PETMED EXPRESS INC
Form 10QSB
August 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Form 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2002

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

For the transition period from __________ to __________

Commission File Number: 000-28827

PETMED EXPRESS, INC.
(Exact Name of Registrant as Specified in its Charter)

FLORIDA	65-0680967
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1441 S.W. 29th Avenue, Pompano Beach, Florida 33069
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (954) 979-5995

Indicate by check [X] 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 requirements for the past 90 days.

[X]	[ ]
Yes	No

17,170,510 Common Shares, without par value
(number of common shares outstanding as of the close of business on July 31, 2002)

Transitional Small Business Disclosure Form (check one): Yes [ ] No [X]

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This discussion in this quarterly report regarding PetMed Express and our business and operations contains "forward-looking statements." These forward-looking statements use words such as "believes," "intends," "expects," "may," "will," "should," "plan," "projected," "contemplates," "anticipates," or similar statements. These statements are based on our beliefs, as well as assumptions we have used based upon information currently available to us. Because these statements reflect our current views concerning future events, these statements involve risks, uncertainties and assumptions. Actual future results may differ significantly from the results discussed in the forward-looking statements. A reader, whether investing in our common stock or not, should not place undue reliance on these forward-looking statements, which apply only as of the date of this quarterly report.

When used in this quarterly report on Form 10-QSB, "PetMed Express," "PetMed Express.com," "PetMed," "1-888-PetMeds," "the Company," "we," "our," and "us" refers to PetMed Express, Inc. and our subsidiaries.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

PETMED EXPRESS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	June 30, 2002
ASSETS	
Current assets:	
Cash and cash equivalents	$ 229,003
Accounts receivable, less allowance for doubtful accounts of $8,734	340,635
Inventories	4,299,055
Prepaid expenses and other current assets	159,049
Total current assets	5,027,742
Property and equipment, net	1,351,853
Other assets, net	50,155

Total assets	$ 6,429,750

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Accounts payable and accrued expenses	$ 3,456,290
Current portion of loan obligation	68,442
Total current liabilities	3,524,732
Line of credit	141,214
Loan obligation, less current portion	119,775
Total liabilities	3,785,721
Commitments and contingencies	
Shareholders' equity:	
Preferred stock, $.001 par value, 5,000,000 shares authorized; 2,500 convertible shares issued and outstanding with a liquidation preference of $4 per share	8,898
Common stock, $.001 par value, 40,000,000 shares authorized; 16,960,010 shares issued and outstanding	16,960
Additional paid-in capital	6,687,285
Accumulated deficit	(4,069,114)
Total shareholders' equity	2,644,029
Total liabilities and shareholders' equity	$ 6,429,750

See accompanying notes to condensed consolidated financial statements

PETMED EXPRESS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,	
	2002	2001

Sales	$ 14,830,755	$ 5,363,650
Cost of sales	8,568,253	3,450,889
Gross profit	6,262,502	1,912,761
Operating expenses:		
General and administrative	2,083,423	1,152,517
Advertising	2,807,180	1,347,653
Severance charges	-	195,000
Depreciation and amortization	80,664	98,356
Total operating expenses	4,971,267	2,793,526
Income (loss) from operations	1,291,235	(880,765)
Other income (expense):		
Loss on disposal of property and equipment	-	(185,374)
Interest expense	(5,590)	(32,060)
Interest income	4,133	7,515
Other, net	2,335	-
Total other income (expense)	878	(209,919)
Income (loss) before provision for income taxes	1,292,113	(1,090,684)
Provision for income taxes	389,784	-
Net income (loss)	$ 902,329	$ (1,090,684)
Net income (loss) per common share:		
Basic	$ 0.05	$ (0.07)
Diluted	$ 0.04	$ (0.07)
Weighted average number of common shares outstanding:		
Basic	16,590,779	16,360,010
Diluted	20,092,544	16,360,010

See accompanying notes to condensed consolidated financial statements

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PETMED EXPRESS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Cash flows from operating activities:		
Net income (loss)	$ 902,329	$ (1,090,684)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	80,664	96,273
Amortization of intangibles	-	2,083
Amortization of deferred membership fee revenue	-	(60,397)
Loss on disposal of land and building	-	185,374
Bad debt expense	1,728	3,799
(Increase) decrease in operating assets and liabilities:		
Accounts receivable	(50,850)	(60,540)
Inventory	(1,992,435)	(328,498)
Prepaid expenses and other current assets	(10,441)	6,272
Other assets	-	(41,625)
Accounts payable and accrued expenses	731,295	720,205
Net cash used in operating activities	(337,710)	(567,738)
Cash flows from investing activities:		
Net proceeds from the sale of property	-	2,016,713
Purchases of property and equipment	(312,461)	(24,435)
Net cash (used in) provided by investing activities	(312,461)	1,992,278
Cash flows from financing activities:		
Payments on capital lease obligations	-	(17,581)
Proceeds from the exercise of stock options	159,000	-
Payments on loan obligation	(17,110)	-
Payments on mortgage payable	-	(1,566,833)
Net cash provided by (used in) financing activities	141,890	(1,584,414)
Net decrease in cash and cash equivalents	(508,281)	(159,874)
Cash and cash equivalents, at beginning of period	737,284	408,699
Cash and cash equivalents, at end of period	$ 229,003	$ 248,825
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 5,634	$ 12,737

See accompanying notes to condensed consolidated financial statements

PETMED EXPRESS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1: Summary of Significant Accounting Policies

Organization

PetMed Express, Inc. and subsidiaries is a leading nationwide pet pharmacy. The Company delivers prescription and non-prescription pet medications along with health and nutritional supplements at a savings direct to the consumer, through the PetMed Express catalog, customer service representatives and on the Internet through our web site at www.1888PetMeds.com. The Company's nationwide pet pharmacy and multi-channel approach provides attractive values for retail and wholesale customers, including: convenience, costs savings, superior customer service, enhanced shopping flexibility, ease of ordering and reordering, and rapid home delivery. The Company's executive offices are located in Pompano Beach, Florida.

The Company's fiscal year end is March 31, and references herein to fiscal 2003 or 2002 refer to the Company's fiscal years ending March 31, 2003 and 2002, respectively.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company, after elimination of intercompany accounts and transactions, at June 30, 2002, and the statements of operations for the three months ended June 30, 2002 and cash flows for the three months ended June 30, 2002. The results of operations for the three months ended June 30, 2002, are not necessarily indicative of the operating results expected for the fiscal year ending March 31, 2003. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's annual report on Form 10-KSB for the fiscal year ended March 31, 2002. The condensed consolidated financial statements include the accounts of PetMed Express, Inc. and its wholly owned subsidiaries. All significant intercompany transaction has been eliminated upon consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States of America 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Earnings (Loss) Per Share

In accordance with the requirements of SFAS No. 128, basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding and diluted earnings per share reflects the dilutive effects of stock options (as calculated utilizing the treasury stock method) and the equivalent common shares of outstanding convertible preferred stock. Options and warrants and the effect of convertible securities were not included in the calculation of diluted loss per share for the three months ended June 30, 2001, because their effect would have been antidilutive.

Note 2: Equity

In the first quarter of fiscal 2003, the Company received net proceeds of $159,000 upon the exercise and issuance of 600,000 shares of common stock, of which 300,000 shares were exercised by the Company's President. Subsequent to the first quarter of fiscal 2003, the Company received net proceeds of $75,663 upon the exercise and issuance of 210,500 shares of common stock, of which 187,500 shares were exercised by the Company's Chief Executive Officer.

Note 3: Commitments and Contingencies

Legal Matters

Various complaints have been filed with the Florida Board of Pharmacy. These complaints, the majority of which were filed by veterinarians who are in competition with the Company for the sale of pet prescription-required products, allege violations of the Pharmacy Practice Act and regulations promulgated thereunder. The vast majority of the complaints allege that the Company, through its pharmacists, improperly dispensed prescription-required veterinary medication based on prescriptions verified through the Company's alternate veterinarian program. The alternate veterinarian program uses a veterinarian outside the state of Florida to verify prescriptions for certain pets outside the state of Florida. While the program is not used for pets residing in the state of Florida, the complaints have, for the most part, been filed with the Florida Board of Pharmacy. Other complaints allege the dispensing of medication without a valid prescription, the sale of non-conforming products and that the Company's pharmacy is operating at the same location as another pharmacy, with which it has a contractual relationship. The Company contested all allegations and continued discussions in an attempt to reach a resolution of these matters.

In February 2002, the Company voluntarily ceased the use of its alternate veterinarian program, and in March 2002 a business decision was made to enter into a settlement agreement with the Florida Board of Pharmacy, rather than to proceed with costly and lengthy litigation. In April 2002, the Florida Board of Pharmacy approved the settlement agreement. The Florida Board of Pharmacy did not reach any finding of fact or conclusion of law that the Company committed any wrongdoing or violated any rules or laws governing the practice of pharmacy. According to the settlement agreement, the Company's pharmacy license was placed on probation for a period of three years and the Company, the Company's pharmacists and contracted pharmacy and pharmacist, paid approximately $120,000 in fines and investigative costs, in July 2002. The Company remains licensed with the State of Florida and continues to operate its principal business in Florida.

Additional complaints have been filed with other states' Pharmacy Boards. These complaints, the majority of which were filed by veterinarians who are in competition with the Company for the sale of pet prescription-required products, allege violations of the Pharmacy Practice Act and regulations promulgated thereunder. The vast majority of the complaints allege that the Company, through its pharmacists, improperly dispensed prescription-required veterinary medication based on prescriptions verified through the Company's alternate veterinarian program. The Company contested all allegations and continued discussions in an attempt to reach a resolution of these matters.

In the first quarter of fiscal 2003, the Company reached settlement agreements with the Louisiana, Missouri, New Mexico, and Ohio State Pharmacy Boards. According to the settlement agreements, the Company was required to terminate the alternate veterinarian program in the state and the Company's permit was placed on probation. At June 30, 2002, the Company paid approximately $35,000 and has accrued $30,000 to cover any or all administrative fines and investigative costs associated with these settlements. There can be no assurances made that other states will not attempt to take similar actions against the Company in the future.

In February 2000, the United States Environmental Protection Agency ("EPA") issued a Stop Sale, Use or Removal Order to the Company regarding the alleged distribution or sale of misbranded Advantage products in violation of the Federal Insecticide, Fungicide, and Rodenticide Act ("FIFRA"), as amended. The order provides that the company shall not distribute, sell, use or remove the products listed in the order, which are allegedly misbranded. The order further provides that the Company shall not commence any sale or distribution of those products without the prior written approval from the EPA. The Stop Sale, Use or Removal Order does not assert any claim for monetary damages; rather, it is in the nature of a cease and desist order. The Company denied any alleged violations. On February 16, 2000, the Company submitted a written response to the order. The EPA assessed a fine in the amount of $445,000. In fiscal 2001 the Company accrued $445,000 of legal settlement expense.

In September 2001, the Company and the EPA entered into a Consent Agreement and Final Order ("CAFO"). The settlement agreement required the Company to pay a civil penalty of $100,000 plus interest, requiring a payment of $56,000 due on September 30, 2002 and $53,000 due on September 30, 2003, a reduction from the previously assessed fine of $445,000. For the purpose of this CAFO, the Company admitted to the jurisdictional allegations set forth, and neither admitted nor denied the alleged violations. On September 28, 2001, the CAFO was approved and ordered by the regional judicial officer.

On March 19, 2002, Novartis Animal Health U.S., Inc. ("Novartis") filed a complaint against the Company and two other defendants in U.S. District Court for the Southern District of Florida. Novartis purports to assert seven (7) claims related to the Company's alleged sale of pet medications produced for a Novartis Australian sister company: Count I: Infringement of Registered Trademark Under Section 32 of the Lanham Act, 15 U.S.C. Sec. 1114; Count II: Infringement of Unregistered Trademarks Under Section 43(a) of the Lanham Act, 15 U.S.C. Sec. 11125(a); Count III: False Advertising Under Section 43(a) of the Lanham act, 15 U.S.C. Sec. 1125(a); Count IV: Misleading Advertising Under Florida Statutory Law; Count V: Deceptive and Unfair Trade Practices Under Florida Statutory Law; Count VI: Injury to Business Reputation Under Florida Statutory Law; Count VII: Common Law Unfair Competition.

The Company has answered the complaint and asserted defenses and affirmative defenses. The parties have met pursuant to Rule 16, S.D. Fla. L.R., and filed a proposed joint scheduling report. No discovery has been propounded, and no documents have been produced. The parties have engaged in preliminary settlement discussions; however, it is unknown whether these discussions will result in an early settlement of this matter. If not, the Company intends to defend itself vigorously, and will likely assert counterclaims. Unless and until the parties engage in substantial discovery, it is not possible to evaluate the likelihood of an unfavorable outcome or estimate the potential loss in the event of an adverse outcome at this time.

Routine Proceedings

The Company is a party to routine litigation incidental to its business. The Company's management does not believe that the resolution of any or all of such routine litigation is likely to have a material adverse effect on the Company's financial condition or results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

PetMed Express was incorporated in the state of Florida in January 1996. From inception until approximately August 1996, the Company's operations consisted mostly of start-up activities that included the development of a business plan and the initial activities involved in obtaining the necessary licenses and permits to dispense prescription medications. The Company began selling pet medications and products in September 1996, and in the fall of 1997 the Company issued its first catalog. This catalog displayed approximately 1,200 items, including prescription and non-prescription pet medications, pet health and nutritional supplements and pet accessories. The Company has recently focused its product line to approximately 600 of the most popular items for dogs and cats. The Company also markets products on its web site. Since October 1997, the Company has advertised its products on national television and through the direct mailing of catalogs.

The Company's sales consist of products sold to mainly retail consumers and minimal wholesale consumers. Typically, the Company's retail customers pay by credit card or check at the time the order is shipped. The Company usually receives cash settlement in one to three banking days for sales paid for by credit cards, which minimizes the accounts receivable balances relative to the Company's sales. Certain wholesale customers are extended credit terms, which usually require payment within 30 days of delivery. To date, the Company's sales returns average approximately 2% of sales, and the current average purchase is approximately $70.

Critical Accounting Policies

Our discussion and analysis of our financial condition and the results of our operations are based upon our condensed consolidated financial statements and the data used to prepare them. The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. On an ongoing basis we re-evaluate our judgements and estimates including those related to product returns, bad debts, inventories, long-lived assets, income taxes, litigation and contingencies. We base our estimates and judgements on our historical experience, knowledge of current conditions and our beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. Our estimates are guided by observing the following critical accounting policies.

Revenue recognition

We generate our revenue by selling pet medication products to mainly retail consumers and minimal wholesale consumers. Our policy is to recognize revenue from product sales upon shipment, when the rights and risk of ownership have passed to the consumer. Outbound shipping and handling fees are included in sales and are billed upon shipment. Shipping and handling expenses are included in cost of sales.

The majority of our sales are paid by credit cards and we usually receive the cash settlement in one to three banking days. Credit card sales minimize our account receivable balances relative to our sales. We maintain an allowance for doubtful accounts for losses that we estimate will arise from our customers' inability to make required payments. We make our estimates of the uncollectibility of our accounts receivable by analyzing historical bad debts and current economic trends. At June 30, 2002 the allowance for doubtful accounts was $8,734.

Valuation of inventory

Inventories consist of prescription and non-prescription pet medications that are available for sale and are priced at the lower of cost or market value using a weighted average cost method. We write down our inventory for estimated obsolescence.

Property and equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. The furniture, fixtures, equipment and computer software are depreciated over periods ranging from three to ten years. Leasehold improvements and assets under capital lease agreements are amortized over the shorter of the underlying lease agreement or the useful life of the asset.

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to net future cash flows expected to be generated from the asset.

Advertising

The Company's advertising expense consists primarily of television advertising, catalog and postcard production, and mailing costs. Television costs are expensed as the ads are televised and catalog and postcard costs are expensed when the related catalog and postcards are produced, distributed or superseded.

Accounting for income taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes, which generally requires recognition of deferred tax assets and liabilities for the expected future tax benefits or consequences of events that have been included in the condensed consolidated financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting carrying values and the tax bases of assets and liabilities, and are measured by applying enacted tax rates and laws for the taxable years in which those differences are expected to reverse.

Results of Operations

The following should be read in conjunction with the Company's condensed consolidated financial statements and the related notes thereto included elsewhere herein. The following table sets forth, as a percentage of sales, certain items appearing in the Company's condensed consolidated statements of operations.

	Three Months Ended	
	June 30, 2002	June 30, 2001
Net sales	100.0 %	100.0 %
Cost of sales	57.8	64.3
Gross profit	42.2	35.7
Operating expenses:		
General and administrative	14.0	21.5
Advertising	18.9	25.1
Severance charges	-	3.6
Depreciation and amortization	0.6	1.8
Total operating expenses	33.5	52.0
Income (loss) from operations	8.7	(16.3)
Other income (expense):		
Loss on disposal of property and equipment	-	(3.5)
Interest expense	-	(0.6)
Interest income	-	0.1
Other, net	-	-
Total other income (expense)	-	(4.0)
Income (loss) before provision for income taxes	8.7	(20.3)
Provision for income taxes	2.6	-
Net income (loss)	6.1	(20.3)

Three Months Ended June 30, 2002 Compared With Three Months Ended June 30, 2001

Sales

Sales for the first quarter of fiscal 2003 increased by approximately

$9,467,000, or 176.5%, to approximately $14,831,000 for the quarter ended June 30, 2002, from approximately $5,364,000 for the quarter ended June 30, 2001. The increase in sales is primarily due to the positive effects of increased advertising and reorder sales. The Company has committed certain amounts specifically designated towards television advertising to stimulate sales and create brand awareness. Historically, sales have a tendency to increase in the first and second fiscal quarters due to the seasonality of certain pet medications. The Company cannot accurately predict future sales, however, based on current circumstances the Company does expect increases to the second quarter sales of fiscal 2003.

Cost of sales

Cost of sales for the first quarter of fiscal 2003 increased by approximately $5,117,000, or 148.3%, to approximately $8,568,000 for the quarter ended June 30, 2002, from approximately $3,451,000 for the quarter ended June 30, 2001. The increase to cost of sales for the three months ended June 30, 2002 is directly related to the increase in retail sales. However, as a percent of sales, the cost of sales was 57.8% in the first quarter of fiscal 2003, as compared to 64.3 % in the first quarter of fiscal 2002. This percentage reduction can be attributed to the Company's continued efforts to purchase medications in larger quantities, by bulk, to take advantage of any and all purchasing discounts available.

Gross profit

Gross profit increased by approximately $4,350,000, or 227.4%, to approximately $6,263,000 for the quarter ended June 30, 2002 from approximately $1,913,000 for the quarter ended June 30, 2001. Gross profit as a percentage of sales for the quarter ended June 30, 2002 and 2001 was 42.2% and 35.7%, respectively.

General and administrative expenses

General and administrative expense increased by approximately $931,000, or 80.8%, to approximately $2,083,000 for the quarter ended June 30, 2002 from approximately $1,152,000 for the quarter ended June 30, 2001. The increase in general and administrative expense in the first quarter of fiscal 2003 is primarily attributable to a $625,000 increase to payroll expenses, $265,000 increase to bank service and credit card fees, $70,000 increase to professional fees, and a $21,000 increase in property expenses, which includes utilities and rental expenses, offset with a $50,000 decrease to telephone expenses due to a switch in local and long distance carriers. The increase to payroll expenses can be attributed to the addition of new employees in the sales, customer and pharmacy departments, which enabled the company to sustain its continued growth.

Advertising expenses

Advertising expenses increased by approximately $1,459,000, or approximately 108.3%, to approximately $2,807,000 for the quarter ended June 30, 2002 from approximately $1,348,000 for the quarter ended June 30, 2001. The significant increase in advertising expense for the three months ended June 30, 2002 was due to the Company's plan to commit certain amounts specifically designated towards television advertising to stimulate sales and create brand awareness. The Company expects this trend in advertising to continue into the second quarter of 2003.

Severance charges

Severance charges for the three months ended June 30, 2001 of $195,000 relate to severance due to two former executive officers, the CFO and COO, of the Company. On June 13, 2001, the Company entered into a Release and Termination agreement with its former COO. The former COO's termination date was effective as of May 18, 2001. The agreement entitles the former COO to receive an amount equal to one year's base salary, in the amount of $75,000. On May 1, 2001, the former CFO of the Company, provided notice of termination of his Executive Employment Agreement with the Company dated March 7, 2000, as amended. In the notice, the former CFO also demanded payment of certain benefits allegedly due under the Executive Employment Agreement. The Company continued discussions in an effort to resolve this matter, and in accordance with the CFO's Executive Employment Agreement, the Company accrued a severance charge in the first quarter of fiscal 2002, for the amount of $120,000.

On October 31, 2001, the Company entered into a Release and Termination agreement with its former CFO. The former CFO's termination date was effective as of May 31, 2001. The agreement entitled the former CFO to receive an amount equal to one year's base salary, in the amount of $120,000, which was paid in fiscal 2002. Additionally, the former CFO agreed to provide consulting services to the Company on financial matters until March 31, 2002, for which he was separately compensated, and paid in fiscal 2002.

Depreciation and amortization expenses

Depreciation and amortization expenses decreased by approximately $17,000, or 17.4%, to approximately $81,000 for the quarter ended June 30, 2002 from approximately $98,000 for the quarter ended June 30, 2001. The slight decrease to depreciation and amortization expense for the three months ended June 30, 2002 can be attributed to the sale of the corporate office building in the first quarter of fiscal 2002, offset with depreciation expense related to increased property additions since the first quarter of fiscal 2002.

Loss on disposal of land and building

In the first quarter of fiscal 2002, the Company recorded a loss on disposal of land and building of $185,000. The loss was a result of the sale of the corporate office building, which includes the principal executive offices and warehouse, to an unrelated third party. The Company received gross proceeds of $2,150,000, of which approximately $1,561,000 was used to pay off the mortgage.

Interest expense

Interest expense decreased by approximately $26,000, or 82.6%, to approximately $6,000 for the quarter ended June 30, 2002 from approximately $32,000 for the quarter ended June 30, 2001. The decrease to interest expense for the three months ended June 30, 2002 can be attributed to a reduction in interest expense relating to the mortgage payoff of the Company's principal executive offices in the first quarter of fiscal 2002.

Provision for income taxes

The Company had incurred significant net losses since its inception in 1996. These losses have resulted in net operating loss carryforwards and deferred tax assets, which have been used by the Company to offset tax liabilities, which may have been incurred in prior periods. The Company recorded a valuation allowance against the deferred income tax assets, since future utilization of these assets is subject to the Company's ability to generate taxable income. For the three months ended June 30, 2002, the Company established an income tax provision to provide for taxable income as the utilization of net operating loss carryforwards are limited.

Liquidity and Capital Resources

The Company's working capital at June 30, 2002 was $1,503,000, as compared to the $1,347,000 deficiency at June 30, 2001, an increase of approximately $2,850,000 from the deficiency at June 30, 2001. The increase in working capital at June 30, 2002 was primarily attributable to a significant increase in inventory offset with a smaller increase in accounts payable due to cash flows generated from increased sales. Net cash used in operating activities was $338,000 and $568,000 for the quarter ended June 30, 2002 and 2001, respectively. Net cash used in investing activities was $312,000 for the quarter ended June 30, 2002 as compared to net cash provided by investing activities of $1,992,000 for the quarter ended June 30, 2001. This change can be attributed to the receipt of proceeds from the sale of the corporate office building and land in the first quarter of fiscal 2002. Net cash provided by financing activities increased to $142,000 for the quarter ended June 30, 2002 as compared to net cash used in financing activities of $1,584,000 for the quarter ended June 30, 2001. This increase relates directly to the satisfaction of the mortgage on the corporate office building.

On May 31, 2001, the Company sold their 50,000 square foot office building, which houses the Company's principal executive offices and warehouse, to an unrelated third party. The Company received gross proceeds of $2,150,000, of which approximately $1,561,000 was used to pay off the mortgage, and the Company recognized a loss on the sale of approximately $185,000. The Company then entered into a five-year term lease agreement for 20,000 of the 50,000 square foot Pompano Beach office building. Then on February 22, 2002, the Company entered into a lease addendum which added approximately 12,000 square feet, effective June 1, 2002, to accommodate the Company's warehouse expansion. According to the lease addendum, all additional costs, approximately $150,000, associated with tenant improvements related to the warehouse expansion, will be paid by the lessee. The payments will be amortized over a period of 24 months at a 9% interest rate.

These additional tenant improvements costs will be included with the scheduled monthly lease payments.

On March 12, 2002, the Company entered into a $205,000, three year term loan agreement with SouthTrust Bank, with interest accruing at the lending institution's base rate plus 1% (5.75% at March 31, 2002). The loan proceeds were used to purchase a $250,000 computer server. The aggregate loan maturities are $68,000 per year for the next three years.

At quarter ended June 30, 2002, borrowings under the line of credit were limited to $150,000. At June 30, 2002, $141,214 was outstanding under the line of credit agreement. On March 12, 2002, the Company renewed the $150,000 line of credit with SouthTrust Bank, effective through May 13, 2003, with an interest rate at the lending institution's base rate plus 1%. On July 22, 2002, the Company executed an agreement which increased the line of credit to $1,000,000, effective through June 22, 2003. The new line of credit is secured by substantially all of our assets, interest is at the bank's base lending rate plus 1% (5.75% at July 31, 2002), and contains various financial and operating covenants.

The Company had approximately $250,000 planned for capital expenditure commitments for the warehouse expansion and fulfillment automation, during the first quarter fiscal 2003, which was funded through cash from operations. On July 19, 2002 the new warehouse and fulfillment automation project was completed. The Company believes this expansion project will triple the current capacity. The Company had financed certain equipment acquisitions with capital leases, as of June 30, 2002 the Company had no outstanding lease commitments.
Other than working capital, credit line, and cash from operations, the Company presently has no other alternative source of working capital.

For the year ended March 31, 2001, the Company had incurred significant operating losses and cash flow deficiencies. However, for the year ended March 31, 2002 the Company had net income of $825,000, and for the quarter ended June 30, 2002 the Company had net income of $902,000, and the Company has sustained profitability for four consecutive quarters. Additionally, the Company has committed certain amounts specifically designated towards advertising to stimulate sales growth. However, increased advertising may negatively impact our short term profitability. The Company may seek to raise additional capital in the future, through the sale of equity securities. No assurances can be given that the Company will be successful in obtaining additional capital, or that such capital will be available in terms acceptable to the Company. At this time, the Company has no commitments or plans to obtain additional capital. Further, there can be no assurances that even if such additional capital is obtained that the Company will sustain profitability or positive cash flow.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None

Item 6. Exhibits and Reports on Form 8-K.

(a) The following exhibits are filed as part of this report.

99.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 (filed herewith to Exhibit 99.1 of the Registrant's Report on Form 10-Q for the quarter ended June 30, 2002, Commission File No. 000-28827).

99.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 (filed herewith to Exhibit 99.2 of the Registrant's Report on Form 10-Q for the quarter ended June 30, 2002, Commission File No. 000-28827).

99.3 Line of Credit Agreement with SouthTrust Bank, N.A. (filed herewith to Exhibit 99.3 of the Registrant's Report on Form 10-Q for the quarter ended June 30, 2002, Commission File No. 000-28827).

(b) Reports on Form 8-K during the fiscal quarter ended June 30, 2002

None

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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.

PETMED EXPRESS, INC.
(The "Registrant")

Date: August 12, 2002

By:_____/s/ Menderes Akdag___________
Menderes Akdag

Chief Executive Officer
(principal executive officer)

By:___/s/ Bruce S. Rosenbloom_______
Bruce S. Rosenbloom

Chief Financial Officer
(principal financial and accounting officer)

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PETMED EXPRESS, INC.

FORM 10-QSB QUARTERLY REPORT

FOR THE QUARTER ENDED:

JUNE 30, 2002

EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description	Number of Pages in Original Document +	Incorporated By Reference
99.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350	1	**
99.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350	1	**
99.3	Line of Credit Agreement with SouthTrust Bank, N.A.	11	**

** Filed herewith