PATTERSON COMPANIES, INC.
Form 10-Q
December 06, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED OCTOBER 28, 2017.
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File No. 0-20572

PATTERSON COMPANIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Minnesota (State or Other Jurisdiction of Incorporation or Organization)	41-0886515 (I.R.S. Employer Identification Number)
1031 Mendota Heights Road St. Paul, Minnesota (Address of Principal Executive Offices)	55120 (Zip Code)

(651) 686-1600
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of November 30, 2017, there were 94,824,000 shares of Common Stock of the registrant issued and outstanding.

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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
PATTERSON COMPANIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	October 28, 2017 (Unaudited)	April 29, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$101,456	$94,959
Receivables, net of allowance for doubtful accounts	849,205	884,803
Inventory	796,369	711,903
Prepaid expenses and other current assets	96,578	111,928
Total current assets	1,843,608	1,803,593
Property and equipment, net	286,715	298,452
Long-term receivables, net	111,184	101,529
Goodwill	814,224	813,547
Identifiable intangibles, net	406,641	425,436
Other	66,107	65,356
Total assets	$3,528,479	$3,507,913
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$634,594	$616,859
Accrued payroll expense	57,151	56,881
Other accrued liabilities	152,132	156,437
Current maturities of long-term debt	14,754	14,754
Borrowings on revolving credit	92,000	59,000
Total current liabilities	950,631	903,931
Long-term debt	991,232	998,272
Other non-current liabilities	219,676	211,277
Total liabilities	2,161,539	2,113,480
Stockholders' equity:		
Common stock	949	966
Additional paid-in capital	88,069	72,973
Accumulated other comprehensive loss	(83,675)	(92,669)
Retained earnings	1,429,668	1,481,234
Unearned ESOP shares	(68,071)	(68,071)
Total stockholders' equity	1,366,940	1,394,433
Total liabilities and stockholders' equity	$3,528,479	$3,507,913

See accompanying notes

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PATTERSON COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND OTHER COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net sales	$1,385,737	$1,418,241	$2,689,852	$2,750,677
Cost of sales	1,069,994	1,099,281	2,075,061	2,114,539
Gross profit	315,743	318,960	614,791	636,138
Operating expenses	243,984	239,157	486,199	490,919
Operating income	71,759	79,803	128,592	145,219
Other income (expense):				
Other income, net	1,160	1,622	2,672	3,986
Interest expense	(11,468)	(10,097)	(22,671)	(20,259)
Income before taxes	61,451	71,328	108,593	128,946
Income tax expense	21,207	25,572	37,502	44,284
Net income	$40,244	$45,756	$71,091	$84,662
Earnings per share:				
Basic	$0.43	$0.48	$0.76	$0.89
Diluted	$0.43	$0.48	$0.76	$0.88
Weighted average shares:				
Basic	92,722	95,290	93,037	95,510
Diluted	93,351	95,904	93,683	96,138
Dividends declared per common share	$0.26	$0.24	$0.52	$0.48
Comprehensive income				
Net income	$40,244	$45,756	$71,091	$84,662
Foreign currency translation gain (loss)	(3,965)	(14,001)	8,119	(34,258)
Cash flow hedges, net of tax	438	437	875	870
Comprehensive income	$36,717	$32,192	$80,085	$51,274

See accompanying notes

PATTERSON COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended October 28, 2017		October 29, 2016	
Operating activities:				
Net income	$ 71,091		$ 84,662	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	22,458		18,010	
Amortization	19,375		23,997	
Bad debt expense	3,716		58	
Non-cash employee compensation	16,635		14,693	
Change in assets and liabilities, net of acquired	(56,167	)	(196,726	)
Net cash provided by (used in) operating activities	77,108		(55,306	)
Investing activities:				
Additions to property and equipment	(16,431	)	(29,377	)
Collection of deferred purchase price receivables	24,581		26,210	
Other investing activities	11,626		(3,095	)
Net cash provided by (used in) investing activities	19,776		(6,262	)
Financing activities:				
Dividends paid	(49,969	)	(47,655	)
Repurchases of common stock	(71,254	)	(50,000	)
Retirement of long-term debt	(7,377	)	(8,250	)
Draw on revolver	33,000		143,000	
Other financing activities	3,561		974	
Net cash provided by (used in) financing activities	(92,039	)	38,069	

Effect of exchange rate changes on cash	1,652		(3,567		)
Net change in cash and cash equivalents	6,497		(27,066		)
Cash and cash equivalents at beginning of period	94,959		137,453		
Cash and cash equivalents at end of period	$	101,456	$	110,387	

See accompanying notes

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PATTERSON COMPANIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars, except per share amounts, and shares in thousands)
(Unaudited)

Note 1. General
Basis of Presentation
In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of Patterson Companies, Inc. (referred to herein as "Patterson" or in the first person notations "we," "our," and "us") as of October 28, 2017, and our results of operations and cash flows for the periods ended October 28, 2017 and October 29, 2016. Such adjustments are of a normal recurring nature. The results of operations for the periods ended October 28, 2017 and October 29, 2016 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the financial statements included in our 2017 Annual Report on Form 10-K filed on June 28, 2017.
The unaudited condensed consolidated financial statements include the assets and liabilities of PDC Funding Company, LLC ("PDC Funding") and PDC Funding Company II, LLC ("PDC Funding II"), which are our wholly owned subsidiaries and separate legal entities formed under Minnesota law. PDC Funding and PDC Funding II are fully consolidated special purpose entities established to sell customer installment sale contracts to outside financial institutions in the normal course of their business. The assets of PDC Funding and PDC Funding II would be available first and foremost to satisfy the claims of its creditors. There are no known creditors of PDC Funding or PDC Funding II.
Fiscal Year End
We operate with a 52-53 week accounting convention with our fiscal year ending on the last Saturday in April. The second quarter of fiscal 2018 and 2017 represents the 13 weeks ended October 28, 2017 and the 13 weeks ended October 29, 2016, respectively. The six months ended October 28, 2017 and October 29, 2016 each included 26 weeks. Fiscal 2018 will include 52 weeks and fiscal 2017 included 52 weeks.
Comprehensive Income
Comprehensive income is computed as net income including certain other items that are recorded directly to stockholders' equity. Significant items included in comprehensive income are foreign currency translation adjustments and the effective portion of cash flow hedges, net of tax. 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. The income tax expense related to cash flow hedges was $265 and $265 for the three months ended October 28, 2017 and October 29, 2016, respectively. The income tax expense related to cash flow hedges was $530 and $527 for the six months ended October 28, 2017 and October 29, 2016, respectively.
Earnings Per Share
The following table sets forth the computation of the weighted average shares outstanding used to calculate basic and diluted earnings per share ("EPS"):

	Three Months Ended		Six Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Denominator for basic earnings per share – weighted average shares	92,722	95,290	93,037	95,510
Effect of dilutive securities – stock options, restricted stock and stock purchase plans	629	614	646	628
Denominator for diluted earnings per share – weighted average shares	93,351	95,904	93,683	96,138

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Potentially dilutive securities representing 1,581 and 1,272 shares for the three and six months ended October 28, 2017, respectively, and 1,453 and 1,218 shares for the three and six months ended October 29, 2016, respectively, were excluded from the calculation of diluted earnings per share because their effects were anti-dilutive.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". ASU No. 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)," and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of this pronouncement by one year to December 15, 2017 for annual reporting periods beginning after that date. Companies may use either a full retrospective or a modified retrospective approach to adopt the standard. We plan to adopt the new guidance in the first quarter of fiscal 2019 and are currently evaluating the standard, including the method we will use for adoption and the effect it will have on our financial statements. We do not expect the standard to materially affect our consolidated net earnings, financial position, or cash flows. We are currently evaluating the new standard as it relates to certain sales transactions in which products are shipped directly from the vendor to our customers. We currently report these sales on a gross basis, and are evaluating if we will be required to report these sales on a net basis. Such sales represent approximately 2% of our consolidated net sales. Any change to net presentation would not impact gross margin or earnings.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330), Simplifying the Measurement of Inventory." ASU 2015-11 requires inventory measured using any method other than LIFO or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Subsequent measurement of inventory using the LIFO and retail inventory method is unchanged. During the first quarter of fiscal 2018, we adopted ASU No. 2015-11 and it had no material impact to the condensed consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments- Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)", which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. We are required to adopt the ASU No. 2016-01 in the first quarter of fiscal 2019, with early adoption permitted. We are evaluating the impact of adopting this pronouncement.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by most leases, as well as requires additional qualitative and quantitative disclosures. We are required to adopt ASU 2016-02 in the first quarter of fiscal 2020, with early adoption permitted. We are evaluating the impact of adopting this pronouncement.

Note 2. Customer Financing

As a convenience to our customers, we offer several different financing alternatives, including a third party program and a Patterson-sponsored program. For the third party program, we act as a facilitator between the customer and the third party financing entity with no on-going involvement in the financing transaction. Under the Patterson-sponsored program, equipment purchased by creditworthy customers may be financed up to a maximum of $1,000. We generally sell our customers’ financing contracts to outside financial institutions in the normal course of our business. These financing arrangements are accounted for as a sale of assets under the provisions of ASC 860, Transfers and Servicing. We currently have two arrangements under which we sell these contracts.

First, we operate under an agreement to sell a portion of our equipment finance contracts to commercial paper conduits with The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTMU") serving as the agent. We utilize PDC Funding to fulfill a requirement of participating in the commercial paper conduit. We receive the proceeds of the contracts upon sale to BTMU. At least 9.5% of the proceeds are held by the conduit as security against eventual performance of the portfolio. This percentage can be greater and is based upon certain ratios defined in the agreement with BTMU. The capacity under the agreement with BTMU at October 28, 2017 was $575,000.

Second, we maintain an agreement with Fifth Third Bank ("Fifth Third") whereby Fifth Third purchases customers' financing contracts. PDC Funding II sells its financing contracts to Fifth Third. We receive the proceeds of the contracts upon sale to Fifth Third. At least 11.0% of the proceeds are held by the conduit as security against eventual performance of the portfolio. This percentage can be greater and is based upon certain ratios defined in the agreement with Fifth Third. The capacity under the agreement with Fifth Third at October 28, 2017 was $100,000.

We service the financing contracts under both arrangements, for which we are paid a servicing fee. The servicing fees we receive are considered adequate compensation for services rendered. Accordingly, no servicing asset or liability has been recorded.

The portion of the purchase price for the receivables held by the conduits is deemed a deferred purchase price receivable, which is paid to the applicable special purpose entity as payments on the customers' financing contracts are collected by Patterson from customers. The difference between the carrying amount of the receivables sold under these programs and the sum of the cash and fair value of the deferred purchase price receivables received at time of transfer is recognized as a gain on sale of the related receivables and recorded in net sales in the condensed consolidated statements of income and other comprehensive income. Expenses incurred related to customer financing activities are recorded in operating expenses in our condensed consolidated statements of income and other comprehensive income.

During the three months ended October 28, 2017 and October 29, 2016, we sold $95,588 and $62,663 of contracts under these arrangements, respectively. During the six months ended October 28, 2017 and October 29, 2016, we sold $151,711 and $172,257 of contracts under these arrangements, respectively. We recorded net sales in the condensed consolidated statements of income and other comprehensive income of $5,967 and $4,331 during the three months ended October 28, 2017 and October 29, 2016, respectively, related to these contracts sold. We recorded net sales in the condensed consolidated statements of income and other comprehensive income of $10,227 and $14,516 during the six months ended October 28, 2017 and October 29, 2016, respectively, related to these contracts sold.

Included in cash and cash equivalents in the condensed consolidated balance sheets are $32,187 and $17,902 as of October 28, 2017 and April 29, 2017, respectively, which represent cash collected from previously sold customer financing contracts that have not yet been settled. Included in current receivables in the condensed consolidated balance sheets are $70,193, net of unearned income of $0, and $124,098, net of unearned income of $940, as of October 28, 2017 and April 29, 2017, respectively, of finance contracts we have not yet sold. A total of $612,216 of finance contracts receivable sold under the arrangements was outstanding at October 28, 2017. The deferred purchase price receivable under the arrangements was $129,098 and $119,798 as of October 28, 2017 and April 29, 2017, respectively. Since the internal financing program began in 1994, bad debt write-offs have amounted to less than 1% of the loans originated.

The arrangements require us to maintain a minimum current ratio and maximum leverage ratio. We were in compliance with those covenants at October 28, 2017.

Note 3. Derivative Financial Instruments

We are a party to certain offsetting and identical interest rate cap agreements entered into to fulfill certain covenants of the equipment finance contract sale agreements. The interest rate cap agreements also provide a credit enhancement feature for the financing contracts sold by PDC Funding and PDC Funding II to the commercial paper conduit.

The interest rate cap agreements are canceled and new agreements are entered into periodically to maintain consistency with the dollar maximum of the sale agreements and the maturity of the underlying financing contracts. As of October 28, 2017, PDC Funding had purchased an interest rate cap from a bank with a notional amount of $575,000 and a maturity date of July 2025. We sold an identical interest rate cap to the same bank. As of October 28, 2017, PDC Funding II had purchased an interest rate cap from a bank with a notional amount of $100,000 and a maturity date of July 2025. We sold an identical interest rate cap to the same bank.

These interest rate cap agreements do not qualify for hedge accounting treatment and, accordingly, we record the fair value of the agreements as an asset or liability and the change as income or expense during the period in which the change occurs.

In March 2008, we entered into two forward starting interest rate swap agreements, each with notional amounts of $100,000 and accounted for as cash flow hedges, to hedge interest rate fluctuations in anticipation of the issuance of the senior notes due fiscal 2015 and fiscal 2018. Upon issuance of the hedged debt, we settled the forward starting

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interest rate swap agreements and recorded a $1,000 increase, net of income taxes, to other comprehensive income (loss), which is being amortized as a reduction to interest expense over the life of the related debt.

In January 2014, we entered into a forward interest rate swap agreement with a notional amount of $250,000 and accounted for as cash flow hedge, to hedge interest rate fluctuations in anticipation of refinancing the 5.17% senior notes due March 25, 2015. These notes were repaid on March 25, 2015 and replaced with new $250,000 3.48% senior notes due March 24, 2025. A cash payment of $29,003 was made in March 2015 to settle the interest rate swap. This amount is recorded in other comprehensive income (loss), net of tax, and is recognized as interest expense over the life of the related debt.

The following presents the fair value of derivative instruments included in the condensed consolidated balance sheets:

Derivative type	Classification	October 28, 2017	April 29, 2017
Assets:			
Interest rate cap agreements	Other noncurrent assets	$ 967	$ 1,188
Liabilities:			
Interest rate cap agreements	Other noncurrent liabilities	967	1,188

The following table presents the pre-tax effect of derivative instruments in cash flow hedging relationships on the condensed consolidated statements of income and other comprehensive income ("OCI"):

		Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)			
		Three Months Ended		Six Months Ended	
Derivatives in cash flow hedging relationships	Income statement location	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Interest rate swap	Interest expense	$ (703)	$ (702)	$ (1,405)	$ (1,397)

We recorded no effective portion of gains or losses on derivative instruments in cash flow hedging relationships in OCI during the current period.

We recorded no ineffectiveness during the three and six month periods ended October 28, 2017 and October 29, 2016.

As of October 28, 2017, the estimated pre-tax portion of accumulated other comprehensive loss that is expected to be reclassified into earnings over the next twelve months is $2,862, which will be recorded as an increase to interest expense.

Note 4. Fair Value Measurements

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

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

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

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

Our hierarchy for assets and liabilities measured at fair value on a recurring basis is as follows:

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	October 28, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$3,000	$3,000	$—	$—
Deferred purchase price receivable	129,098	—	—	129,098
Derivative instruments	967	—	967	—
Total assets	$133,065	$3,000	$967	$129,098
Liabilities:				
Derivative instruments	$967	$—	$967	$—

	April 29, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$6,798	$6,798	$—	$—
Deferred purchase price receivable	119,798	—	—	119,798
Derivative instruments	1,188	—	1,188	—
Total assets	$127,784	$6,798	$1,188	$119,798
Liabilities:				
Derivative instruments	$1,188	$—	$1,188	$—

Cash equivalents – We value cash equivalents at their current market rates. The carrying value of cash equivalents approximates fair value and maturities are less than three months.

Deferred purchase price receivable – We value the deferred purchase price receivable based on a discounted cash flow analysis using unobservable inputs, which include a forward yield curve, the estimated timing of payments and the credit quality of the underlying creditor. Significant changes in any of the significant unobservable inputs in isolation would not result in a materially different fair value estimate. The interrelationship between these inputs is insignificant.

Derivative instruments – Our derivative instruments consist of interest rate cap agreements and interest rate swaps. These instruments are valued using inputs such as interest rates and credit spreads.

Certain assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments under certain circumstances, such as when there is evidence of impairment. There were no fair value adjustments to such assets during the six month periods ended October 28, 2017 or October 29, 2016.

Our debt is not measured at fair value in the condensed consolidated balance sheets. The estimated fair value of our debt as of October 28, 2017 and April 29, 2017 was $1,022,779 and $1,025,761, respectively, as compared to a carrying value of $1,005,986 and $1,013,026 at October 28, 2017 and April 29, 2017, respectively. The fair value of debt was measured using a discounted cash flow analysis based on expected market based yields (i.e., level 2 inputs).

The carrying amounts of receivables, net of allowances, accounts payable, and certain accrued and other current liabilities approximated fair value at October 28, 2017 and April 29, 2017.

Note 5. Income Taxes

The effective income tax rate for the three months ended October 28, 2017 was 34.5% compared to 35.9% for the three months ended October 29, 2016, and for the six months ended October 28, 2017 was 34.5% compared to 34.3% for the six months ended October 29, 2016. The decrease in the rate for the three months ended October 28, 2017 compared to the prior year was primarily due to a geographical shift in earnings.

Note 6. Segment Reporting

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We present three reportable segments: Dental, Animal Health and Corporate. Dental and Animal Health are strategic business units that offer similar products and services to different customer bases. Dental provides a virtually complete range of consumable dental products, equipment and software, turnkey digital solutions and value-added services to dentists, dental laboratories, institutions, and other healthcare professionals throughout North America. Animal Health is a leading, full-line distributor in North America and the U.K. of animal health products, services and technologies to both the production-animal and companion-pet markets. Our Corporate segment is comprised of general and administrative expenses, including home office support costs in areas such as information technology, finance, legal, human resources and facilities. In addition, customer financing and other miscellaneous sales are reported within Corporate results. Corporate assets consist primarily of cash and cash equivalents, accounts receivable, property and equipment and long-term receivables. We evaluate segment performance based on operating income. The costs to operate the fulfillment centers are allocated to the operating units based on the through-put of the unit.

The following table presents information about our reportable segments:

	Three Months Ended		Six Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net sales				
Dental	$553,630	$601,553	$1,072,437	$1,156,568
Animal Health	823,583	807,146	1,599,719	1,569,777
Corporate	8,524	9,542	17,696	24,332
Consolidated net sales	$1,385,737	$1,418,241	$2,689,852	$2,750,677
Operating income (loss)				
Dental	$65,207	$77,043	$124,726	$137,338
Animal Health	23,217	21,854	39,893	36,683
Corporate	(16,665)	(19,094)	(36,027)	(28,802)
Consolidated operating income	$71,759	$79,803	$128,592	$145,219

	October 28, 2017	April 29, 2017
Total assets		
Dental	$903,155	$863,970
Animal Health	2,171,844	2,119,512
Corporate	453,480	524,431
Total assets	$3,528,479	$3,507,913

The following table presents sales information by product for all of our reportable segments:

	Three Months Ended		Six Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net sales				
Consumable	$1,116,091	$1,112,232	$2,196,196	$2,188,453
Equipment and software	181,337	217,194	318,286	378,140
Other	88,309	88,815	175,370	184,084
Consolidated net sales	$1,385,737	$1,418,241	$2,689,852	$2,750,677

Note 7. Accumulated Other Comprehensive Loss ("AOCL")

The following table summarizes the changes in AOCL as of October 28, 2017:

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	Cash Flow Hedges	Currency Translation Adjustment	Total
AOCL at April 29, 2017	$(14,989)	$(77,680)	$(92,669)
Other comprehensive loss before reclassifications	—	8,119	8,119
Amounts reclassified from AOCL	875	—	875
AOCL at October 28, 2017	$(14,114)	$(69,561)	$(83,675)

The amounts reclassified from AOCL during fiscal 2018 represent gains and losses on cash flow hedges, net of taxes of $530. The impact to the condensed consolidated statements of income and other comprehensive income was an increase to interest expense of $1,405.

Note 8. Legal Proceedings

In September 2015, we were served with a summons and complaint in an action commenced in the U.S. District Court for the Eastern District of New York, entitled SourceOne Dental, Inc. v. Patterson Companies, Inc., Henry Schein, Inc. and Benco Dental Supply Company, Civil Action No. 15-cv-05440-JMA-GRB. SourceOne, as plaintiff, alleges that, through its website, it markets and sells dental supplies and equipment to dentists. SourceOne alleges in the complaint, among other things, that we, along with the defendants Henry Schein and Benco, conspired to eliminate plaintiff as a competitor and to exclude them from the market for the marketing, distribution and sale of dental supplies and equipment in the U.S. and that defendants unlawfully agreed with one another to boycott dentists, manufacturers, and state dental associations that deal with, or considered dealing with, plaintiff. Plaintiff asserts the following claims: (i) unreasonable restraint of trade in violation of state and federal antitrust laws; (ii) tortious interference with prospective business relations; (iii) civil conspiracy; and (iv) aiding and abetting the other defendants' ongoing tortious and anticompetitive conduct. Plaintiff seeks equitable relief, compensatory and treble damages, jointly and severally, punitive damages, interest, and reasonable costs and expenses, including attorneys' fees and expert fees. In June 2017, Henry Schein settled with SourceOne and was dismissed from this litigation with prejudice. We are vigorously defending ourselves in this litigation. We do not anticipate that this matter will have a material adverse effect on our financial condition.

Beginning in January 2016, purported class action complaints were filed against defendants Henry Schein, Inc., Benco Dental Supply Company and Patterson Companies, Inc. Although there were factual and legal variations among these complaints, each alleged that defendants conspired to foreclose and exclude competitors by boycotting manufacturers, state dental associations, and others that deal with defendants' competitors. On February 9, 2016, the U.S. District Court for the Eastern District of New York ordered all of these actions, and all other actions filed thereafter asserting substantially similar claims against defendants, consolidated for pre-trial purposes. On February 26, 2016, a consolidated class action complaint was filed by Arnell Prato, D.D.S., P.L.L.C., d/b/a Down to Earth Dental, Evolution Dental Sciences, LLC, Howard M. May, DDS, P.C., Casey Nelson, D.D.S., Jim Peck, D.D.S., Bernard W. Kurek, D.M.D., Larchmont Dental Associates, P.C., and Keith Schwartz, D.M.D., P.A. (collectively, "putative class representatives") in the U.S. District Court for the Eastern District of New York, entitled In re Dental Supplies Antitrust Litigation, Civil Action No. 1:16-CV-00696-BMC-GRB. Subject to certain exclusions, the putative class representatives seek to represent all persons who purchased dental supplies or equipment in the U.S. directly from any of the defendants, since August 31, 2008. In the consolidated class action complaint, putative class representatives allege a nationwide agreement among Henry Schein, Benco, Patterson and non-party Burkhart Dental Supply Company, Inc. not to compete on price. The consolidated class action complaint asserts a single count under Section 1 of the Sherman Act, and seeks equitable relief, compensatory and treble damages, jointly and severally, interest, and reasonable costs and expenses, including attorneys' fees and expert fees. Putative class representatives have not specified a damage amount in their complaint. While the outcome of litigation is inherently uncertain, we believe the consolidated class action complaint is without merit, and we are vigorously defending ourselves in this litigation.

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Company, Inc. conspired to pressure and agreed to enlist their common suppliers, including the Danaher Defendants, to join a price-fixing conspiracy and boycott by reducing the distribution territory of, and eventually terminating, Archer. Archer seeks injunctive relief, and damages in an amount to be proved at trial, to be trebled with interest and costs, including attorneys' fees, jointly and severally. Trial is currently scheduled for February 2018. We are vigorously defending ourselves in this litigation. We do not anticipate that this matter will have a material adverse effect on our financial statements.

On August 17, 2017, IQ Dental Supply, Inc. ("IQ Dental") filed a complaint in the United States District Court for the Eastern District of New York, entitled IQ Dental Supply, Inc. v. Henry Schein, Inc., Patterson Companies, Inc. and Benco Dental Supply Company, Case No. 2:17-cv-4834. Plaintiff alleges that it is a distributor of dental supplies and equipment, and sells dental products through an online dental distribution platform operated by SourceOne Dental, Inc. IQ Dental alleges, among other things, that defendants conspired to suppress competition from IQ Dental and SourceOne for the marketing, distribution and sale of dental supplies and equipment in the United States, and that defendants unlawfully agreed with one another to boycott dentists, manufacturers and state dental associations that deal with, or considered dealing with, plaintiff and SourceOne. Plaintiff claims that this alleged conduct constitutes unreasonable restraint of trade in violation of Section 1 of the Sherman Act, New York's Donnelly Act and the New Jersey Antitrust Act, and also makes pendant state law claims for tortious interference with prospective business relations, civil conspiracy and aiding and abetting. Plaintiff seeks injunctive relief, compensatory, treble and punitive damages, jointly and severally, and reasonable costs and expenses, including attorneys' fees and expert fees. We are vigorously defending ourselves in this litigation. We do not anticipate that this matter will have a material adverse effect on our financial statements.

From time to time, we may become a party to other legal proceedings, including, without limitation, product liability claims, intellectual property claims, employment matters, commercial disputes, governmental inquiries and investigations (which may in some cases involve our entering into settlement arrangements or consent decrees), and other matters arising out of the ordinary course of our business. While the results of any legal proceeding cannot be predicted with certainty, in our opinion none of these other pending matters is anticipated to have a material adverse effect on our financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Form 10-Q for the period ended October 28, 2017, contains certain 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 that are beyond Patterson's ability to control. Forward-looking statements generally can be identified by words such as "believes," "expects," "anticipates," "foresees," "forecasts," "estimates other words or phrases of similar import. It is uncertain whether any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what impact they will have on the results of operations and financial condition of Patterson or the price of Patterson stock. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those indicated in such forward-looking statements. Such risks and uncertainties include, without limitation, the cautionary language set forth herein; operations disruptions attributable to our enterprise resource planning system implementation; our ability to attract or retain qualified sales representatives and service technicians who relate directly with our customers; the reduction, modification, cancellation or delay of purchases of innovative, high-margin equipment; material changes in our purchasing relationships with suppliers; changes in general market and economic conditions; and the other risks and important factors contained and identified in Patterson's previous filings with the Securities and Exchange Commission, such as its Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K, any of which could cause actual results to differ materially from the forward-looking statements.

OVERVIEW

Our financial information for the first six months of fiscal 2018 is summarized in this Management's Discussion and Analysis and the Condensed Consolidated Financial Statements and related Notes. The following background is provided to readers to assist in the review of our financial information.

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We present three reportable segments: Dental, Animal Health and Corporate. Dental and Animal Health are strategic business units that offer similar products and services to different customer bases. Dental 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. Animal Health is a leading, full-line distributor in North America and the U.K. of animal health products, services and technologies to both the production-animal and companion-pet markets. Our Corporate segment is comprised of general and administrative expenses, including home office support costs in areas such as information technology, finance, legal, human resources and facilities. In addition, customer financing and other miscellaneous sales are reported within Corporate results.

Operating margins of the animal health business are considerably lower than the dental business. While operating expenses run at a lower rate in the animal health business when compared to the dental business, gross margins in the animal health business are substantially lower due generally to the low margins experienced on the sale of pharmaceutical products.

We operate with a 52-53 week accounting convention with our fiscal year ending on the last Saturday in April. The second quarter of fiscal 2018 and 2017 represents the 13 weeks ended October 28, 2017 and the 13 weeks ended October 29, 2016, respectively. The six months ended October 28, 2017 and October 29, 2016 each included 26 weeks. Fiscal 2018 will include 52 weeks and fiscal 2017 included 52 weeks.

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

FACTORS AFFECTING OUR RESULTS

Enterprise Resource Planning System Initiatives. In the third quarter of fiscal 2017, we completed the application development stage of our enterprise resource planning ("ERP") system, and we began depreciating our investment in such system. We incurred increased depreciation and other operating expenses of approximately $4.0 million in the three months ended October 28, 2017 as compared to the three months ended October 29, 2016, and $11.0 million in the six months ended October 28, 2017 as compared to the six months ended October 29, 2016.

RESULTS OF OPERATIONS

QUARTER ENDED OCTOBER 28, 2017 COMPARED TO QUARTER ENDED OCTOBER 29, 2016

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

	Three Months Ended	
	October 28, 2017	October 29, 2016
Net sales	100.0 %	100.0 %
Cost of sales	77.2	77.5
Gross profit	22.8	22.5
Operating expenses	17.6	16.9
Operating income	5.2	5.6
Other income (expense)	(0.8)	(0.6)
Income before taxes	4.4	5.0
Income tax expense	1.5	1.8
Net income	2.9 %	3.2 %

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Net Sales. Consolidated net sales for the three months ended October 28, 2017 were $1,385.7 million, a decrease of 2.3% from $1,418.2 million for the three months ended October 29, 2016. Foreign exchange rate changes had a favorable impact of 0.5% on current quarter sales.

Dental segment sales for the three months ended October 28, 2017 were $553.6 million, a decrease of 8.0% from $601.6 million for the three months ended October 29, 2016. Foreign exchange rate changes had a favorable impact of 0.4% on current quarter sales. Current quarter sales of consumables decreased 4.0%, due primarily to lower sales volume. Sales of dental equipment and software decreased 17.3% to $169.5 million, due to a decrease in sales of digital technology products, which was driven by our decision to broaden our technology equipment portfolio. In addition, we believe that our customers are delaying equipment purchases as they evaluate new digital product offerings. Sales of other dental services and products increased 0.9%.

Animal Health segment sales for the three months ended October 28, 2017 were $823.6 million, an increase of 2.0% from $807.1 million for the three months ended October 29, 2016. Foreign exchange rate changes had a favorable impact of 0.6% on current quarter sales. Sales of certain products previously recognized on a gross basis were recognized on a net basis during the three months ended October 28, 2017, resulting in an estimated 2.3% unfavorable impact to sales. Positive end market fundamentals contributed to the current quarter sales growth.

Gross Profit. Consolidated gross profit margin rate for the three months ended October 28, 2017 increased 30 basis points from the prior year quarter to 22.8%. Gross profit margin rates improved in both the Dental and Animal Health segments during the three months ended October 28, 2017. Favorable sales mix in each segment drove the improved rates. In our Dental segment, a greater percentage of sales came from our higher margin consumables products. In our Animal Health segment, certain marketing initiatives are driving a greater percentage of sales from higher margin products.

Operating Expenses. Consolidated operating expenses for the three months ended October 28, 2017 were $244.0 million, a 2.0% increase from the prior year quarter of $239.2 million. The three months ended October 28, 2017 included increased depreciation and other operating expenses related to our ERP system initiatives. Operating expenses in the current quarter were favorably impacted by cost containment efforts. The consolidated operating expense ratio of 17.6% increased 70 basis points from the prior year quarter, which was primarily driven by lower net sales and higher operating expenses.

Operating Income. For the three months ended October 28, 2017, operating income was $71.8 million, or 5.2% of net sales, as compared to $79.8 million, or 5.6% of net sales for the three months ended October 29, 2016. The decrease in operating income was primarily driven by lower net sales and increased expenses related to our ERP system initiatives, partially offset by cost containment efforts. The decrease in operating income as a percent of sales was driven by these same factors. In addition, a greater percentage of sales came from our lower margin Animal Health segment during the three months ended October 28, 2017, which reduced operating income as a percent of sales.

Dental segment operating income was $65.2 million for the three months ended October 28, 2017, a decrease of $11.8 million from the prior year quarter. The decrease was primarily due to lower net sales and increased expenses related to our ERP system initiatives, partially offset by cost containment efforts.

Animal Health segment operating income was $23.2 million for the three months ended October 28, 2017, an increase of $1.4 million from the prior year quarter. The increase was primarily due to higher net sales and cost containment efforts, partially offset by increased expenses related to our ERP system initiatives.

Corporate segment operating loss was $16.7 million for the three months ended October 28, 2017, as compared to a loss of $19.1 million for the three months ended October 29, 2016. The change was driven primarily by an increase in the gain on sale related to our customer financing programs.

Other Income (Expense). Net other expense for the three months ended October 28, 2017 was $10.3 million, compared to $8.5 million for the three months ended October 29, 2016. The increase was mainly due to higher interest expense in the current quarter.

Income Tax Expense. The effective income tax rate for the three months ended October 28, 2017 was 34.5% compared to 35.9% for the three months ended October 29, 2016. The decrease in the rate was primarily due to a geographical shift in earnings.

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Net Income. Net income for the three months ended October 28, 2017 was $40.2 million, compared to $45.8 million for the three months ended October 29, 2016. Earnings per diluted share were $0.43 in the current quarter compared to $0.48 in the prior year quarter. Weighted average diluted shares outstanding in the current quarter were 93.4 million, compared to 95.9 million in the prior year quarter. The current quarter cash dividend was $0.26 per common share compared to $0.24 in the prior year quarter.

SIX MONTHS ENDED OCTOBER 28, 2017 COMPARED TO SIX MONTHS ENDED OCTOBER 29, 2016

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

	Six Months Ended October 28, 2017	October 29, 2016
Net sales	100.0 %	100.0 %
Cost of sales	77.1	76.9
Gross profit	22.9	23.1
Operating expenses	18.1	17.8
Operating income	4.8	5.3
Other income (expense)	(0.8)	(0.6)
Income before taxes	4.0	4.7
Income tax expense	1.4	1.6
Net income	2.6 %	3.1 %

Net Sales. Consolidated net sales for the six months ended October 28, 2017 were $2,689.9 million, a 2.2% decrease from $2,750.7 million for the six months ended October 29, 2016. Foreign exchange rate changes had an unfavorable impact of 0.2% on current period sales.

Dental segment sales for the six months ended October 28, 2017 were $1,072.4 million, a 7.3% decrease from $1,156.6 million for the six months ended October 29, 2016. Foreign exchange rate changes had a favorable impact of 0.1% on current period sales. Current period sales of consumables decreased 3.9%, due primarily to lower sales volume. The lower sales volume was partially due to a sales force realignment in the first quarter of fiscal 2017. Sales of dental equipment and software decreased 16.5% to $297.4 million for the six months ended October 28, 2017, due to a decrease in sales of digital technology products, which was driven by our decision to broaden our technology equipment portfolio. In addition, we believe that our customers are delaying equipment purchases as they evaluate new digital product offerings. Sales of other dental services and products increased 0.2% for the six months ended October 28, 2017.

Animal Health segment sales for the six months ended October 28, 2017 were $1,599.7 million, a 1.9% increase from $1,569.8 million for the six months ended October 29, 2016. Foreign exchange rate changes had an unfavorable impact of 0.5% on current period sales. Sales of certain products previously recognized on a gross basis were recognized on a net basis during the six months ended October 28, 2017, resulting in an estimated 2.4% unfavorable impact to sales. Positive end market fundamentals contributed to the current period sales growth.

Gross Profit. Consolidated gross profit margin rate for the six months ended October 28, 2017 decreased 20 basis points from the prior year period to 22.9%. Gross profit margin rates improved in both the Dental and Animal Health segment. In our Dental segment, a greater percentage of sales came from our higher margin consumables products. In our Animal Health segment, certain marketing initiatives are driving a greater percentage of sales from higher margin products. A greater percentage of sales came from our lower margin Animal Health segment during the six months ended October 28, 2017, resulting in a lower consolidated gross profit margin rate.

Operating Expenses. Consolidated operating expenses for the six months ended October 28, 2017 were $486.2 million, a 1.0% decrease from the prior year period of $490.9 million. The decrease was driven by cost containment

efforts during the six months ended October 28, 2017, partially offset by increased depreciation and other operating expenses related to our ERP system initiatives. The consolidated operating expense ratio of 18.1% increased 30 basis points from the prior year period. The increase in this ratio was driven by lower net sales in the current period.

Operating Income. For the six months ended October 28, 2017, operating income was $128.6 million, or 4.8% of net sales, as compared to $145.2 million, or 5.3% of net sales for the six months ended October 29, 2016. The decrease in operating income was driven by lower net sales and increased expenses related to our ERP system initiatives, partially offset by cost containment efforts. The decrease in operating income as a percent of sales was driven by these same factors. In addition, a greater percentage of sales came from our lower margin Animal Health segment during the six months ended October 28, 2017, which reduced operating income as a percent of sales.

Dental segment operating income was $124.7 million for the six months ended October 28, 2017, a decrease of $12.6 million from the prior year period. The decrease was primarily due to lower net sales and increased expenses related to our ERP system initiatives, partially offset by cost containment efforts.

Animal Health segment operating income was $39.9 million for the six months ended October 28, 2017, an increase of $3.2 million from the prior year period. The increase was primarily due to higher net sales and cost containment efforts, partially offset by increased expenses related to our ERP system initiatives.

Corporate segment operating loss was $36.0 million for the six months ended October 28, 2017, as compared to a loss of $28.8 million for the six months ended October 29, 2016. The change was driven primarily by higher expenses due to a separation agreement with our former chief executive officer.

Other Income (Expense), Net. Net other expense was $20.0 million for the six months ended October 28, 2017, compared to $16.3 million for the six months ended October 29, 2016. The increase was mainly due to higher interest expense in the current period.

Income Tax Expense. The effective income tax rate for the six months ended October 28, 2017 was 34.5% compared to 34.3% for the six months ended October 29, 2016.

Net Income and Earnings Per Share. Net income for the six months ended October 28, 2017 was $71.1 million, compared to $84.7 million for the six months ended October 29, 2016. Earnings per diluted share were $0.76 in the current period compared to $0.88 in the prior year period. Weighted average diluted shares outstanding in the current period were 93.7 million compared to 96.1 million in the prior year period. The current period cash dividend was $0.52 per common share compared to $0.48 in the prior year period.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended October 28, 2017, net cash provided by operating activities were $77.1 million, compared to net cash used in operating activities of $55.3 million for the six months ended October 29, 2016. The net cash provided by operating activities during the six months ended October 28, 2017 was primarily driven by net income of $71.1 million. The improvement in operating cash flows for the six months ended October 28, 2017 was primarily due to increased collections of accounts receivable.

For the six months ended October 28, 2017, net cash provided by investing activities were $19.8 million, compared to net cash used in investing activities of $6.3 million for the six months ended October 29, 2016. The change in net cash flows was primarily driven by lower additions to property and equipment during the six months ended October 28, 2017, which was largely due to lower expenditures on our ERP system. Net cash flows for the six months ended October 28, 2017 were positive primarily due to the collection of $24.6 million of deferred purchase price receivables. We expect to use a total of approximately $40 million for capital expenditures in fiscal 2018.

Net cash used in financing activities for the six months ended October 28, 2017 was $92.0 million. Uses of cash consisted primarily of $71.3 million for share repurchases and $50.0 million for dividend payments. Cash proceeds included $33.0 million attributed to draws on our revolving line of credit. For the six months ended October 29, 2016, net cash provided by financing activities was $38.1 million. Cash proceeds included $143.0 million attributed to draws on our revolving line of credit. Uses of cash consisted primarily of $50.0 million for share repurchases and $47.7 million for dividend payments.

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During fiscal 2016, we entered into a credit agreement ("Credit Agreement"), under which the lenders provided us with senior unsecured lending facilities of up to $1.5 billion, consisting of a $1.0 billion unsecured term loan and a $500 million unsecured revolving line of credit. In fiscal 2017, we entered into an amendment of the Credit Agreement (“Amended Credit Agreement”), consisting of a $295.1 million term loan and a $750 million revolving line of credit. Interest on borrowings is variable and is determined as a base rate plus a spread. This spread, as well as a commitment fee on the unused portion of the facility, is based on our leverage ratio, as defined in the Amended Credit Agreement. The term loan and revolving credit facilities will mature no later than January 2022.

As of October 28, 2017, $284.0 million of the Amended Credit Agreement unsecured term loan was outstanding at an interest rate of 2.74%, and $92.0 million was outstanding under the Amended Credit Agreement revolving line of credit at an interest rate of 2.69%. At April 29, 2017, $291.4 million was outstanding under the Amended Credit Agreement unsecured term loan at an interest rate of 2.24%, and $59.0 million was outstanding under the Amended Credit Agreement revolving line of credit at an interest rate of 2.19%.

We expect funds generated from operations, existing cash balances and credit availability under existing debt facilities will be sufficient to meet our working capital needs and to finance strategic initiatives over the remainder of fiscal 2018.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 1 to the Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from that disclosed in Item 7A in our 2017 Annual Report on Form 10-K filed June 28, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our President and Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of October 28, 2017. Based upon their evaluation of these disclosure controls and procedures, the CEO and CFO concluded that the disclosure controls and procedures were effective as of October 28, 2017.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended October 28, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In September 2015, we were served with a summons and complaint in an action commenced in the U.S. District Court for the Eastern District of New York, entitled SourceOne Dental, Inc. v. Patterson Companies, Inc., Henry Schein, Inc. and Benco Dental Supply Company, Civil Action No. 15-cv-05440-JMA-GRB. SourceOne, as plaintiff, alleges that, through its website, it markets and sells dental supplies and equipment to dentists. SourceOne alleges in the complaint, among other things, that we, along with the defendants Henry Schein and Benco, conspired to eliminate plaintiff as a competitor and to exclude them from the market for the marketing, distribution and sale of dental supplies and equipment in the U.S. and that defendants unlawfully agreed with one another to boycott dentists, manufacturers, and state dental associations that deal with, or considered dealing with, plaintiff. Plaintiff asserts the following claims: (i) unreasonable restraint of trade in violation of state and federal antitrust laws; (ii) tortious interference with prospective business relations; (iii) civil conspiracy; and (iv) aiding and abetting the other defendants' ongoing tortious and anticompetitive conduct. Plaintiff seeks equitable relief, compensatory and treble damages, jointly and severally, punitive damages, interest, and reasonable costs and expenses, including attorneys' fees and expert fees. In June 2017, Henry Schein settled with SourceOne and was dismissed from this litigation with prejudice. We are vigorously defending ourselves in this litigation. We do not anticipate that this matter will have a material adverse effect on our financial condition.

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On August 17, 2017, IQ Dental Supply, Inc. (“IQ Dental”) filed a complaint in the United States District Court for the Eastern District of New York, entitled IQ Dental Supply, Inc. v. Henry Schein, Inc., Patterson Companies, Inc. and Benco Dental Supply Company, Case No. 2:17-cv-4834. Plaintiff alleges that it is a distributor of dental supplies and equipment, and sells dental products through an online dental distribution platform operated by SourceOne Dental, Inc. IQ Dental alleges, among other things, that defendants conspired to suppress competition from IQ Dental and

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SourceOne for the marketing, distribution and sale of dental supplies and equipment in the United States, and that defendants unlawfully agreed with one another to boycott dentists, manufacturers and state dental associations that deal with, or considered dealing with, plaintiff and SourceOne. Plaintiff claims that this alleged conduct constitutes unreasonable restraint of trade in violation of Section 1 of the Sherman Act, New York's Donnelly Act and the New Jersey Antitrust Act, and also makes pendant state law claims for tortious interference with prospective business relations, civil conspiracy and aiding and abetting. Plaintiff seeks injunctive relief, compensatory, treble and punitive damages, jointly and severally, and reasonable costs and expenses, including attorneys' fees and expert fees. We are vigorously defending ourselves in this litigation. We do not anticipate that this matter will have a material adverse effect on our financial statements.

From time to time, we may become a party to other legal proceedings, including, without limitation, product liability claims, intellectual property claims, employment matters, commercial disputes, governmental inquiries and investigations (which may in some cases involve our entering into settlement arrangements or consent decrees), and other matters arising out of the ordinary course of our business. While the results of any legal proceeding cannot be predicted with certainty, in our opinion none of these other pending matters is anticipated to have a material adverse effect on our financial statements.

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

On March 19, 2013, our Board of Directors approved a share repurchase plan that replaced a previously existing share repurchase plan. Under the March 19, 2013 plan, up to 25 million shares may be purchased in open market transactions through March 19, 2018.

The following table presents activity under the stock repurchase plan during the second quarter of fiscal 2018:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plan
July 30, 2017 to August 26, 2017	—	$ —	—	12,818,968
August 27, 2017 to September 23, 2017	80,063	37.46	80,063	12,738,905
September 24, 2017 to October 28, 2017	874,971	38.29	874,971	11,863,934
	955,034	$ 38.22	955,034	11,863,934

During fiscal 2016, we entered into a credit agreement ("Credit Agreement"), under which the lenders provided us with senior unsecured lending facilities of up to $1.5 billion, consisting of a $1.0 billion unsecured term loan and a $500 million unsecured revolving line of credit. The Credit Agreement was due to expire in fiscal 2021. In fiscal 2017, we entered into an amendment of the Credit Agreement ("Amended Credit Agreement"), consisting of a $295.1 million term loan and a $750 million revolving line of credit. The Amended Credit Agreement permits us to declare and pay dividends, and repurchase shares, provided that no default or unmatured default exists and that we are in compliance with applicable financial covenants.

ITEM 6. EXHIBITS

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

All other items under Part II have been omitted because they are inapplicable or the answers are negative, or were previously reported in the 2017 Annual Report on Form 10-K filed June 28, 2017.

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SIGNATURES

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

PATTERSON COMPANIES, INC.
(Registrant)

Dated: December 6, 2017

By: /s/ Ann B. Gugino
Ann B. Gugino
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.1	Employment Agreement by and between Patterson Companies, Inc. and Mark S. Walchirk, dated October 23, 2017 (incorporated by reference to our Current Report on Form 8-K, filed October 24, 2017 (File No. 000-20572)).
10.2	Form of Inducement RSU Award Agreement by and between Patterson Companies, Inc. and Mark S. Walchirk (incorporated by reference to our Current Report on Form 8-K, filed October 24, 2017 (File No. 000-20572)).
31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-14(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-14(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 Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financials in XBRL format.