PETMED EXPRESS INC
Form 10-Q
February 04, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2007

or

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

For the transition period from ________ to ________

Commission file 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, including zip code)

(954) 979-5995
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" or "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]   Accelerated filer [X]
Non-accelerated filer [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 24,184,312 Common Shares, $.001 par value per share at February 1, 2008.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PETMED EXPRESS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2007 (UNAUDITED)	March 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,140,272	$ 316,470
Temporary investments	44,860,000	39,125,000
Accounts receivable, less allowance for doubtful accounts of $16,000 and $28,000, respectively	788,746	1,369,521
Inventories - finished goods	20,112,153	16,086,207
Prepaid income taxes	213,750	-
Prepaid expenses and other current assets	902,266	1,071,171
Total current assets	$ 69,017,187	$ 57,968,369
Property and equipment, net	1,907,580	1,990,578
Deferred income taxes	1,430,554	894,540
Intangible asset	365,000	365,000
Total assets	$ 72,720,321	$ 61,218,487
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,660,589	$ 5,859,756
Income taxes payable	-	229,321
Accrued expenses and other current liabilities	1,791,632	1,265,837
Total liabilities	4,452,221	7,354,914

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	8,898
Common stock, $.001 par value, 40,000,000 shares authorized; 24,313,231 and 24,309,417 shares issued, respectively	24,298	24,309
Additional paid-in capital	14,678,352	15,213,254
Retained earnings	53,735,904	38,617,112
Less treasury stock, at cost 14,764 and 0 shares, respectively	(179,352)	-
Total shareholders' equity	68,268,100	53,863,573
Total liabilities and shareholders' equity	$ 72,720,321	$ 61,218,487

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Sales	$ 37,348,867	$ 31,352,277	$ 147,913,299	$ 125,838,384
Cost of sales	22,175,847	18,563,400	90,390,635	76,002,541
Gross profit	15,173,020	12,788,877	57,522,664	49,835,843
Operating expenses:				
General and administrative	4,542,522	4,022,852	15,502,308	12,792,177
Advertising	4,170,113	4,771,341	20,725,021	20,770,700
Depreciation and amortization	155,385	129,355	435,034	395,507
Total operating expenses	8,868,020	8,923,548	36,662,363	33,958,384
Income from operations	6,305,000	3,865,329	20,860,301	15,877,459

Other income (expense):				
Interest income	454,438	329,141	1,327,691	917,125
Other, net	110,416	94,964	535,346	332,129
Loss on disposal of property and equipment	-	-	-	(1,250)
Total other income (expense)	564,854	424,105	1,863,037	1,248,004
Income before provision for income taxes	6,869,854	4,289,434	22,723,338	17,125,463
Provision for income taxes	2,459,872	1,535,200	7,604,546	6,306,000
Net income	$ 4,409,982	$ 2,754,234	$ 15,118,792	$ 10,819,463
Net income per common share:				
Basic	$ 0.18	$ 0.11	$ 0.63	$ 0.45
Diluted	$ 0.18	$ 0.11	$ 0.62	$ 0.44
Weighted average number of common shares outstanding:				
Basic	24,162,552	24,213,937	24,175,567	24,132,289
Diluted	24,386,821	24,382,861	24,396,653	24,316,117

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended December 31, 2007	2006
Cash flows from operating activities:		
Net income	$ 15,118,792	$ 10,819,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	435,034	395,507
Share based compensation	1,237,893	777,426
Deferred income taxes	(536,014)	(224,737)
Loss on disposal of property and equipment	-	1,250
Bad debt expense	16,508	16,038

(Increase) decrease in operating assets and increase (decrease) in liabilities:		
Accounts receivable	564,267	218,592
Inventories - finished goods	(4,025,946)	4,966,371
Prepaid income taxes	(213,750)	(846,045)
Prepaid expenses and other current assets	168,905	(550,000)
Other assets	-	14,167
Accounts payable	(3,199,167)	599,445
Income taxes payable	(229,321)	(958,318)
Accrued expenses and other current liabilities	525,795	(118,557)
Net cash provided by operating activities	9,862,996	15,110,602
Cash flows from investing activities:		
Net change in temporary investments	(5,735,000)	(15,250,000)
Purchases of property and equipment	(352,036)	(824,416)
Net proceeds from the sale of property and equipment	-	400
Net cash used in investing activities	(6,087,036)	(16,074,016)
Cash flows from financing activities:		
Purchases of treasury stock	(4,868,492)	-
Proceeds from the exercise of stock options	2,648,703	435,064
Tax benefit related to stock options exercised	267,631	231,037
Net cash (used in) provided by financing activities	(1,952,158)	666,101
Net increase (decrease) in cash and cash equivalents	1,823,802	(297,313)
Cash and cash equivalents, at beginning of period	316,470	366,907
Cash and cash equivalents, at end of period	$ 2,140,272	$ 69,594
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 8,316,000	$ 8,104,063
Retirement of treasury stock	$ 4,689,140	$ -

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, d/b/a 1-800-PetMeds (the "Company"), is a leading nationwide pet pharmacy. The Company markets prescription and non-prescription pet medications and other health products for dogs, cats, and horses direct to the consumer. The Company offers consumers an attractive alternative for obtaining pet medications in terms of convenience, price, and speed of delivery. The Company markets its products through national television, online, and direct mail/print advertising campaigns, which aim to increase the recognition of the "1-800-PetMeds" brand name, increase traffic on its website at www.1800petmeds.com, acquire new customers, and maximize repeat purchases. The majority of all of the Company's sales are to residents in the United States. 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 2008 or 2007 refer to the Company's fiscal years ending March 31, 2008 and 2007, respectively.

Basis of Presentation and Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q 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 at December 31, 2007 and the Statements of Income for the three and nine months ended December 31, 2007 and 2006 and Statements of Cash Flows for the nine months ended December 31, 2007 and 2006. The results of operations for the three and nine months ended December 31, 2007 are not necessarily indicative of the operating results expected for the fiscal year ending March 31, 2008. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto contained in the Company's annual report on Form 10-K for the fiscal year ended March 31, 2007. The Condensed Consolidated Financial Statements include the accounts of PetMed Express, Inc. and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted 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.

Recently Adopted Accounting Standards

The Company adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for

Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), in the first quarter of fiscal 2008. Previously, the Company had accounted for tax contingencies in accordance with SFAS No. 5, Accounting for Contingencies. As required by FIN 48, which clarifies SFAS No. 109, Accounting for Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the Condensed Consolidated Financial Statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. Upon implementing FIN 48, the Company did not recognize any additional liabilities for unrecognized tax positions. Other than the determination that nexus was established in another state, resulting in a reduction to the Company's effective tax rate, the adoption of FIN 48 had no material impact on our condensed consolidated financial position, results of operations, or cash flows.

In June 2006, the FASB's Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." The scope of EITF 06-3 includes sales, use, value added, and some excise taxes that are assessed by a governmental authority on specific revenue-producing transactions between a seller and customer. EITF 06-3 requires disclosure of the method of accounting for the applicable assessed taxes and the amount of assessed taxes that are included in revenues if they are accounted for under the gross method. EITF 06-3 was effective for the Company's fiscal year beginning April 1, 2007. EITF 06-3 will not impact the method for recording these taxes in the Company's Condensed Consolidated Financial Statements as the Company historically has presented sales excluding these taxes.

The Company does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

Note 2: Net Income Per Share

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," basic net income per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per common share includes the dilutive effect of potential stock options exercised, restricted stock awards and the effects of the potential conversion of preferred shares, calculated using the treasury stock method. Outstanding stock options and convertible preferred shares issued by the Company represent the only dilutive effect reflected in diluted weighted average shares outstanding. The following is a reconciliation of the numerators and denominators of the basic and diluted net income per common share computations for the periods presented:

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2007	Nine Months Ended December 31, 2006
Net income (numerator):				
Net income	$ 4,409,982	$ 2,754,234	$ 15,118,792	$ 10,819,463
Shares (denominator):				
Weighted average number of common shares outstanding used in basic computation	24,162,552	24,213,937	24,175,567	24,132,289
Common shares issuable upon exercise of stock options and restricted stock	214,144	158,799	210,961	173,703
Common shares issuable upon conversion of preferred shares	10,125	10,125	10,125	10,125
Shares used in diluted computation	24,386,821	24,382,861	24,396,653	24,316,117
Net income per common share:				
Basic	$ 0.18	$ 0.11	$ 0.63	$ 0.45
Diluted	$ 0.18	$ 0.11	$ 0.62	$ 0.44

For the three and nine months ended December 31, 2007 and 2006, all common stock options were included in the diluted net income per share computation as their exercise prices were less than the average market price of the common shares for the period.

Note 3: Accounting for Stock-Based Compensation

The Company records compensation expense associated with stock options in accordance with SFAS No. 123R, "Share Based Payment," which is a revision of SFAS No. 123. The Company adopted the modified prospective transition method provided under SFAS No. 123R. Under this transition method, compensation expense associated with stock options recognized in the first quarter of fiscal year 2007, and in subsequent quarters, includes expense related to the remaining unvested portion of all stock option awards granted prior to April 1, 2006, and the estimated fair value of each option award granted was determined on the date of grant using the Black-Scholes option valuation model, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123.

As a result of the adoption of SFAS No. 123R, the Company's operating income for the three months ended December 31, 2007 and 2006 includes approximately $197,000 and $223,000 of stock option compensation expense, respectively. Operating income for the nine months ended December 31, 2007 and 2006 includes approximately $592,000 and $669,000 of stock option compensation expense, respectively. The compensation expense related to all of the Company's stock-based compensation arrangements is recorded as a component of general and administrative expenses. As of December 31, 2007 and 2006, there was approximately $465,000 and $1,288,000, respectively, of unrecognized compensation cost related to non-vested stock option awards, which is expected to be recognized over a remaining weighted average vesting period of approximately 2 years. Cash received from stock options exercised for the three months ended December 31, 2007 and 2006 was $63,000 and $14,000, respectively, and for the nine months ended December 31, 2007 and 2006 was $2,649,000 and $435,000, respectively. The income tax benefits from stock options exercised totaled $268,000 and $231,000 for the nine months ended December 31, 2007 and 2006, respectively.

The PetMed Express, Inc. 1998 Stock Option Plan (the "Plan") provides for the issuance of qualified options to officers and key employees, and nonqualified options to directors, consultants and other service providers, to purchase the Company's common stock. The Company had reserved 5,000,000 shares of common stock for issuance under the Plan. The exercise prices of options issued under the Plan must be equal to or greater than the market price of the Company's common stock as of the date of issuance. The Company had 389,827 and 668,968 options outstanding under the Plan at December 31, 2007 and 2006, respectively. Options generally vest ratably over a three-year period commencing on the first anniversary of the grant with respect to options granted to employees/directors under the Plan. No options were issued during the quarter. The 1998 Plan expires on July 31, 2008.

On July 28, 2006, the Company received shareholder approval for the adoption of the 2006 Employee Equity Compensation Restricted Stock Plan (the "Employee Plan") and the 2006 Outside Director Equity Compensation Restricted Stock Plan (the "Director Plan"). The purpose of the plans is to promote the interests of the Company by securing and retaining both employees and outside directors. The Company has reserved 1,000,000 shares of common stock for issuance under the Employee Plan. The Company has reserved 200,000 shares of common stock for issuance under the Director Plan. The value of the restricted stock is determined based on the market value of the stock at the issuance date. The restriction period or forfeiture period is determined by the Company's Board, to be no less than 1 year and no more than ten years. The Company did not issue any shares of restricted stock during the quarter. The Company had 195,025 restricted common shares issued under the Employee Plan and 44,000 restricted common shares issued under the Director Plan at December 31, 2007 all shares of which were issued subject to a restriction or forfeiture period which will lapse ratably on the first, second and third anniversaries of the date of grant, and the fair value of which is being amortized over the three-year restriction period. For the three months ended December 31, 2007 and 2006, the Company recognized $248,000 and $65,000 of restricted stock compensation expense related to the Employee and Director Plans, respectively, and for the nine months ended December 31, 2007 and 2006, the Company recognized $646,000 and $108,000, respectively. During the nine months ended December 31, 2007 and 2006, the Company issued 84,650 and 66,625 restricted shares, respectively.

Note 4: Temporary Investments

During fiscal 2007 the Company had reclassified its auction rate securities ("ARS") from cash and cash equivalents to temporary investments on its balance sheet in accordance with recent accounting pronouncements. This reclassification affected both the balance sheet and cash flow statement in fiscal 2007, but it did not affect net income or working capital in fiscal 2007. In accordance with Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," no changes to financial statements issued in prior years were deemed necessary. In accordance with "SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities," temporary investments are accounted for as trading securities. Trading securities are securities that are bought and held principally for the purpose of selling in the near term. The Company believes that notwithstanding the reclassification, the investments in ARS are short term and highly liquid, and readily convertible to known amounts of cash, and that they present an insignificant risk of change in value due to market changes in interest rates. At December 31, 2007 and 2006, the Company had $44,860,000 and $38,100,000 of temporary investments, respectively.

Note 5: Commitments and Contingencies

The Company is a party to routine litigation and administrative complaints incidental to its business. Management does not believe that the resolution of any or all of such routine litigation and administrative complaints is likely to have a material adverse effect on the Company's financial condition or results of operations. The Company has settled complaints that had been filed with various states' pharmacy boards in the past. There can be no assurances made that other states will not attempt to take similar actions against the Company in the future. Legal costs related to the above matters are expensed as incurred.

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

Executive Summary

PetMed Express was incorporated in the state of Florida in January 1996. The Company's common stock is traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "PETS." The Company began selling pet medications and other pet health products in September 1996. Presently, the Company's product line includes approximately 750 of the most popular pet medications and other health products for dogs, cats, and horses.

The Company markets its products through national television, online, and direct mail/print advertising campaigns which direct consumers to order by phone or on the Internet, and aim to increase the recognition of the "1-800-PetMeds" brand name. The Company's sales consist of products sold mainly to retail consumers and minimally to wholesale customers. Typically, the Company's customers pay by credit card or check at the time the order is shipped. The Company usually receives cash settlement in two to three banking days for sales paid by credit cards, which minimizes the accounts receivable balances relative to the Company's sales. The Company's sales returns average was approximately 1.4% for the quarter ended on December 31, 2007, compared to 1.6% for the quarter ended December 31, 2006. The three-month average retail purchase was approximately $76 per order for the quarter ended December 31, 2007, compared to $75 per order for the quarter ended December 31, 2006. The nine-month average retail purchase was approximately $80 per order for the nine months ended December 31, 2007, compared to $79 per order for the nine months ended December 31, 2006.

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 judgments and estimates including those related to product returns, bad debts, inventories, long-lived assets, income taxes, litigation, and contingencies. We base our estimates and judgments 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

The Company generates revenue by selling pet medication products primarily to retail consumers and minimally to wholesale customers. The Company's policy is to recognize revenue from product sales upon shipment, when the rights of ownership and risk of loss have passed to the consumer. Outbound shipping and handling fees are included in sales and are billed upon shipment. Shipping expenses are included in cost of sales.

The majority of the Company's sales are paid by credit cards and the Company usually receives the cash settlement in two to three banking days. Credit card sales minimize accounts receivable balances relative to sales. The Company maintains an allowance for doubtful accounts for losses that the Company estimates will arise from customers' inability to make required payments, arising from either credit card charge-backs or insufficient funds checks. The Company determines its estimates of the uncollectibility of accounts receivable by analyzing historical bad debts and current economic trends. At December 31, 2007 and 2006 the allowance for doubtful accounts was approximately $16,000 and $19,000, respectively.

Valuation of inventory

Inventories consist of prescription and non-prescription pet medications and pet supplies that are available for sale and are priced at the lower of cost or market value using a weighted average cost method. The Company writes down its inventory for estimated obsolescence. At December 31, 2007 and 2006, the inventory reserve was approximately $152,000 and $205,000, respectively.

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Advertising

The Company's advertising expenses consist primarily of television advertising, internet marketing, and direct mail/print advertising. Television costs are expensed as the advertisements are televised. Internet costs are expensed in the month incurred and direct mail/print 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 the 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 operating data appearing in the Company's Condensed Consolidated Statements of Income:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	59.4	59.2	61.1	60.4
Gross profit	40.6	40.8	38.9	39.6
Operating expenses:				
General and administrative	12.1	12.8	10.5	10.2
Advertising	11.2	15.2	14.0	16.5
Depreciation and amortization	0.4	0.4	0.3	0.3
Total operating expenses	23.7	28.4	24.8	27.0
Income from operations	16.9	12.4	14.1	12.6
Other income	1.5	1.3	1.2	1.0
Income before provision for income taxes	18.4	13.7	15.3	13.6
Provision for income taxes	6.6	4.9	5.1	5.0

Net income	11.8 %	8.8 %	10.2 %	8.6 %
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Three Months Ended December 31, 2007 Compared With Three Months Ended December 31, 2006, and Nine Months Ended December 31, 2007 Compared With Nine Months Ended December 31, 2006

Sales

Sales increased by approximately $5,997,000, or 19.1%, to approximately $37,349,000 for the quarter ended December 31, 2007, from approximately $31,352,000 for the quarter ended December 31, 2006. For the nine months ended December 31, 2007, sales increased by approximately $22,075,000, or 17.5%, to approximately $147,913,000 compared to sales of approximately $125,838,000 for the nine months ended December 31, 2006.

The increase in sales for the three months ended December 31, 2007 was primarily due to increased retail reorders and for the nine months ended December 31, 2007, the increase in sales can be attributed primarily to increased retail reorders and new orders, offset by decreased wholesale sales. The Company has committed certain dollars amounts specifically designated towards television, direct mail/print and online advertising to stimulate sales, create brand awareness, and acquire new customers. The Company acquired approximately 127,000 new customers for the quarter ended December 31, 2007, compared to approximately 130,000 new customers for the same period the prior year. The decrease in new customer orders for the quarter ended December 31, 2007 can be directly related to a 13% reduction in advertising expenses during the quarter. For the nine months ended December 31, 2007, the Company acquired approximately 585,000 new customers, compared to approximately 549,000 new customers for the same period the prior year. There can be no assurances that this growth trend will continue, due to increased price competition from veterinarians and traditional and online retailers. The following chart illustrates sales by various sales classifications:

	Three Months Ended December 31,					
	2007	%	2006	%	$ Variance	% Variance
Reorder Sales	$ 28,352,000	75.9%	$ 22,066,000	70.4%	$ 6,286,000	28.4%
New Order Sales	$ 8,954,000	24.0%	$ 9,214,000	29.4%	$ (260,000)	-2.8%
Wholesale Sales	$ 43,000	0.1%	$ 72,000	0.2%	$ (29,000)	-40.2%
Total Net Sales	$ 37,349,000	100.0%	$ 31,352,000	100.0%	$ 5,997,000	19.1%

Internet Sales	$ 24,416,000	65.4%	$ 19,795,000	63.1%	$ 4,621,000	23.3%
Contact Center Sales	$ 12,933,000	34.6%	$ 11,557,000	36.9%	$ 1,376,000	11.9%
Total Net Sales	$ 37,349,000	100.0%	$ 31,352,000	100.0%	$ 5,997,000	19.1%

	Nine Months Ended December 31,					
	2007	%	2006	%	$ Variance	% Variance
Reorder Sales	$103,353,000	69.9%	$ 84,075,000	66.8%	$ 19,278,000	22.9%
New Order Sales	$ 44,384,000	30.0%	$ 41,228,000	32.8%	$ 3,156,000	7.7%
Wholesale Sales	$ 176,000	0.1%	$ 535,000	0.4%	$ (359,000)	-66.9%
Total Net Sales	$147,913,000	100.0%	$125,838,000	100.0%	$ 22,075,000	17.5%
Internet Sales	$ 95,996,000	64.9%	$ 77,388,000	61.5%	$ 18,608,000	24.0%
Contact Center Sales	$ 51,917,000	35.1%	$ 48,450,000	38.5%	$ 3,467,000	7.2%
Total Net Sales	$147,913,000	100.0%	$125,838,000	100.0%	$ 22,075,000	17.5%

Leading up to the 2004 presidential elections we experienced an increase in the advertising cost of acquiring a new customer and a decrease in new customer sales, which may have been attributed to a shortage of television advertising inventory. There can be no assurances that the 2008 presidential elections will not have a similar impact on the advertising cost of acquiring a new customer and new customer sales.

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The majority of our product sales are affected by the seasons, due to the seasonality of mainly heartworm and flea and tick medications. For the quarters ended June 30, September 30, December 31, and March 31 of fiscal 2007, the Company's sales were approximately 31%, 27%, 19%, and 23%, respectively.

Cost of sales

Cost of sales increased by approximately $3,613,000, or 19.5%, to approximately $22,176,000 for the quarter ended December 31, 2007, from approximately $18,563,000 for the quarter ended December 31, 2006. For the nine months ended December 31, 2007, cost of sales increased by approximately $14,388,000, or 18.9%, to approximately $90,391,000 compared to cost of sales of approximately $76,003,000 for the nine months ended December 31, 2006. The increase in cost of sales for the three and nine months ended December 31, 2007 is directly related to the increase in sales. As a percent of sales, the cost of sales was 59.4% and 59.2% for the three months ended December 31, 2007 and 2006, respectively, and for the nine months ended December 31, 2007 and 2006, cost of sales was 61.1% and 60.4%, respectively. The percentage increases can be attributed to increases in our product and freight costs.

Gross profit

Gross profit increased by approximately $2,384,000, or 18.6%, to approximately $15,173,000 for the quarter ended December 31, 2007, from approximately $12,789,000 for the quarter ended December 31, 2006. For the nine months ended December 31, 2007, gross profit increased by approximately $7,687,000, or 15.4%, to approximately $57,523,000 compared to gross profit of approximately $49,836,000 for the nine months ended December 31, 2006. Gross profit as a percentage of sales was 40.6% and 40.8% for the three months ended December 31, 2007 and 2006, respectively, and for the nine months ended December 31, 2007 and 2006 gross profit as a percentage of sales was 38.9% and 39.6%, respectively. The percentage decreases can be attributed to increases in our product and freight costs.

General and administrative expenses

General and administrative expenses increased by approximately $520,000, or 12.9%, to approximately $4,543,000 for the quarter ended December 31, 2007, from approximately $4,023,000 for the quarter ended December 31, 2006. For the nine months ended December 31, 2007, general and administrative expenses increased by approximately $2,710,000, or 21.2%, to approximately $15,502,000 compared to approximately $12,792,000 for the nine months ended December 31, 2006. The increase in general and administrative expenses for the three months ended December 31, 2007 was primarily due to the following: a $363,000 increase to payroll expenses, with $157,000 of the increase due to the recognition of additional stock based compensation expense during the quarter relating to the issuance of restricted stock and stock options, with $67,000 of the increase due to withholding tax expense relating to restricted stock issuances in fiscal 2007 and 2008, and the remaining amount attributed to the addition of new employees in the customer care and pharmacy departments enabling the Company to sustain its growth; a $210,000 increase to bank service and credit card fees which can be directly attributed to increased sales in the quarter; a $56,000 increase to office expenses which can be directly attributed to increased sales for the quarter; a $21,000 increase to licenses and fees relating to a quarterly California mill assessment on flea and tick products; and a $19,000 increase in other expenses which includes mainly property expenses. Offsetting the increase was a $62,000 decrease to insurance expenses relating to decreased insurance premiums in the quarter; a $48,000 decrease to professional fees relating to a decrease in legal fees in the quarter; and a $39,000 decrease to telephone and travel-related expenses.

The increase in general and administrative expenses for the nine months ended December 31, 2007 was primarily due to the following: a $1,527,000 increase to payroll expenses, with

$460,000 of the increase due to the recognition of additional stock based compensation expense during the nine months relating to the issuance of restricted stock and stock options, with $228,000 of the increase due to withholding tax expense relating to restricted stock issuances in fiscal 2007 and 2008, and the remaining amount attributed to the addition of new employees in the customer care and pharmacy departments enabling the Company to sustain its growth; a $584,000 increase to bank service and credit card fees which can be directly attributed to increased sales for the nine months; a $386,000 one-time charge due to the fact that nexus was established in another state, relating to state/county sales tax which was not collected on behalf of our customers in fiscal 2007; a $130,000 increase to office expenses which can be directly attributed to increased sales for the nine months; a $122,000 increase to licenses and fees relating to a quarterly California mill assessment on flea and tick products; and a $63,000 increase in other expenses which includes property expenses and professional fees, with a $58,000 decrease to

telephone expenses, a $26,000 decrease to travel-related expenses, and an $18,000 decrease to insurance expenses offsetting the increase.

Advertising expenses

Advertising expenses decreased by approximately $601,000, or 12.6%, to approximately $4,170,000 for the quarter ended December 31, 2007, from approximately $4,771,000 for the quarter ended December 31, 2006. For the nine months ended December 31, 2007, advertising expenses decreased slightly by approximately $46,000, or 0.2%, to approximately $20,725,000 compared to advertising expenses of approximately $20,771,000 for the nine months ended December 31, 2006. As a percentage of sales, advertising expense was 11.2% and 15.2% for the three months ended December 31, 2007 and 2006, respectively, and 14.0% and 16.5% for the nine months ended December 31, 2007 and 2006, respectively. The decrease in advertising expense for the quarter can be attributed to decreased television advertising due to a shortage of television advertising inventory as compared to last year for the same quarter. The advertising cost of acquiring a new customer, defined as total advertising costs divided by new customers acquired, was $33 for the quarter ended December 31, 2007, compared to $37 for the quarter ended December 31, 2006, and for the nine months ended December 31, 2007, the advertising cost of acquiring a new customer was $35 compared to $38 for the same period in the prior year. The Company currently anticipates advertising as a percentage of sales to be approximately 14.0% for fiscal 2008. However, the advertising percentage will fluctuate quarter to quarter due to seasonality and advertising availability. For the fiscal year ended March 31, 2007, quarterly advertising expenses as a percentage of sales ranged between 12% and 18%.

Depreciation and amortization expenses

Depreciation and amortization expenses increased by approximately $26,000, or 20.1%, to approximately $155,000 for the quarter ended December 31, 2007, from approximately $129,000 for the quarter ended December 31, 2006. Depreciation and amortization expenses increased by approximately $39,000, or 10.0%, to approximately $435,000 for the nine months ended December 31, 2007, from approximately $396,000 for the nine months ended December 31, 2006. This increase to depreciation and amortization expense for the quarter and nine months ended December 31, 2007 can be attributed to new property and equipment additions in fiscal 2008.

Other income

Other income increased by approximately $141,000 to approximately $565,000 for the quarter ended December 31, 2007, from approximately $424,000 for the quarter ended December 31, 2006. For the nine months ended December 31, 2007, other income increased by approximately $615,000 to approximately $1,863,000 compared to other income of approximately $1,248,000 for the nine months ended December 31, 2006. The increase to other income for the three and nine months ended December 31, 2007 can be attributed primarily to increased interest income due to increases in the Company's cash balance, which is swept into an interest-bearing overnight account and a tax-free short term investment account. The increase can also be attributed to additional advertising revenue generated from our website. Interest income may decrease in the future if there is a decline in interest rates or if the Company utilizes its cash balances on its $20,000,000 share repurchase plan, with approximately $15,131,000 remaining, or on its operating activities.

Provision for income taxes

For the quarters ended December 31, 2007 and 2006, the Company recorded an income tax provision for approximately $2,460,000 and $1,535,000, respectively, and for the nine months ended December 31, 2007 and 2006, the Company recorded an income tax provision of approximately $7,605,000 and $6,306,000, respectively. The income tax provision for the nine months ended December 31, 2007 includes a tax benefit of approximately $308,000 which relates to an income tax over-accrual for the fiscal year ended March 31, 2007. During the first quarter of fiscal 2008, it was determined that the Company was no longer a full tax payer in the state of Florida, due to the fact that it established nexus in another state. This event triggered a lower effective tax rate in the year ended March 31, 2007 and for future quarters.

The Company also recognized a $155,000 income tax benefit due to the disqualifying disposition of certain incentive stock option exercises during the nine months ended December 31, 2007. These events resulted in an effective tax rate of 35.8% for both of the quarters ended December 31, 2007 and 2006, and an effective tax rate of 33.5% and 36.8% for the nine months ended December 31, 2007 and 2006, respectively. For the remainder of fiscal 2008, the Company estimates its effective tax rate to be approximately 1.5% less than it was in fiscal 2007.

Liquidity and Capital Resources

The Company's working capital at December 31, 2007 and March 31, 2007 was $64,565,000 and $50,613,000, respectively. The $13,952,000 increase in working capital was primarily attributable to cash flow generated from operations, the exercise of stock options, and interest income earned on temporary investments, offset by stock repurchased for the nine months ended December 31, 2007. Net cash provided by operating activities was $9,863,000 and $15,111,000 for the nine months ended December 31, 2007 and 2006, respectively, and the $5,248,000 decrease can be attributed to an increase in inventory and a decrease in account payables. Net cash used in investing activities was $6,087,000 and $16,074,000 for the nine months ended December 31, 2007 and 2006, respectively. This $9,987,000 decrease can be attributed to a lesser amount of purchases of temporary investments in fiscal 2008. Net cash used in financing activities was $1,952,000 for the nine months ended December 31, 2007, and net cash provided by financing activities was $666,000 for the nine months ended December 31, 2006. During the nine months ended December 31, 2007, the Company received approximately $2,649,000 upon the exercise of 275,941 stock option shares and the Company repurchased approximately 369,500 shares of its common stock for approximately $4,869,000.

As of both December 31, 2007 and 2006 the Company had no outstanding lease commitments except for the lease for its executive offices and warehouse. The Company had financed certain equipment acquisitions with capital leases. The Company has approximately $200,000 planned for capital expenditure commitments to further the Company's growth during fiscal 2008, which will be funded through cash from operations. The lease for our corporate office and distribution facility in Pompano Beach expires in May 2009. Therefore the Company expects to allocate capital funds for new property leasehold and equipment additions during fiscal 2009 to address growth needs for the next five years. The Company's source of working capital includes cash from operations, interest income on temporary investments, and the exercise of stock options. The Company presently has no need for other alternative sources of working capital, and has no commitments or plans to obtain additional capital.

Cautionary Statement Regarding Forward-Looking Information

Certain information in this Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the words "believes," "intends," "expects," "may," "will," "should," "plans," "projects," "contemplates," "budgets," "predicts," "estimates," "anticipates," or similar expressions. 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-Q, "PetMed Express," "1-800-PetMeds," "PetMed," "1-888-PetMeds," "PetMed Express.com," "the Company," "we," "our," and "us" refers to PetMed Express, Inc. and our subsidiaries.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk generally represents the risk that losses may occur in the value of financial instruments as a result of movements in interest rates, foreign currency exchange rates, and commodity prices. Our financial instruments include cash and cash equivalents, temporary investments, accounts receivable, and accounts payable. The book values of cash equivalents, temporary investments, accounts receivable, and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. Interest rates affect our return on excess cash and temporary investments. As of December 31, 2007, we had $2,140,000 in cash and cash equivalents and $44,860,000 in temporary investments. A majority of our cash and cash equivalents and investments generate interest income based on prevailing interest rates.

A significant change in interest rates would impact the amount of interest income generated from our excess cash and investments. It would also impact the market value of our temporary investments. Our temporary investments are subject to market risk, primarily interest rate and credit risk. Our temporary investments are managed by a limited number of outside professional managers within investment guidelines set by our Board of Directors. Such guidelines include security type, credit quality, and maturity, and are intended to limit market risk by restricting our investments to high-quality debt instruments with relatively short-term maturities. We do not utilize financial instruments for long term trading purposes and we do not hold any derivative financial instruments that could expose us to significant market risk. At December 31, 2007, we had no debt obligations.

ITEM 4. CONTROLS AND PROCEDURES.

The Company's management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 promulgated under the Securities Exchange Act of 1934, as amended) as of the quarter ended December 31, 2007, the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective for timely gathering, analyzing, and disclosing of the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended. There have been no significant changes made in our internal controls or in other factors that could significantly affect, or are reasonably likely to materially affect, our internal controls over financial reporting during the period covered by this report.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations, and trading price of our common stock. Please refer to our annual report on Form 10-K for fiscal year 2007 for additional information concerning these and other uncertainties that could negatively impact the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company did not make any sales of unregistered securities during the first, second, or third quarters of fiscal year 2008.

Issuer Purchases of Equity Securities

This table provides information with respect to purchases by the Company of shares of common stock during the three months ended December 31, 2007:

Month / Year	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)
October 2007 (October 1, 2007 to October 31, 2007)	-	-	-
November 2007 (November 1, 2007 to November 30, 2007)	167,362	$ 13.06	167,362
December 2007 (December 1, 2007 to December 31, 2007)	14,764	$ 12.15	14,764

(1) In November 2006, the Company announced that the Board of Directors authorized the repurchase of up to $20,000,000 of the Company's common stock from time to time through negotiated or open market transactions. The repurchase program does not have an expiration date and the program did not expire, nor did the Company terminate the program, during the period covered by the table.

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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

The following exhibits are filed as part of this report.

31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, promulgated under the Securities Exchange Act of 1934, as amended (filed herewith to Exhibit 31.1 of the Registrant's Report on Form 10-Q for the quarter ended December 31, 2007, Commission File No. 000-28827).

31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, promulgated under the Securities Exchange Act of 1934, as amended (filed herewith to Exhibit 31.2 of the Registrant's Report on Form 10-Q for the quarter ended December 31, 2007, Commission File No. 000-28827).

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith to Exhibit 32.1 of the Registrant's Report on Form 10-Q for the quarter ended December 31, 2007, Commission File No. 000-28827).

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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: February 1, 2008

By: /s/ Menderes Akdag
Menderes Akdag

Chief Executive Officer and President
(principal executive officer)

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

Chief Financial Officer
(principal financial and accounting officer)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PETMED EXPRESS, INC

FORM 10-Q

FOR THE QUARTER ENDED:

DECEMBER 31, 2007

EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description	Number of Pages in Original Document	Incorporated By Reference
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	1	**
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	1	**
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	1	**

** Filed herewith