Inc., (the "Company") for the fiscal year ended April 28, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James W. Wiltz, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

June 27, 2007

/s/ JAMES W. WILTZ

James W. Wiltz
President and Chief Executive Officer

**Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as
adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Patterson Companies, Inc., (the "Company") for the fiscal year ended April 28, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Stephen Armstrong, Executive Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

June 27, 2007

/s/ R. STEPHEN ARMSTRONG

R. Stephen Armstrong
Executive Vice President, Chief Financial Officer and
Treasurer

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This report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are information of a non-historical nature and are subject to risks and uncertainties which are beyond the Company's ability to control. The Company cautions shareholders and prospective investors that the following factors, among others, may cause actual results to differ materially from those indicated by the forward-looking statements: the ability to integrate recent acquisitions into Patterson's operations in a timely manner; competition within the dental, veterinary, and rehabilitative and assistive living supply industries; changes in the economics of dentistry, including reduced growth in expenditures by private dental insurance plans, the effects of economic conditions and the effects of healthcare reform, which may affect future per capita expenditures for dental services and the ability and willingness of dentists to invest in high-technology products; the effects of healthcare related legislation and regulation which may affect expenditures or reimbursements for rehabilitative and assistive products; changes in the economics of the veterinary supply market, including reduced growth in per capita expenditures for veterinary services and reduced growth in the number of households owning pets; the ability of the Company to maintain satisfactory relationships with its sales force; unforeseen operating risks; and risks associated with the dependence on manufacturers of the Company's products. Forward-looking statements are qualified in their entirety by the cautionary language set forth in the Company's filings with the Securities and Exchange Commission.



COMPANIES, INC.

1031 Mendota Heights Road
St. Paul, MN 55120-1419
651/686-1600
www.pattersoncompanies.com

Patterson Dental

1031 Mendota Heights Road
St. Paul, MN 55120-1419
651/ 686-1600

Webster Veterinary

86 Leominster Road
Sterling, MA 01564
978/422-8211

Patterson Medical

1000 Remington Boulevard, Suite 210
Bolingbrook, IL 60440-5117
630/378-6300

END