PETMED EXPRESS INC
Form 10KSB
June 20, 2003

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

Form 10-KSB

(Mark One)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2003

OR

[ ] TRANSITION REPORT UNDER 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.
(Name of small business issuer in its charter)

FLORIDA	65-0680967
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1441 S.W. 29th Avenue, Pompano Beach, Florida	33069
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (954) 979-5995

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $.001 per share

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference to Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year. $54,975,000 for the 12 months ended March 31, 2003.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specific date within the past 60 days. The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which common equity was sold is $29,903,000 at June 13, 2003.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of June 13, 2003, 19,105,044 shares of common stock are issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes.

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This discussion in this annual 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 annual report.

When used in this annual report on Form 10-KSB, "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.

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PART I

Item 1. Description of Business.

General

Petmed Express, Inc. and subsidiaries, d/b/a 1-800-PetMeds, is a leading nationwide pet pharmacy. The Company markets prescription and non-prescription pet medications along with health and nutritional supplements for dogs and cats 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, on-line and direct mail advertising campaigns, which aim to increase the recognition of the "1-800-PetMeds" brand name, increase traffic on its web site at www.1800PetMeds.com, acquire new customers, and maximize repeat purchases. Our fiscal year end is March 31, and our executive offices are located at 1441 S.W. 29th Avenue, Pompano Beach, Florida 33069, telephone number is 954-979-5995. The information contained on the Company's web site is not part of our annual report.

Our Products

We offer a broad selection of products for dogs and cats. These products include a majority of the well-known brands of medication, such as Frontline[R], Advantage[R], Heartgard[R], Sentinel[R], Interceptor[R], Program[R], Revolution[R], and Rimadyl[R]. Generally, our prices are discounted up to 25%, from the prices for medications charged by veterinarians.

We research new products, and regularly select new products or the latest generation of existing products to become part of our product selection. In addition, we also refine our current products to respond to changing consumer-purchasing habits. Our web site is designed to give us the flexibility to change featured products or promotions. Our product line provides customers with a wide variety of selections across the most popular health categories for dogs and cats. Our current products include:

Prescription Medications: Heartworm medications, antibiotics, anti-inflammatory medications and medications for chronic diseases, such as arthritis and thyroid conditions, as well as several generic substitutes;

Non-Prescription Medications: A majority of the well-known flea and tick control products; and health and nutritional supplements.

Sales

The following table provides a breakdown of the percentage of our total sales, by each category during the indicated periods:

	Fiscal Year	
	March 31, 2003	March 31, 2002
Prescription medications	29%	34%
Non-prescription medications	64%	58%
Shipping and handling charges and other	7%	8%
Total	100%	100%

During March 2001, the Company discontinued the sales of all accessories. Additionally, the Company discontinued the PetMed Express, Inc. membership plan. It was determined by management to concentrate sales efforts on the prescription and non-prescription pet medications and the health and nutritional pet supplements.

We offer our products through three main sales channels, including the PetMed Express catalog and postcards, customer service representatives and the Internet, through our web site. We have designed both our catalog and web site to provide a convenient, cost-effective and informative shopping experience that encourages consumers to purchase products important for a pet's health and quality of life. We believe that these multiple channels allow us to increase the visibility of our brand name and provide customers with increased shopping flexibility and service.

The PetMed Express Catalog

The PetMed Express catalog is a full-color catalog that features approximately 300 products. The catalog is produced by a combination of in-house writers, production artists and independent contractors. We mail catalogs and postcards in response to requests generated from our advertising and direct mail campaigns.

Contact Center

We currently employ 100 customer service representatives in our contact center. Our customer service representatives receive and process inbound customer calls, facilitate our outbound campaigns around maximizing customers' reorders on a consistent basis, facilitate our live web chat and process customer e-mails. Our telephone system is equipped with certain features including pop-up screens and call blending capabilities that give us the ability to efficiently utilize our customer service representatives' time, providing quality customer service and support. Our customer service representatives receive a base salary and are rewarded with commissions for achieving targeted sales.

Our Web Site

We seek to combine our product selection and pet health information with the shopping ease of the Internet to deliver a convenient and personalized shopping experience. We believe that our web site offers health and nutritional product selections for dogs and cats, supported by relevant editorial and easily obtainable or retrievable resource information. From our home page, customers can search our web site for products and access resources on a variety of information on cats and dogs. Customers can shop at our web site by category, product line or individual product. We attracted approximately 3.8 million visitors to our website over the past 12 months (June 2002 to May 2003), of which 12% of those visitors resulted in a sale, and our website generated 44% of our total sales for the same time period.

Our Customers

As of May 31, 2003, approximately 830,000 customers have purchased from us within the last eighteen months. During fiscal 2003, we attracted approximately 414,000 new customers. Our customers are located throughout the United States, with the largest concentration of customers residing in California, Florida, Texas, New York, Georgia, Virginia and New Jersey. The average retail purchase was approximately $71.

While our primary focus has been on retail customers, we have also sold various non-prescription medications wholesale to a variety of businesses, including pet stores, groomers and traditional brick and mortar stores in the United States. For the fiscal year ended March 31, 2003, the majority of our sales were made to retail customers with less than 1% of our sales made to wholesale customers. Our focus remains on the retail customers, and we anticipate that the percentage of our total sales attributable to wholesale sales will continue to decrease in the future.

Marketing

The goal of our marketing strategy is to build brand recognition, increase customer traffic, add new customers, build strong customer loyalty, maximize reorders and develop incremental revenue opportunities. We have an integrated marketing campaign that includes television advertising, direct mailing and e-mailing and online marketing.

Television Advertising

Our television advertising is designed to build brand equity, create awareness, and generate initial purchases of products via phone, mail, fax and the Internet. We have used 30 and 15 second television commercials to attract new customer orders, with this tagline "your pets same exact medications delivered to your home, saving you time and money". Our television commercials typically focus on our ability to rapidly deliver to customers the same medications offered by veterinarians, but at reduced prices. We generally purchase advertising on national cable channels to target our key demographic groups. We believe that television advertising is particularly effective and instrumental in building brand awareness.

Direct Mailing and E-mailing

We use direct mailing and e-mailing, for our customers with e-mail accounts, to advertise our products to selected groups of customers. We utilize potential customers from the responses to our television advertising and our customer database to encourage and remind our customers to reorder.

Online Marketing

We supplement our traditional advertising with online advertising and marketing efforts. We are members of the LinkShare Network, which is an affiliate program with merchant clients and affiliate web sites. This network is designed to develop and build a long-term, branded affiliate program in order to increase online sales and establish an Internet presence. The LinkShare Network enables us to establish link arrangements with other web sites, as well as portals and search engines. We also make our brand available to internet consumers by publishing targeted keywords and achieving prominent placement on the top search engines and search engine networks, including Google, Microsoft Network, Yahoo, and Overture.

Operations

Purchasing

We purchase our products from a variety of sources, including certain manufacturers, domestic distributors, and wholesalers. We have multiple suppliers for each of our products. We source prescription and non-prescription medications from a variety of national distributors in order to obtain the lowest cost. We purchase the majority of our health and nutritional supplements directly from manufacturers. See Risk Factors. Having strong relationships with product manufacturers will ensure the availability of adequate volume of products ordered by our customers, and enable us to provide more and better product information. Historically, substantially all the major manufacturers of prescription and non-prescription medications have declined to sell these products to direct marketing companies, including us. As part of our growth strategy, we will seek to develop direct relationships with leading pharmaceutical manufacturers of the more popular prescription and non-prescription medications.

Order Processing

The Company provides its customers with toll-free telephone access to its customer service representatives. Our call center generally operates from 8:00 AM to 11:00 PM Monday through Thursday, 8:00 AM to 9:00 PM on Friday, 9:00 AM to 6:00 PM on Saturday, and 10:00 AM to 5:00 PM on Sunday, Eastern Standard Time. The process of customers purchasing products through PetMed Express consists of a few simple steps. A customer first places a call to the PetMed Express toll free phone number or visits our web site. The following information is needed to process prescription orders: general pet information, prescription, and the veterinarian's name and phone number. This information is entered into our computer system. Then our pharmacists and pharmacy technicians verify all prescriptions. The order process system checks for prescription verification for medication orders and a valid payment method for all orders. An invoice is generated and printed in our fulfillment center, where items are picked for shipping. The customer's order is then selected from the Company's inventory and shipped via priority mail or United Parcel Service. Our customers enjoy the convenience of rapid home delivery, with approximately 69% of all orders are shipped within 24 hours via priority mail or United Parcel Service. Our web site allows customers to easily browse and purchase substantially all of our products and services on line. Our site is designed to be fast, secure and easy to use with order and shipping confirmations, with on-line order tracking capabilities.

Warehousing and Shipping

We inventory our products and fill all customer orders from our 32,000 square foot facility in Pompano Beach, Florida. We have an in-house fulfillment and distribution operation, which is used to manage the entire supply chain, beginning with the placement of the order, continuing through order processing, and then fulfillment and shipment of the product to the customer. We offer a variety of shipping options, including next day delivery. We ship to anywhere in the United States served by the United Parcel Service or the United States Postal Service. Priority orders are expedited in our fulfillment process. Our goal is to ship the products the same day that the order is received. For prescription medications, our goal is to ship the product immediately after the prescription has been authorized.

Customer Service and Support

We believe that a high level of customer service and support is critical in retaining and expanding our customer base. Customer service representatives participate in ongoing training programs under the supervision of our training manager. These training sessions include a variety of topics such as product knowledge, computer usage, customer service tips and the relationship between PetMed Express and veterinarians. Our customer service representatives respond to customer's e-mails and calls that are related to order status, prices and shipping. Our customer service representatives also respond to customers through our newly implemented live web chat. If our customer service representatives are unable to respond to a customer's inquiry at the time of the call, we strive to provide an answer within 24 hours. We believe our customer service representatives are a valuable source of feedback regarding customer satisfaction. Our customer returns and credits average approximately 1.6% of total sales.

Technology

PetMed Express utilizes the latest integrated technologies in call center, e-commerce, order entry, and inventory control/fulfillment operations. The systems are custom configured by the Company to optimize our computer telephone integration and mail order processing. The system is designed to maintain a large database of specialized information and process a large volume of orders efficiently and effectively. Our systems provide our agents with real time product availability information and updated customer information to enhance our customer service. We also have an integrated direct connection for processing credit cards to ensure that a valid credit card number and authorization have been received at the same time our agents are on the phone with the customers. Our information systems provide our agents records of all prior contact with a customer, including the customer's address, phone number, e-mail address, fax number, prescription information, order history, payment history and notes.

Competition

The pet medications and health and nutritional supplements market is competitive and highly fragmented. Our competitors can be divided into several groups including: veterinarians, other mail-order suppliers of pet medications and health and nutritional supplements, and web or online stores that specialize in pet medications and health and nutritional supplements. The Company believes that the following are principal competitive factors in our market:

* Product selection and availability, including the availability of prescription and non-prescription medications;

* Brand recognition;

* Reliability and speed of delivery;

* Personalized service and convenience;

* Price; and

* Quality of web site content.

We compete with veterinarians in the sale of prescription and non-prescription pet medications and health and nutritional supplements. Many pet owners may prefer the convenience of purchasing the pet medications or health and nutritional supplements at the time of the veterinarian visit, or may be hesitant to offend their veterinarian, by not purchasing these products from the veterinarian. In order to effectively compete with veterinarians, we must continue to educate pet owners about the service, convenience and savings offered by PetMed Express.

We also compete with brick and mortar and online retailers of non-prescription medications and health and nutritional supplements. Many of these competitors have longer operating histories, larger customer or user bases, a more established online presence, greater brand recognition and significantly greater financial, marketing and other resources than we do. Many of these current and potential competitors can devote substantially more resources to web site and systems development than we can.

The pet medication market size is estimated to be approximately $3 billion, with veterinarians having the majority of the market share. The cat and dog population is approximately 141 million, with approximately 62% of all households owning a pet.

The Company believes that the following are the main competitive strengths which differentiate 1-800-PetMeds's from the competition:

* Experienced management team;

* Consumer benefit structure of savings and convenience;

* Licensed pharmacy to conduct business in 49 states;

* Operating / technology infrastructure in place;

* Multiple sources of supply for pet medications; and

* Quality customer service support.

Intellectual Property

We conduct our business under the trade name "1-800-PetMeds". We believe this name, which is also a toll-free phone number, has added significant value and is an important factor in the marketing of our products. We have also obtained the right to the Internet addresses www.1800PetMeds.com, www.1888PetMeds.com, www.petmedexpress.com, along with www.petmeds.com. As with phone numbers, we do not have and cannot acquire any property rights in an Internet address. We do not expect to lose the ability to use the Internet addresses; however, there can be no assurance in this regard and the loss of these addresses may have a material adverse effect on our financial position and results of operations. We hold the trade name "PetMed Express[R]" and "1-888-PetMeds[R]", which are our registered trademarks.

Government Regulation

Dispensing prescription medicines is governed at the state level by the board of pharmacy, or similar regulatory agencies, of each state where prescription medications are dispensed. We are subject to regulation by the State of Florida and, in particular, are licensed by the Florida Board of Pharmacy. Our license is valid until February 28, 2004. We are also licensed and/or regulated by 48 other state pharmacy boards and other regulatory authorities including, but not necessarily limited to, the Food and Drug Administration ("FDA") and the United States Environmental Protection Agency ("EPA"). As a licensed pharmacy in the State of Florida, we are subject to the Florida Pharmacy Act and regulations promulgated hereunder. To the extent that we are unable to maintain our license with the Florida Board of Pharmacy as a community pharmacy, or if we do not maintain the licenses granted by other state boards, or if we become subject to actions by the FDA, or other enforcement regulators, our distribution of prescription medications to pet owners could cease, which could have a material adverse effect on our operations. See Item 3. Legal Proceedings.

Employees

The Company currently has 164 full time employees, including: 100 in marketing and customer service; 16 in fulfillment and purchasing; 37 in our pharmacy; 2 in information technologies; 5 in administrative positions; and 4 in management. None of the Company's employees are represented by a labor union, nor governed by any collective bargaining agreements. The Company considers relations with its employees as satisfactory.

Risk Factors

You should carefully consider the risks and uncertainties described below, and all the other information included in this annual report before you decide to invest in our common stock. Any of the following risks could materially adversely affect our business, financial condition or operating results and could result in a loss of your investment.

We have only recently attained profitability and there are no assurances that we can sustain profitable operations in future periods.

While we reported net income of approximately $3,258,000 and $825,000 for the years ended March 31, 2003 and 2002, respectively, we reported a net loss of approximately $2,827,000 for the year ended March 31, 2001 and have an accumulated deficit at March 31, 2003 of approximately $1,714,000. Our profitability during fiscal 2003 is due in part to an increase in our revenues of approximately $22,949,000, or approximately 72%, from fiscal 2002. There are no assurances we will continue to generate revenues at this increased level, or that we will remain profitable during fiscal 2004 and beyond. If our operations were to cease being profitable, our liquidity in future periods would be adversely affected.

We may fail to comply with various state regulations covering the dispensing of prescription pet medications. We could be subject to reprimands, sanctions, probations, fines, suspensions or the loss of one or more of our pharmacy licenses.

The sale and delivery of prescription pet medications is generally governed by state laws and state regulations. Since our pharmacy is located in the state of Florida, the Company is governed by the laws and regulations of the state of Florida. Each prescription pet medication sale we make is likely to be covered by the laws of the state where the customer is located. The laws and regulations relating to the sale and delivery of prescription pet medications vary from state to state, but generally require that prescription pet medications be dispensed with the authorization from a prescribing veterinarian. To the extent that we are unable to maintain our license with the Florida Board of Pharmacy as a community pharmacy, or if we do not maintain the licenses granted by other state boards, or if we become subject to actions by the FDA, or other enforcement regulators, our distribution of prescription medications to pet owners could cease, which could have a material adverse effect on our operations.

While we make every effort to fully comply with the applicable state rules and regulations, from time to time we have been the subject of administrative complaints regarding the authorization of prescriptions prior to shipment. We cannot assure you that we will not continue to be the subject of administrative complaints in the future. We cannot guarantee you that we will not be subject to reprimand, sanctions, probations, or to fines, or that one or more of our pharmacy licenses may not be suspended or revoked. See Item 3. Legal Proceedings.

Our alternate veterinarian program was discontinued and was under investigation by the Florida Board of Pharmacy and Florida Agency for Health Care Administration, and by various other state's pharmacy boards, which could reduce or eliminate our ability to verify certain prescriptions outside the state of Florida.

We utilized the services of alternate veterinarians to verify certain prescriptions for animals residing outside the state of Florida. The alternate veterinarian was not the veterinarian who had actually seen the animal and may reside in another state from the animal. In February 2002, we voluntarily ceased the use of the alternate veterinarian program, and in March 2002 a business decision was made to enter into a settlement agreement with the Florida Board of Pharmacy. See Item 3. Legal Proceedings. Many of the complaints were for prescriptions verified through our alternate veterinarian program. The alternate veterinarian program used a veterinarian outside the state of Florida to verify the prescription for certain pets outside the state of Florida. The program was not used for pets residing in the State of Florida. Future complaints may be brought against the Company by states in which this program was utilized. We are unable to assess the potential impact on our business or any future penalties that may be assessed from these or other complaints.

We currently purchase our prescription and non-prescription medications from third party distributors and we are not an authorized distributor of those products. We do not have any guaranteed supply of these medications at any pre-established prices.

For the fiscal year ended March 31, 2003, approximately 93% of our sales were attributable to sales of prescription and non-prescription medications. Sales of these products have also accounted for 92% of our total sales during the fiscal year ended March 31, 2002. Historically, substantially all the major pharmaceutical manufacturers have declined to sell prescription and non-prescription pet medications directly to us. In order to assure a supply of these products, we purchase medications from various secondary sources, including a variety of domestic distributors. Our business strategy includes seeking to establish direct purchasing arrangements with major pet pharmaceutical manufacturing companies. If we were not successful in achieving this goal, we would continue to rely upon distributors.

We cannot guarantee that if we continue to purchase prescription and non-prescription pet medications from secondary sources that we will be able to purchase an adequate supply to meet our customers' demands, or that we will be able to purchase these products at competitive prices. As these products represent a significant portion of our sales, our failure to fill customer orders for these products could adversely impact our sales. If we should be forced to pay higher prices for these products to ensure an adequate supply, we cannot guarantee that we will be able to pass along to our customers any increases in the prices we pay for these medications. This inability to pass along increased prices could materially adversely affect our results of operations.

Our failure to properly manage our inventory may result in excessive inventory carrying costs, which could materially adversely affect our financial condition and results of operations.

Our current product line contains approximately 600 SKUs in the fiscal year ended March 31, 2003. A significant portion of our sales is attributable to products representing approximately 90 SKUs. We need to properly manage our inventory to provide an adequate supply of these products and avoid excessive inventory of the products representing the balance of the SKUs. We generally place orders for products with our suppliers based upon our internal estimates of the amounts of inventory we will need to fill future orders. These estimates may be significantly different from the actual orders we receive. In the event that subsequent orders fall short of original estimates, we may be left with excess inventory. Significant excess inventory could result in price discounts and increased inventory carrying costs. Similarly, if we fail to have an adequate supply of some SKUs, we may lose sales opportunities. We cannot guarantee that we will maintain appropriate inventory levels. Any failure on our part to maintain appropriate inventory levels may have a material adverse effect on our financial condition and results of operations.

Resistance from veterinarians to authorize prescriptions could cause our sales to decrease and could materially adversely affect our financial condition and results of operations.

Since we began our operations, from time to time, some veterinarians have resisted providing our customers with a copy of their pet's prescription or authorizing the prescription to our pharmacy staff, thereby effectively preventing us from filling such prescriptions under state law. Sales of prescription medications represented approximately 29% and 34% of our sales for the fiscal years ended March 31, 2003 and 2002, respectively. Although veterinarians in some states are required by law to provide the pet owner with this prescription information, if the number of veterinarians who refuse to authorize prescriptions should increase, our sales could decrease and our financial condition and results of operations may be materially adversely impacted.

Our success depends in part on the willingness of consumers to purchase pet medications from us. If we do not succeed in changing consumer-purchasing patterns, our results of operations may be materially adversely affected.

The direct marketing of prescription and non-prescription pet medications and health and nutritional supplements is in its infancy. Our success will depend upon our ability to engage consumers who have historically purchased pet medications and health and nutritional supplements from veterinarians. We may not be able to convert a large number of these pet owners to our customers. In order for us to be successful, many of these consumers must be willing to utilize new ways of buying these products. We cannot guarantee that we will be successful in shifting these consumers' purchasing patterns away from veterinarians to us. If we do not attract consumers to purchase these products from us, our results of operations may be materially adversely impacted.

In the past we have purchased medications from international distributors and we did not always know if those distributors had the authority of the manufacturer to sell the products in the United States. As a result, we may be subject to future civil or administrative actions regarding those products.

During fiscal 2002, a business decision was made to discontinue purchasing any product from international distributors. We have purchased a portion of our prescription and non-prescription medications from international distributors in the past. These medications may be trademarked and/or copyrighted products manufactured in foreign countries or in the United States and sold by the manufacturer to foreign distributors. Some of the prescription and non-prescription medications may have been manufactured by entities, particularly foreign licensees, who are not the licensors or owners of the trademarks or copyrights for the medications. From time to time, United States trademark and copyright holders, their licensees, trade associations and the United States Customs Service have brought forth litigation or administrative agency proceedings in an attempt to halt the importation or sale of trademarked and/or copyrighted products. The courts remain divided on the extent to which trademark, copyright or other laws, rules, regulations or decisions may restrict the importation or sales of this merchandise without the consent of the trademark or copyright owner. See Item 3 Legal Proceedings.

Significant portions of our sales are made to residents of seven states. If we should lose our pharmacy license in one or more of these states, our financial condition and results of operations would be materially adversely affected.

While we ship pet medications to customers in almost all 50 states, approximately 53% of our sales for the fiscal year ended March 31, 2003 were made to customers located in the states of California, Florida, Texas, New York, Georgia, Virginia and New Jersey. If for any reason our license to operate a pharmacy in one or more of those states should be suspended or revoked, or if it is not renewed, our financial condition and results of operations may be materially adversely affected.

We face significant competition from veterinarians and traditional and online retailers and may not be able to profitably compete with them.

We compete directly and indirectly with veterinarians in the sale of pet medications and health and nutritional supplements. Veterinarians hold a competitive advantage over us because many pet owners may find it more convenient or preferable to purchase these products directly from their veterinarians at the time of an office visit. We also compete directly and indirectly with both online and traditional retailers of pet medications and health and nutritional supplements. Both online and traditional retailers may hold a competitive advantage over us because of longer operating histories, established brand names, greater resources and an established customer base. Online retailers may have a competitive advantage over us because of established affiliate relationships to drive traffic to their web site. Traditional retailers may hold a competitive advantage over us because pet owners may prefer to purchase these products from a store instead of online or through traditional catalog/telephone methods. In order to effectively compete in the future, we may be required to offer promotions and other incentives, which may result in lower operating margins or increased operating losses.

We also face a significant competitive challenge from our competitors forming alliances with each other, such as those between online and brick and mortar retailers. These relationships may enable both their retail and online stores to negotiate better pricing and better terms from suppliers by aggregating the demand for products and negotiating volume discounts which could be a competitive disadvantage to us.

The content of our web site could expose us to various kinds of liability, which, if prosecuted successfully, could negatively impact our business.

Because we post product information and other content on our web site, we face potential liability for negligence, copyright infringement, patent infringement, trademark infringement, defamation and other claims based on the nature and content of the materials we post. Various claims have been brought, and sometimes successfully prosecuted, against Internet content distributors. We could be exposed to liability with respect to the unauthorized duplication of content or unauthorized use of other parties' proprietary technology. Although we maintain general liability insurance, our insurance may not cover potential claims of this type, or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance, or is in excess of insurance coverage, could materially adversely affect our financial condition and results of operations.

We may not be able to protect our intellectual property rights, and we may be found to infringe on the propriety rights of others.

We rely on a combination of trademark, trade secret, copyright laws and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy our non-prescription private label generic equivalents, when and if developed, as well as aspects of our sales formats, or to obtain and use information that we regard as proprietary, including the technology used to operate our web site, our content and our trademarks.

Litigation or proceedings before the United States Patent and Trademark Office may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets and domain names, and to determine the validity and scope of the proprietary rights of others. Any litigation or adverse priority proceeding could result in substantial costs and diversion of resources, and could seriously harm our business and operating results.

Third parties may also claim infringement by us with respect to past, current or future technologies. We expect that participants in our markets will be increasingly involved in infringement claims as the number of services and competitors in our industry segment grows. Any claim, whether meritorious or not, could be time consuming, result in costly litigation, cause service upgrade delays or require us to enter into royalty or licensing agreements. These royalty or licensing agreements might not be available on terms acceptable to us or at all.

If we are unable to protect our Internet domain name or to prevent others from using names that are confusingly similar, our business may be adversely impacted.

Our Internet domain names, www.1800PetMeds.com, www.1888PetMeds.com, www.petmedexpress.com, and www.petmeds.com are critical to our brand recognition and our overall success. If we are unable to protect these domain names, our competitors could capitalize on our brand recognition. We are aware of substantially similar domain names, including www.petmed.com, used by competitors. Governmental agencies and their designees generally regulate the acquisition and maintenance of domain names. The regulation of domain names in the United States and in foreign countries has changed, and may undergo further change in the near future. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. Therefore, we may not be able to protect our own domain names, or prevent third parties from acquiring domain names that are confusingly similar to, infringe upon or otherwise decrease the value of our domain names.

Since all of our operations are housed in a single location, we are more susceptible to business interruption in the event of damage to or disruptions in our facility.

Our headquarters and distribution center are located in the same building in South Florida, and all of our shipments of products to our customers are made from this sole distribution center. We have no present plans to establish any additional distribution centers or offices. Because we consolidate our operations in one location, we are more susceptible to power and equipment failures, and business interruptions in the event of fires, floods and other natural disasters than if we had additional locations. Furthermore, because we are located in South Florida, which is a hurricane-sensitive area, we are particularly susceptible to the risk of damage to, or total destruction of, our headquarters and distribution center and surrounding transportation infrastructure caused by a hurricane. We cannot assure you that we are adequately insured to cover the amount of any losses relating to any of these potential events, business interruptions resulting from damage to or destruction of our headquarters and distribution center; or interruptions or disruptions to major transportation infrastructure or other events that do not occur on our premises.

A portion of our sales are seasonal and our operating results are difficult to predict and may fluctuate.

Because our operating results are difficult to predict, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. The majority of our product sales are affected by the seasons, due to the seasonality of mainly heartworm and flea and tick medications. Industry seasonality trends, according to Fountain Agricounsel LLC, Management Consultants to Agribusiness, are divided into percentage of industry sales by quarter. For the quarters ended March 31, June 30, September 30, and December 31 industry sales are 19%, 37%, 28%, and 16%, respectively.

In addition to the seasonality of our sales, our annual and quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a variety of factors, many of which are out of our control. Factors that may cause our operating results to fluctuate include:

* Our inability to obtain new customers at a reasonable cost, retain existing customers, or encourage reorders;

* Our inability to increase the number of visitors to our web site, or our inability to convert visitors to our web site into customers;

* The mix of medications and other pet products sold by us;

* Our inability to manage inventory levels;

* Our inability to adequately maintain, upgrade and develop our web site, the systems that we use to process customer's orders and payments, or our computer network;

* Increased competition within our market niche;

* Price competition;

* Increases in the cost of advertising;

* The amount and timing of operating costs and capital expenditures relating to expansion of our product line or operations; and

* Disruption of our toll-free telephone service, technical difficulties, systems and Internet outages or slowdowns.

Any change in one or more of these factors could materially adversely affect our results of operations in future periods.

Our shares of common stock currently have a limited trading market.

Our shares of common stock are currently quoted on the OTC Bulletin Board. Our shares of common stock currently have only a limited trading market. As a result, you may find it difficult to dispose of shares of our common stock and you may suffer a loss of all or a substantial portion of your investment in our common stock.

Our stock price fluctuates from time to time and may fall below expectations of securities analysts and investors, and could subject us to litigation, which may result in you suffering the loss of your investment.

The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include: quarterly variations in operating results; changes in accounting treatments or principles; announcements by us or our competitors of new products and services offerings, significant contracts, acquisitions or strategic relationships; additions or departures of key personnel; any future sales of our common stock or other securities; stock market price and volume fluctuations of publicly-traded companies; and general political, economic and market conditions.

It is likely that in some future quarter our operating results may fall below the expectations of securities analysts and investors, which could result in a decrease in the trading price of our common stock. In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may be the targets of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources, which could seriously harm our business and operating results.

The interests of our controlling stockholders could conflict with those of our other stockholders.

Tricon Holdings, LLC, ("Tricon") our principal shareholder, own and control 38.7% of our voting securities and together with the exercise of 2,160,000 warrants, would own and control 44.9% of our voting securities. Guven Kivilcim, member of Tricon, and one of our directors, owns and controls 9.5% of our voting securities and together with the exercise of 540,000 warrants, would own and control 11.9% of our voting securities. These shareholders collectively have a 54.6% beneficial ownership. These stockholders are able to influence the outcome of stockholder votes, including votes concerning: the election of directors; amendments to our charter and by-laws; and the approval of significant corporate transactions like a merger or sale of our assets. This controlling influence could have the effect of delaying or preventing a change in control, even if many of our stockholders believe it is in their best interest.

We may issue additional shares of preferred stock that could defer a change of control or dilute the interests of our common stockholders. Our charter documents could defer a takeover effort, which could inhibit your ability to receive an acquisition premium for your shares.

Our charter permits our board of directors to issue up to 5,000,000 shares of preferred stock without shareholder approval. Currently there are 2,500 shares of our Convertible Preferred Stock issued and outstanding. This leaves 4,997,500 shares of preferred stock available for issuance at the discretion of our board of directors. These shares, if issued, could contain dividend, liquidation, conversion, voting or other rights which could adversely affect the rights of our common shareholders and which could also be utilized, under some circumstances, as a method of discouraging, delaying or preventing our change in control. Provisions of our articles of incorporation, bylaws and Florida law could make it more difficult for a third party to acquire us, even if many of our stockholders believe it is in their best interest.

Item 2. Description of Property.

As of March 31, 2001, our facilities, including our principal executive offices, a 50,000 square foot building, were located at 1441 SW 29th Avenue, Pompano Beach, FL 33062. The Company purchased this building in February 1999, and financed it with a seven year, 7.75% mortgage with a commercial bank in the original principal amount of $1,680,000. 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. 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. The future minimum annual lease payments as of March 31, 2003, are as follows: $277,000 for fiscal 2004, $288,000 for fiscal 2005, $300,000 for fiscal 2006, and $50,000 for fiscal 2007.

Item 3. Legal Proceedings.

Various complaints had 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, alleged violations of the Pharmacy Practice Act and regulations promulgated thereunder. The vast majority of the complaints alleged that the Company, through its pharmacists, improperly dispensed prescription-required veterinary medication based on prescriptions verified through the Company's discontinued alternate veterinarian program. The alternate veterinarian program used a veterinarian outside the state of Florida to verify prescriptions for certain pets outside the state of Florida. While the program was not used for pets residing in the state of Florida, the complaints had, for the most part, been filed with the Florida Board of Pharmacy. Other complaints alleged the dispensing of medication without a valid prescription, the sale of non-conforming products and that the Company's pharmacy was operating at the same location as another pharmacy, with which it had 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 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. As of March 31, 2003, the Company had paid all fines in full to cover any or all administrative and investigative costs associated with these settlements. At March 31, 2003, there was no accrual relating to 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, which was paid in September 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. Accordingly, a gain of $345,000 was reflected in the statement of income for the year ended March 31, 2002, to reflect the adjustment to this settlement.

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 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. 1114; Count II: Infringement of Unregistered Trademarks Under Section 43(a) of the Lanham Act, 15 U.S.C. 1125(a); Count III: False Advertising Under Section 43(a) of the Lanham act, 15 U.S.C. 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. Subsequent to the year ended March 31, 2003, the Company reached a final settlement agreement with Novartis. According to the confidential settlement agreement dated April 7, 2003, the Company has satisfactorily resolved the contested issues raised by the complaint and the confidential settlement terms will not have a material impact on the Company's operations and financial results.

The Company is a defendant in a lawsuit in Texas state district court seeking injunctive and monetary relief styled Texas State Board of Pharmacy and State Board of Veterinary Medical Examiners v. PetMed Express, Inc. Cause No.GN-202514, in the 201st Judicial District Court, Travis County, Texas, which was filed in August 2002. The Company in its initial pleading denied the allegations contained therein. The Company will vigorously defend, is confident of its compliance with the applicable law, and finds wrong-on-the-facts the vast majority of the allegations contained in the Plaintiffs' supporting documentation attached to the lawsuit. Discovery has recently commenced. At this early stage of the litigation it is difficult to assess any possible outcome or estimate any potential loss in the event of an adverse outcome.

Routine Proceedings

The Company is a party to routine litigation incidental to its business. 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 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of our shareholders during the fourth quarter of the fiscal year ended March 31, 2003.

PART II

Item 5. Market for Common Equity and Related Stockholder

Matters.

The Company's common shares are traded on the OTC Bulletin Board ("OTCBB") under the symbol "PETS". The prices set forth below reflect the range of high and low closing prices per share in each of the quarters of fiscal 2003 and 2002 as reported by the OTCBB.

	High	Low
Fiscal 2003:		
First Quarter	$1.75	$0.76
Second Quarter	$2.53	$1.75
Third Quarter	$2.30	$1.57
Fourth Quarter	$2.36	$1.78
Fiscal 2002:		
First Quarter	$2.11	$0.88
Second Quarter	$1.45	$0.64
Third Quarter	$1.15	$0.65
Fourth Quarter	$1.25	$0.76

There were 68 holders of record of our common stock at May 31, 2003, and we estimate there were approximately 950 beneficial shareholders on that date. The closing sales price for the common stock on June 13, 2003 as reported on the OTCBB was $4.00 per share. In October 2002, the Company submitted an application for listing on the American Stock Exchange ("AMEX"). In June 2003, the Company's Board of Directors decided to withdraw its application for listing on the AMEX, while all other options are explored, which includes reapplying to the AMEX for listing at a later date. No assurances can be made that the Company will qualify or be accepted for listing on a major exchange.

A special note about penny stock rules

The Company's common stock is covered by an SEC rule that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors, which are generally institutions with assets in excess of $5,000,000, or individuals with net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities, and also may affect the ability of purchasers of our stock to sell their shares in the secondary market. It may also cause less broker-dealers to be willing to make a market in our common stock, and it may affect the level of news coverage we receive.

Recent Sales of Unregistered Securities

In April 2002, we issued 300,000 shares of the Company's common stock to our president upon the exercise of options at an exercise price of $.16 per share. These 300,000 shares were subsequently registered for resale under the August 2, 2002 Form

SB-2. Additionally, in April 2002, we issued 300,000 shares of the Company's common stock to one individual upon the exercise of options at an exercise price of $.37 per share.

In June 2002, we issued 10,500 shares of the Company's common stock to one individual upon the exercise of options at an exercise price of $1.25 per share. These 10,500 shares were subsequently registered for resale under the August 2, 2002 Form SB-2.

In July 2002, we issued 12,500 shares of the Company's common stock to two individuals upon the exercise of options at an exercise price of $.20 per share.

In May 2003, we issued 12,500 shares of the Company's common stock to one individual upon the exercise of options at an exercise price of $.20 per share.

All of these issuances were made in reliance on an exemption from registration under the Securities Act of 1933 in reliance on Section 4(2) thereof. There were no underwriters involved in any of these issuances and we did not pay any commissions. In each of the foregoing transactions, the recipients were either accredited investors or non-accredited investors who had such knowledge and experience in financial, investment and business matters that they were capable of evaluating the merits and risks of the prospective investment in our securities. No general solicitation or advertising was used in connection with these transactions, the participants had access to business and financial information concerning our company, and the certificates that were issued representing these shares bore the appropriate legend restricting their transfer absent registration of such shares under the Securities Act of 1933, as amended.

Dividend Policy

The Company has never paid cash dividends on our common stock. We presently intend to retain future earnings, if any, to finance the expansion of our business and do not anticipate that any cash dividends on our common stock will be paid in the foreseeable future. The future dividend policy will depend on our earnings, capital requirements, expansion plans, financial condition and other relevant factors.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth securities authorized for issuance under equity compensation plans, including individual compensation arrangements, by us under our 1998 Stock Option Plan and any compensation plans not previously approved by our board of directors as of March 31, 2003:

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of se remaining av for future i (c)
1998 Stock Option Plan	2,639,600	$ 1.06	2,360,
Equity compensation plans not approved by security holders(1)	91,500	$ 1.33	
Total	2,731,100		2,360,

(1) Represents non-plan options to purchase an aggregate of 91,500 shares of our common stock issued to a member of our management.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Overview

PetMed Express was incorporated in the state of Florida in

January 1996. The Company began selling pet medications and products in September 1996, and in the fall of 1997 we issued our first catalog. This catalog displayed approximately 1,200 items, including prescription and non-prescription pet medications, pet health and nutritional supplements and pet accessories. In fiscal 2001, the Company focused its product line to approximately 600 of the most popular pet medications for dogs and cats. The Company also markets products on its web site, where we currently generate approximately 50% of all sales, over the previous 12 months we generated 44% of all sales. Since October 1997, the Company has advertised its products on national television and through the direct mailing of catalogs and postcards.

The Company's sales consist of products sold to mainly retail consumers and minimal wholesale customers. 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. For the fiscal year ended March 31, 2003, the Company's sales returns average was approximately 1.6% of sales, and the average purchase was approximately $71.

The following should be read in conjunction with the Company's Consolidated Financial Statements and the related notes thereto included elsewhere herein.

Results of Operations

The following table sets forth, as a percentage of sales, certain items appearing in the Company's statements of income.

	Fiscal Year	
	March 31, 2003	March 31, 2002
Net sales	100.0 %	100.0 %
Cost of sales	57.3	59.0
Gross profit	42.7	41.0
Operating expenses:		
General and administrative	14.5	19.0
Advertising	21.2	17.9
Severance charges	-	0.6
Depreciation and amortization	0.7	1.2
Total operating expenses	36.4	38.7
Income from operations	6.3	2.3
Other income (expense):		

Adjustment of estimate for legal settlement	-	1.1
Gain (loss) on disposal of property and equipment	0.1	(1.0)
Interest expense	(0.1)	(0.1)
Interest income	-	0.1
Other, net	-	0.2
Total other income (expense):	-	0.3
Income before provision for income taxes	6.3	2.6
Provision for income taxes	0.4	-
Net income	5.9	2.6

Fiscal 2003 Compared to 2002

Sales

Sales increased by approximately $22,949,000, or 71.7%, to approximately $54,975,000 for the fiscal year ended March 31, 2003, from approximately $32,026,000 for the fiscal year ended March 31, 2002. The increase in sales was primarily attributable to the positive effects of increased advertising and increased retail reorders, partially offset by a decrease in wholesale sales. Advertising as a percentage of sales increased to 21.2% in fiscal 2003 from 17.9% in fiscal 2002. The Company has committed certain amounts specifically designated towards television advertising to stimulate sales, create brand awareness, and acquire new customers. Retail new order sales have increased by approximately $10,143,000, or 54.0%, to approximately $28,915,000 for the fiscal year ended March 31, 2003, from approximately $18,772,000 for the fiscal year ended March 31, 2002. Retail reorder sales have increased by approximately $15,575,000, or 151.9%, to approximately $25,827,000 for the fiscal year ended March 31, 2003, from approximately $10,252,000 for the fiscal year ended March 31, 2002. Wholesale sales have decreased by approximately $2,769,000, or 92.3%, to approximately $233,000 for the fiscal year ended March 31, 2003, from approximately $3,002,000 for the fiscal year ended March 31, 2002. The Company has discontinued its wholesale operations to concentrate on retail sales.

The majority of our product sales are affected by the seasons, due to the seasonality of mainly heartworm and flea and tick medications. Industry seasonality trends, according to Fountain Agricounsel LLC, Management Consultants to Agribusiness, are divided into percentage of industry sales by quarter. For the quarters ended March 31, June 30, September 30, and December 31 industry sales are 19%, 37%, 28%, and 16%, respectively. The

Company cannot accurately predict future sales, however, based on current circumstances the Company does not expect a significant variance compared to the industry trends in the first quarter of fiscal 2004.

Cost of sales

Cost of sales increased by approximately $12,623,000, or 66.8%, to approximately $31,518,000 for the fiscal year ended March 31, 2003, from approximately $18,895,000 for the fiscal year ended March 31, 2002. The increase in cost of sales is directly related to the increase in retail sales in fiscal 2003 as compared to 2002. However, as a percent of sales, the cost of sales was 57.3% in fiscal 2003, as compared to 59.0% in 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 $10,326,000, or 78.6%, to approximately $23,457,000 for the fiscal year ended March 31, 2003 from approximately $13,131,000 for the fiscal year ended March 31, 2002. Gross profit as a percentage of sales for fiscal 2003 and 2002 was 42.7% and 41.0%, respectively, reflecting the positive impact of purchasing medications in larger quantities, receiving purchasing discounts. In February 2003, the Company initiated a free shipping program on all orders exceeding $40 in total. The Company expects increased sales from this free shipping promotion, however, this promotion will reduce the Company's gross profit percentage in the first quarter of fiscal 2004.

General and administrative expenses

General and administrative expense increased by approximately $1,862,000, or 30.6%, to approximately $7,957,000 for the fiscal year ended March 31, 2003 from approximately $6,095,000 for the fiscal year ended March 31, 2002. General and administrative expense as a percentage of sales was 14.5% and 19.0% for the fiscal years ended March 31, 2003 and 2002, respectively. The increase in general and administrative expense for the year ended March 31, 2003 is primarily due to the following: a $1,428,000 increase to payroll expenses which can be attributed to the addition of new employees in the customer service and pharmacy departments, which enabled the company to sustain its continued growth, a $493,000 increase to bank service and credit card fees which is directly related to the increase in fiscal 2003 sales, the $250,000 increase in property and insurance expenses, which includes utilities and rental expenses, can be attributed to leasing additional space to support our expansion in fiscal 2003, offset with a $285,000 decrease to professional fees and a $24,000 decrease to various other expenses.

Advertising expenses

Advertising expenses increased by approximately $5,933,000, or approximately 103.8%, to approximately $11,650,000 for the fiscal year ended March 31, 2003 from approximately $5,717,000 for the fiscal year ended March 31, 2002. The significant increase in advertising expense for the fiscal year ended March 31, 2003 was due to the Company's plan to commit certain amounts specifically designated towards television advertising to stimulate sales, create brand awareness, and acquire new customers. The Company expects this trend in advertising to continue into the first and second quarters of 2004.

Severance charges

Severance charges for the fiscal year ended March 31, 2002 of $195,000 relate to severance due to two former executive officers, the CFO and COO, of the Company. No comparable charges were made in fiscal 2003.

Depreciation and amortization

Depreciation and amortization decreased by approximately $9,000, or 2.4%, to approximately $368,000 for the fiscal year ended March 31, 2003 from approximately $377,000 for the fiscal year ended March 31, 2002. The slight decrease to depreciation and amortization expense for fiscal 2003 can be attributed to a depreciation expense reduction related to the sale of our facilities in fiscal 2002, offset by an increase to property additions in fiscal 2003.

Adjustment of estimate for legal settlement

In fiscal 2002, the Company recognized income of $345,000 on a reversal of a legal assessment estimate, which was originally booked in the fiscal year ended March 31, 2001. On September 28, 2001, the Company and the EPA entered into a Consent Agreement and Final Order. The settlement agreement required the Company to pay a civil penalty of $100,000 plus interest, a reduction from the original $445,000 fine.

Gain or loss on disposal of property and equipment

In fiscal 2003, the Company recorded a gain on disposal of computer equipment of $15,000. The fully depreciated computer equipment was sold to an unrelated third party and the Company received gross proceeds of $15,000. During fiscal 2002, the Company recorded a loss on disposal of land and building of $314,000. An $185,000 loss was the 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. The remaining $129,000 loss relates to the impairment of outdated computer equipment, which was no longer utilized by the company.

Interest Expense

Interest expense decreased by approximately $18,000, or 37.2%, to approximately $31,000 for the fiscal year ended March 31, 2003 from approximately $49,000 for the fiscal year ended March 31, 2002. The $18,000 decrease 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. Interest expense may increase further in future quarters, due to the Company's plan to utilize its $2,000,000 line of credit to increase inventory levels during promotion periods.

Provision for income taxes

The Company had incurred significant net losses since its inception in 1996, through the quarter ended June 30, 2001. These losses have resulted in net operating loss carryforwards, which have been used by the Company to offset its tax liabilities. For the fiscal year ended March 31, 2002, the Company recorded a full valuation allowance against the deferred income tax assets, created by net operating losses, since future utilization of these assets was subject to the Company's ability to generate taxable income. For the fiscal year ended March 31, 2003, the Company recognized a deferred income tax asset of approximately $581,000, due to the fact that the Company had demonstrated the ability to generate taxable income. There are no guarantees that the Company will be able to utilize all future net operating loss carryforwards, unless the Company generates taxable income. For the fiscal years ended March 31, 2003 and 2002, the Company recorded an income tax provision for approximately $223,000 and $0, respectively. There was no income tax provision for fiscal 2002, due to the utilization of prior net operating losses which offset taxable income for the period. The effective tax rate for fiscal 2003 of 6.4% is lower than the federal tax rate of 34%, this is primarily due to the recognition of the deferred tax asset. Upon recognition of the $581,000 deferred income tax asset, the Company reduced its income tax provision by the same amount. This income tax provision reduction was a tax benefit, which increased net income.

Net income

Net income increased by approximately $2,433,000, or 294.7%, to $3,258,000 net income for the fiscal year ended March 31, 2003 from $825,000 net income for the fiscal year ended March 31, 2002. The significant increase was mainly attributable to the Company's profitable operations and the recognition of a deferred tax asset of $581,000.

Liquidity and Capital Resources

The Company's working capital at March 31, 2003 was $3,018,000, as compared to the $691,000 at March 31, 2002, an increase of approximately $2,327,000. The increase in working capital was primarily attributable to the profitable operations of the Company which resulted in net cash provided by operating activities of $970,000 and $476,000 for the years ended March 31, 2003 and 2002, respectively. Net cash used in investing activities was $1,095,000 for the year ended March 31, 2003 as compared to net cash provided by investing activities of $1,461,000 for the year ended March 31, 2002, primarily as a result of increased property and intangible asset additions in fiscal 2003, compared to the proceeds received from the sale of the corporate office building and land in fiscal 2002. Net cash provided by financing activities increased to $371,000 for the year ended March 31, 2003, as compared to net cash used in financing activities of $1,609,000 for the year ended March 31, 2002. This increase relates directly to proceeds received upon the exercise of stock options and warrants offset by repayment of the line of credit in fiscal 2003, as compared to the satisfaction of the mortgage in fiscal 2002.

Since inception, the Company has primarily funded its growth through the private placement of securities. In April 1998, the Company raised an additional $888,000 of net proceeds from the private placement of 250,000 shares of Convertible Preferred Stock. In February 1999, the Company raised approximately $819,000 of net proceeds from the sale of 330,333 shares of common stock. In November 2000 the Company raised $2,000,000 from the private placement of 10,000,000 shares of equity securities. The Company had financed certain equipment acquisitions with capital leases, as of March 31, 2003 the Company had no outstanding lease commitments.

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. 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.

On July 22, 2002, the Company executed an agreement which increased the line of credit from $150,000 to $1,000,000. On March 18, 2003, the Company increased the line of credit agreement from $1,000,000 to $2,000,000, effective through July 22, 2004. The interest rate is at the published thirty day London Interbank Offered Rates ("LIBOR") plus 2.65% (3.92% at March 31, 2003), and contains various financial and operating covenants. At March 31, 2003, there was no outstanding balance under the line of credit agreement.

On March 12, 2002, the Company entered into a $205,000, three year term loan agreement with a bank, with interest accruing at the lending institution's base rate plus 1% (5.25% at March 31, 2003). The loan proceeds were used to purchase a $250,000 computer server. The aggregate loan maturities are $68,000 per year for three years. The line of credit and the term loan are secured by substantially all of the Company's assets.

Presently, the Company has approximately $650,000 planned for capital expenditure commitments to further the Company's growth and the addition of backup computer equipment to sustain business during an outage, during fiscal 2004, which will be funded through cash from operations. Other than working capital and credit line, 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, 2003 and 2002 the Company had net income of $3,258,000 and $825,000, and has sustained profitability for seven consecutive quarters. The Company may seek to raise additional capital 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.

Recent Accounting Pronouncements

The Company does not believe that any 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.

Item 7. Financial Statements.

The financial statements of the Company and the related notes are set forth at pages F-1 through F-16 attached hereto.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

On January 22, 2001, PetMed appointed Lopez Levi & Associates, LLC, as its independent auditor and Lopez Levi & Associates, LLC accepted such appointment. PetMed has not consulted with Lopez Levi & Associates, LLC on the application of accounting principles to any completed or proposed transaction or on the type of audit opinion that might be given. On April 24, 2001, the Company terminated the engagement of Lopez Levi & Associates, LLC as the Company's independent auditor. There have been no disagreements with Lopez Levi & Associates, LLC on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Lopez Levi & Associates, LLC, would have caused Lopez Levi & Associates, LLC to make reference to the matter in their report on PetMed's financial statements.

On April 24, 2001, PetMed appointed Goldstein Golub Kessler LLP as its independent auditor and Goldstein Golub Kessler LLP accepted such appointment. PetMed had not consulted with Goldstein Golub Kessler LLP prior to their engagement as our independent auditors, on the application of accounting principles to any completed or proposed transaction or on the type of audit opinion that might be given. The decision to change audit firms was approved by our Board of Directors.

PART III

Item 9. Directors, Executive Officers, Promoters, and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Set forth below is information regarding the board of directors and executive officers of the Company:

Name	Office	Age
Marc A. Puleo, M.D.	Chairman of the Board, President and Corporate Secretary	40
Menderes Akdag	Chief Executive Officer	42
Bruce S. Rosenbloom	Chief Financial Officer and Treasurer	34
Guven Kivilcim	Director	30
Robert C. Schweitzer	Director	56
Ronald J. Korn	Director	63
Gian Fulgoni	Director	55

MARC PULEO, M.D., age 40, has served as Chairman of our Board of Directors since our inception in January 1996. From January 1996 until March 2000, Dr. Puleo also served as our President, from January 1996 until March 2001, Dr. Puleo served as our Chief Executive Officer, from January 1996 until May 2000, and Dr. Puleo served as our Treasurer from January 1996 to May 2001. Dr. Puleo has also been the President of South Florida Anesthesia Professionals, an entity located in Fort Lauderdale, Florida, since founding that company in January 1996. Dr. Puleo was Vice President of Dynamic Press, Inc., an offset printing and direct marketing company, from June 1997 until June 1998. Dr. Puleo, an anesthesiologist, was employed with Anesthesia Professional Association, North Ridge Medical Center and North Ridge Outpatient Surgery Center from December 1994 through December 1995. Dr. Puleo was an anesthesia resident with the University of Illinois Hospitals and Clinics, the Michael Reese Hospital, the Westside Veteran's Administration Hospital, the University of Illinois Eye and Ear Infirmary, the Nathan Cummings Surgicenter, and the University of Illinois Pain Clinic, all located in the Chicago, Illinois area, from July 1991 through June 1994. Dr. Puleo received his medical degree from the University of Illinois College of Medicine, Chicago, Illinois.

MENDERES AKDAG, age 42, was appointed Chief Executive Officer on March 16, 2001. Prior to joining PetMed Express, from November 2000 until March 2001, Mr. Akdag served as Chief Executive Officer of International Cosmetics Marketing Co. d/b/a Beverly Sassoon & Co., a publicly held (OTCBB: ICMK) direct sales company distributing skin care and nutritional products. From May 1991 until August 2000, Mr. Akdag was employed by Lens

Express, Inc., a direct sales company distributing replacement contact lenses, serving as its President from May 1996 until August 2000, Chief Executive officer and a member of the Board of Directors from August 1992 until May 1996, and Chief Financial Officer and a member of the Board of Directors from May 1991 until August 1992. On December 14, 1998, Netel Inc., a corporation in which Mr. Akdag served as a member of the Board of Directors, filed a Petition for Chapter 11 bankruptcy in the United States Bankruptcy Court Southern District of Florida. The proceeding was styled IN RE: NETEL, INC., CASE NO. 98-28929-BKC-PGH. On July 19, 1999, the Bankruptcy Court entered an Order Confirming an Amended Chapter 11 Plan. On December 21, 1999, the Bankruptcy Court entered a Final Decree, Discharge of Trustee, and closed the case. Mr. Akdag holds a Bachelor of Science degree in Business Administration with a major in finance from the University of Florida where he graduated with high honors.

BRUCE ROSENBLOOM, age 34, was appointed Chief Financial Officer on May 30, 2001. Mr. Rosenbloom served as the Manager of Finance and Financial Reporting of Cooker Restaurant Corporation, a $147 million, 65 location, publicly held (OTCBB: CGRT) restaurant, in West Palm Beach, Florida, from December 2000 until May 2001. Mr. Rosenbloom's duties included all internal and external reporting including all SEC filings and Annual Report to Shareholders. Mr. Rosenbloom was a senior audit accountant for Deloitte & Touche LLP, an international accounting firm, West Palm Beach, Florida, from January 1996 until December 2000. Mr. Rosenbloom was responsible for planning and conducting all aspects of audit engagements for clients in various industries, including direct marketing, healthcare, manufacturing, financial institutions, and professional service firms. From August of 1992 to May of 1995, Mr. Rosenbloom was an Account Executive for MCI Telecommunications. Mr. Rosenbloom, a certified public accountant, received a Bachelor of Science degree in Accounting from Florida Atlantic University, Boca Raton, Florida in 1996 and a Bachelor of Arts degree in Economics from the University of Texas, Austin, Texas in 1992.

GUVEN KIVILCIM, age 30, has been a member of our Board of Directors since November 2000. Since December 1997, Mr. Kivilcim has been President and Director of Radiant Telecom, Inc., a long distance telecommunications company. Mr. Kivilcim is a member of Tricon Holdings, LLC, which is the principal shareholder of the Company. From 1995 to present, Mr. Kivilcim has been employed as a Vice President with Tel3.com and a managing member of Intelligent Switching and Software, Inc., long distance telecommunications companies. Mr. Kivilcim is also Secretary and Treasurer of Next Communications, Inc. and Secretary and Director of Ntera, Inc.

ROBERT C. SCHWEITZER, age 56, was the Regional President of Union Planters Bank for Broward and Palm Beach County Florida markets from April 1999 to December 2002. Prior to joining Union Planters, Mr. Schweitzer served as the Executive VP and Head of Commercial Banking for Barnett Bank/NationsBank in Jacksonville, Florida from 1993 to 1999. Other positions held include Director and Head of Real Estate Consulting for Coopers & Lybrand in Washington, D.C.; Senior VP and Manager of Central North America Real Estate for the First National Bank of Chicago, and Manager of Domestic Credit Process Review; Senior VP & Manager of Central North American Banking for Wachovia Bank. Mr. Schweitzer holds an MBA from the University of North Carolina, and a Bachelor of

Science degree from the United States Naval Academy.

RONALD J. KORN, age 63, has been the President of Ronald Korn Consulting, a business consulting firm, since 1991. He served as the Managing Partner of KPMG, LLP's Miami office from 1985 to 1991. Mr. Korn held various positions including Partner with KPMG, an international accounting firm, from 1961 until 1991. He has served as a Director of TOUSA Homes, Inc. (formerly Engle Homes, Inc.) since 1992, and a Director, Chairman of the Audit Committee, and member of the Loan Committee of Horizon Bank, FSB since 1999. Mr. Korn previously served as a Director and Chairman of the Audit Committee of Vacation Break U.S.A., Inc. and Magicworks Entertainment Corporation, and Non-Executive Chairman of Carole Korn Interiors, Inc. Mr. Korn holds a Juris Doctor degree from the New York University Law School and a Bachelor of Science degree in Economics from the University of Pennsylvania, Wharton School.

GIAN FULGONI, age 55, has been the Executive Chairman of ComScore Networks, Inc. since 1999. From 1981 until 1998, Mr. Fulgoni served as president and chief executive officer of Information Resources, Inc. (IRIC: NASDAQ). He was a member of our Board of Directors from August 1999 through November 2000. Mr. Fulgoni currently serves as a member of the Board of Directors of Easter Seals, Chicago. Mr. Fulgoni served on the Board of Directors of Platinum Technology, Inc. from 1990 to 1999, U.S. Robotics, Inc. from 1991 to 1994, and Yesmail.com, Inc. in 1999. Educated in the U.K., Mr. Fulgoni holds a Masters degree in Marketing from the University of Lancaster and a Bachelor of Science degree in Physics from the University of Manchester.

On November 13, 2002, Messrs. Kenneth Jacobi and Huseyin Kizanlikli, members of the Board of Directors of the Company resigned. The resignations were not related to a disagreement with the Company on any matter related to the Company's operations, policies or practices. On November 14, 2002 through November 19, 2002, the Company appointed four new board members to its Board of Directors. Joining the Company's Board of Directors are Messrs. Robert C. Schweitzer, Ronald J. Korn, Gian Fulgoni, and the Company's Chief Executive Officer, Menderes Akdag. Each independent Board of Director will be compensated $10,000 annually, and were granted 30,000 stock options, at an exercise price of $1.90 per share, to purchase the Company's Common Stock, which will vest equally over a three year period.

There are no familial relationships between any of the executive officers and directors, however, Mr. Kivilcim is the nephew of the majority shareholder, Mustafa Yesil, who owns Tricon Holdings, LLC. Each director is elected at our annual meeting of shareholders and holds office until the next annual meeting of our shareholders, or until his or her successor is elected and qualified. The bylaws permit the board of directors to fill any vacancy and that director may serve until the next annual meeting of stockholders or until his successor is elected and qualified.

Committees of the Board of Directors

The Board of Directors has established an audit committee and a compensation committee, both of which are comprised of non-employee independent directors. The compensation committee establishes guidelines and standards relating to the determination of executive compensation, reviews executive compensation policies and recommends to our board of directors compensation for our executive officers and other employees. Our compensation committee also administers our stock incentive plan and determines the number of shares covered by, and terms of, options to be granted to executive officers and other employees under this plan.

The audit committee recommends independent auditors, reviews internal financial information, reviews audit reports and management letters, participates in the determination of the adequacy of the internal accounting control system, reviews the results of audits with independent auditors, oversees quarterly and yearly reporting, and is responsible for policies, procedures, and other matters relating to business integrity, ethics and conflicts of interests. The members of the compensation and audit committees are Messrs. Schweitzer, Korn, and Fulgoni.

Compliance With Section 16(a) of the Exchange Act

We became a reporting company under the Securities Exchange Act of 1934 (the "Exchange Act") in March 2000. Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(d) of the Securities Exchange Act of 1934 ("Exchange Act") through the fiscal year ended March 31, 2003, the Company is not aware of any person that failed to file on a timely basis, as disclosed in the aforementioned forms, reports required by Section 16(a) of the Exchange Act during the fiscal year ended March 31, 2003, except as follows:

* Tricon Holdings, LLC, ("Tricon") our majority shareholder, failed to file a Form 4 for exercising the right to 2,500,000 shares of our common stock in each of the three months, December 2000, January 2001, and February 2001. Additionally, Tricon failed to file a Form 4 for the distribution of 1,860,000 shares of our common stock and 540,000 warrants in November 2002 to the indirect beneficial owner, Guven Kivilcim, a director of the Company. Such delinquent reports were subsequently filed.

* Guven Kivilcim, a director of the Company, failed to file a Form 4 for receiving the distribution of 1,860,000 shares of our common stock and 540,000 warrants from Tricon in November 2002. Additionally, Mr. Kivilcim failed to file a Form 4 for exercising the right to 500,000 shares of our common stock in each of the three months, December 2000, January 2001, and February 2001, reflecting the indirect ownership of Tricon. Also, Mr. Kivilcim failed to file a Form 4 for his purchase of 11,000 shares of our common stock in March 2001 and his spouse's purchase of a total of 26,000 shares of our common stock in March, August, and September 2001. Such delinquent reports were subsequently filed.

* Creslin Limited, ("Creslin"), our majority shareholder who holds and controls Tricon, failed to file a Form 4 for exercising the right to 2,000,000 shares of our common stock in each of the three months, December 2000, January 2001, and February 2001, reflecting the indirect ownership of Tricon. Additionally, Creslin failed to file a Form 4 for the following: the sale of 500,000 shares of our common stock by Tricon in September 2002, the issuance of 300,000 shares of our common stock upon the exercise of stock options by Tricon in September 2002, the sale of 225,000 shares of our common stock by Tricon in October 2002, the distribution of 1,860,000 shares of our common stock and 540,000 warrants in November 2002 to the indirect beneficial owner, Guven Kivilcim, a director of the Company, the sale of 125,000 shares of our common stock by Tricon in March 2003, the sale of 200,000 shares of our common stock by Tricon in June 2003, reflecting the indirect ownership of Tricon. Such delinquent reports were subsequently filed.

* Marc Puleo, the Company's president, failed to file a Form 4 upon the grant of 600,000 options to purchase the Company's common stock in May 2000. This delinquent report was subsequently filed.

Item 10. Executive Compensation.

The following table sets forth the annual and long-term compensation paid by us for services performed on our behalf for the last three completed fiscal years ended March 31, 2003, 2002 and 2001, with respect to our chief executive officer and other executive officers serving as such who earned compensation greater than $100,000 in these fiscal years:

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation		
					Awards	Payouts	
Name and Principal Position	Year	Salary	Bonus	Other Annual Compen- sation ($)	Securities Underlying Options/ SARs (#)	LTIP Payouts ($)	All Other Compen- sation ($)
Marc Puleo, M.D.,	2003	$ 100,000	50,000	-	240,000	-	-
Chairman of the Board	2002	88,462	-	-	-	-	-
President	2001	85,000	15,000	-	200,000	-	-
Menderes Akdag,	2003	200,000	-	-	-	-	-
Chief Executive Officer	2002	176,923	-	-	-	-	-
	2001	6,000	-	-	750,000	-	-

Bruce S. Rosenbloom,	2003	100,000	500	-	-	-	-
Chief Financial Officer	2002	77,962	-	-	75,000	-	-
	2001	-	-	-	-	-	-

Employment Agreements

On March 16, 2001, the Company entered into an employment agreement with Menderes Akdag to serve as the Company's Chief Executive Officer. Under the terms of this three-year agreement the Company will pay Mr. Akdag an annual salary of $150,000 for the first six months of the agreement, and thereafter his annual salary will be increased to $200,000. The Company can terminate the employment of Mr. Akdag either upon mutual consent or for cause. If the Company should terminate Mr. Akdag for cause, or if Mr. Akdag should terminate the agreement without "good reason" as described in the employment agreement, no severance benefits shall be paid. If the Company should terminate Mr. Akdag without cause, the Company must give Mr. Akdag three months notice and continue to compensate him under the terms of this employment agreement during those three months. At the end of the three-month period, the Company must pay Mr. Akdag severance benefits equal to the annual base salary of the executive, and any previously granted but unvested options shall immediately vest. The agreement can be terminated upon the mutual consent of the parties, or upon 90 days notice by the Company during which time the Company shall continue to compensate him under the terms of his employment agreement. The Company also granted Mr. Akdag options to purchase 750,000 shares of its common stock under the Company's 1998 Stock Option Plan at an exercise price of $.32 per share, which vest at the rate of 187,500 options on each of March 16, 2001, 2002, 2003 and 2004, exercisable for a period of three years from the date of vesting. The employment agreement contains customary non-disclosure provisions, as well as a non-competition restriction for a period of 18 months following the termination of the agreement.

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On May 1, 2000, the Company entered into a two-year employment agreement with Marc Puleo, M.D., as Chief Executive Officer, which provided for annual cash compensation to him of $150,000. On November 8, 2000, Dr. Puleo's employment agreement dated May 1, 2000 was amended to reflect a salary of $75,000 annually. Under the terms of the employment agreement Dr. Puleo received an annual salary of $75,000, subject to increase no less frequent than an annual review by our board of directors. Dr. Puleo's salary was increased to $100,000 in Fiscal 2002, and than increased to $150,000 in May 2003. The Company can terminate the employment of Dr. Puleo either upon mutual consent or for cause. If the Company should terminate Dr. Puleo for cause, or if Dr. Puleo should terminate the agreement without "good reason" as described in the employment agreement, no severance benefits shall be paid. If the Company should terminate Dr. Puleo without cause, the Company must give Dr. Puleo three months notice and continue to compensate him under the terms of this employment agreement during those three months. At the end of the three-month period, the Company must pay Dr. Puleo severance benefits equal to the annual base salary of the executive, and any previously granted but unvested options shall immediately vest. If the Company should terminate Dr. Puleo for cause, as defined in employment agreement, no severance benefits shall be paid. The agreement can be terminated upon the mutual consent of the parties, or upon 90 days notice by the Company during which time the Company shall continue to compensate him under the terms of his employment agreement, or his contract will renew annually.

Stock Options

Non-Plan Options Agreements

As of June 13, 2003, options to purchase 91,500 shares of our common stock, at an exercise price of $1.33 per share, was outstanding.

1998 Stock Option Plan

The Plan, adopted July 1998, provides for the grant of options to purchase up to 5 million shares to key employees, including officers, and to non-employee directors and consultants. The purpose of this plan is to attract and retain persons eligible to participate in the plan, motivate participants to achieve our long-term goals by further aligning the interests of participants with those of our stockholders through compensation that is directly linked to the profitability of our business and increases in stockholder value. These options are intended to qualify either as incentive stock options within the meaning of Section 422 of the Internal Revenue Code, or as non-statutory stock options, which are options that are not intended to meet the requirements of that section of the Internal Revenue Code.

The plan is administered by the compensation committee. Under the plan, our compensation committee has the authority to determine: the persons to whom options will be granted, the number of shares to be covered by each option, exercise price of each option, whether the options granted are intended to be incentive stock options, the manner of exercise, and the time, manner and form of payment upon exercise of an option.

Incentive stock options granted under the plan may not be granted at a price less than the fair market value of our common stock on the date of grant (or less than 110% of the fair market value in the case of employees holding 10% or more of our voting stock). Non-statutory options may be granted at an exercise price established by our board of directors, but cannot be less than par value per share ($.001) of our common stock. Incentive stock options granted under the plan must expire not more than 10 years from the date of grant, and not more than five years from the date of grant in the case of incentive options granted to an employee who holds 10% or more of our voting stock.

As of June 13, 2003, options to purchase 2,158,434 shares of our common stock, at exercise prices ranging from $.32 to $4.50 per share, were outstanding under the Plan.

The following table sets forth certain information concerning grants of options to the Named Executive Officers during the fiscal year ended March 31, 2003.

OPTION GRANTS FOR FISCAL YEAR ENDED MARCH 31, 2003

Name	Individual Grants Number of Securities Underlying Options Granted (shares)		Percent of Total Options granted to Employees in Fiscal Year	Exercise or Base Price ($/share)	Expiration Date
Marc Puleo, M.D.	240,000	(a)	100%	$ 1.05	May 20, 2006
Menderes Akdag	-	(b)	-	-	-
Bruce S. Rosenbloom	-	(b)	-	-	-

(a) The Company granted Mr. Puleo options to purchase 240,000 shares of its common stock on May 20, 2002, under the Company's 1998 Stock Option Plan: 240,000 options at an exercise price of $1.05 per share which vest at the rate of 80,000 options on each of May 20, 2003, 2004, and 2005.

(b) No options were issued during fiscal 2003.

The following table sets forth, as of March 31, 2003, the number of stock options and the value of unexercised stock options held by the Named Executive Officers and the exercises of stock options during the year ended March 31, 2003 by the Named Executive Officers.

AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END STOCK OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized($)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#) Exercisable	Unexercisable	Value of U In-the-Mon Options at Fisc Exercisable
Marc Puleo, M.D.	300,000	$ 207,000	1,400,000	240,000	$ 1,734,000
Menderes Akdag	375,000	648,750	187,500	187,500	382,500
Bruce S. Rosenbloom	-	-	25,000	50,000	24,333

(1) Represents the difference between the closing price ($2.36) of the Company's Common stock on March 31, 2003, the last trading

day of the Company's 2003 fiscal year, and the exercise price of the options.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

As of June 13, 2003, there were 19,105,044 shares of the Company's common stock issued and outstanding. These securities represent all of the Company's issued and outstanding voting securities. The following table sets forth, as of the close of business on June 13, 2003, (a) the name and number of shares of each person known by us to be the beneficial owner of more than 5% of the class of stock; and (b) the number of shares of these securities owned by each executive officer and director, (c) and all executive officers and directors as a group, together with their respective percentage holdings of such shares. Beneficial ownership is determined in accordance with the rules of the SEC, and generally includes voting or investment power with respect to securities, and includes any securities, which the person has the right to acquire within 60 days after June 13, 2003, through the conversion or exercise of any security or other right. Except as otherwise specifically set forth herein, the following tables give no effect to the exercise of any outstanding stock options or warrants. Unless otherwise indicated, the address for each person is 1441 SW 29 Avenue, Pompano Beach, Florida 33069.

Name of Beneficial Owner	Number of Shares Beneficially Owned		Percent of Shares Outstanding
Tricon Holdings, LLC	9,550,000	(a)	44.9%
Marc Puleo, M.D.	2,934,250	(b)	14.7%
Guven Kivilcim	2,346,000	(c)	11.9%
International Consultants, LLC	1,111,000	(d)	5.8%
Menderes Akdag	562,500	(e)	2.9%
Bruce S. Rosenbloom	43,767	(f)	*
Robert C. Schweitzer	2,000	(g)	*
Ronald J. Korn	-	(g)	-
Gian Fulgoni	-	(g)	-
All executive officers and directors as a group (seven persons)	5,888,517		28.4%

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* Less than 1% of the issued and outstanding shares.

(a) Tricon Holdings, LLC, ("Tricon") holdings include 2,160,000 shares issuable upon exercise of warrants at $.33 per share, until November 2005. Guven Kivilcim, a director of the Company, and Ken Jacobi and Huseyin Kizanlikli, former directors of the Company, are the members of Tricon. Creslin Limited ("Creslin") is the sole shareholder of Tricon. Mr. Robert G. Guest is the officer, and Mr. Guest and Christopher J. Pitaluga are the directors of Creslin. Creslin Limited Trust owns 99% of Creslin. Abacus Trustees (Gibraltar) Limited is the trustee and Mustafa Yesil is the beneficiary of the Creslin Limited Trust. The address for Tricon is 1020 N.W. 163rd Drive, Miami, FL 33169.

(b) Dr. Puleo's holdings include 2,054,250 shares of our common stock held by Marpul Trust, a trust established by Dr. Puleo under an agreement dated September 3, 1999 and of which he is the beneficiary. Southpac Trust International, Inc. is a trustee of Marpul Trust. Dr. Puleo's holdings also include vested options held by him to purchase 600,000 shares of common stock at $1.25 per share until May 2008, 200,000 shares of common stock at $.35 per share until March 2006, and 80,000 shares of common stock at $1.05 per share until May 2006, but exclude options to purchase an additional 160,000 shares of common stock at $1.05, which have not vested yet.

(c) Mr. Kivilcim is a member of Tricon, his holdings include 540,000 shares issuable upon the excerise of warrants at $.33 per share, until November, 2005.

(d) As reflected on the schedule 13G, which was filed on September 25, 2002. The address for International Consultants, LLC is 45 Grand Bay Drive, Key Biscayne, FL 33149.

(e) Mr. Akdag's holdings include vested options to purchase 187,500 shares of common stock at $.32 per share until March 2006, but exclude options to purchase an additional 187,500 shares of common stock at $.32 per share, which has not yet vested.

(f) Mr. Rosenbloom's holdings include options to purchase 16,667 shares of common stock at $1.65 per share until May 2005, 16,667 shares of common stock at $1.65 per share until May 2006, and 8,333 shares of common stock at $.86 per share until March 2006, but exclude options to purchase an additional 16,666 shares of common stock at $1.65 per share, 16,667 shares of common stock at $.86 per share, and 15,000 shares of common stock at $3.45 per share which has not yet vested.

(g) Mr. Schweitzer's, Mr. Korn's, and Mr. Fulgoni's holdings exclude options to purchase an additional 30,000 shares of common stock at $1.90 per share, which have not yet vested.

Limitation of Liability and Indemnification Matters

Our amended and restated articles of incorporation contain provisions which eliminate the personal liability of our directors to us or our stockholders for monetary damages for breach of their fiduciary duty as a director to the fullest extent permitted by the Florida Business Corporations Act, except for liability: for any breach of their duty of loyalty to us or our stockholders; for act or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; for unlawful payments of dividends or unlawful stock repurchases or redemptions; or for any transaction from which the director derived an improper personal benefit.

These provisions do not affect a director's responsibilities under any other laws, including the federal securities laws and state and federal environmental laws.

Item 12. Certain Relationships and Related Transactions.

Guven Kivilcim, a member of Tricon Holdings, LLC and a member of the Company's board of directors, has an interest in Intelligent Switching & Software LLC, and Numind Software Systems, Inc., with which the Company conducted business with during the fiscal years ended March 31, 2003 and 2002. Intelligent Switching & Software LLC provided the Company with long distance telecommunication services, and Numind Software Systems, Inc. provided the Company with Internet and website design and hosting services. The Company paid $154,000 and $64,000 to Intelligent Switching & Software LLC, and $45,000 and $0 to Numind Software Systems, Inc., for services during the fiscal years ended March 31, 2003 and 2002, respectively. The Company owed $5,000 and $64,000 to Intelligent Switching & Software LLC, and $14,000 and $37,000 to Numind Software Systems, Inc., which were included in the Company's accounts payable balance as of March 31, 2003 and 2002, respectively. As of the date, hereof, the Company no longer conducts business with these companies.

The Company believes that transactions with our officers, directors and principal stockholders have been made upon terms no less favorable to us than we might receive from unaffiliated third parties. The Company has adopted a policy whereby all transactions between us and one or more of our affiliates must be approved in advance by a majority of our disinterested directors.

Item 13. Exhibits and Reports on Form 8-K.

(a) Documents filed as part of this Form 10-K.

(1) Consolidated Financial Statements

The following exhibits are filed as part of this Form 10-K.

(3) Articles of Incorporation and By-Laws.

3.1 Amended and Restated Articles of Incorporation (1)

3.2 By-Laws of the Corporation (1)

(4) Instruments Defining the Rights of Security Holders.

4.1 Form of Warrant issued to Noble International Investments, Inc. (1)

4.2 Specimen common stock certificate (1)

(10) Material Contracts (*Management contract or compensatory plan or arrangement.)

10.1 Second Amended and Restated Employment Agreement with Marc A. Puleo (incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended March 31, 2000, Commission File No. 000-28827).

10.2 1998 Stock Option Plan (1)

10.3 Line of Credit Agreement with SouthTrust Bank, N.A.(1)

10.4 Employment Agreement with Menderes Akdag (incorporated by reference to Exhibit 10 of the Registrant's Form 8-K on March 16, 2001, Commission File No. 000-28827)*

10.5 Agreement for the Sale and Leaseback of the Land and Building. (incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K on June 14, 2001, Commission File No. 000-28827).

10.6 Line of Credit Renewal Agreement with SouthTrust Bank, N.A. (1).

10.7 Loan Agreement with SouthTrust Bank, N.A. (1).

10.8 Second Line of Credit ($1,000,000) Agreement with SouthTrust Bank, N.A. (1)

10.9 Third Line of Credit ($2,000,000) Agreement with SouthTrust Bank, N.A. (filed herewith).

(16) Letter regarding Change in Certifying Accountant.

16.1 Letter from Lopez, Levi, & Associates LLC, regarding change in certifying accountants. (incorporated by reference to Exhibit 16 of the Registrant's Form 8-K on April 24, 2001, Commission File No. 000-28827).

(21) Subsidiaries of Registrant.

21.1 Subsidiaries of Registrant (filed herewith).

(99) Certifications.

99.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 (filed herewith).

99.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 (filed herewith).

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(1) Incorporated by reference to the Registration Statement on Form 10-SB, File No. 000-28827, as amended, as filed with the Securities and Exchange Commission.

(b) Reports on Form 8-K.

(1) On November 20, 2002 the Company filed a report under Item 5 disclosing other events relating to the addition and resignation on certain members of the Board of Directors. (incorporated by reference of the Registrant's Form 8-K on November 20, 2002, Commission File No. 000-28827).

Item 14. Controls and Procedures.

The Company's management, including our Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 13, 2003 (the "Evaluation Date") within 90 days prior to the filing date of this report. 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 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 our internal controls subsequent to the Evaluation Date.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: June 13, 2003

PETMED EXPRESS, INC.
(the "Registrant")

By: /s/ Menderes Akdag

Menderes Akdag
Chief Executive Officer
(principal executive officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on June 13, 2003.

SIGNATURE	TITLE
/s/ Menderes Akdag Menderes Akdag	Chief Executive Officer (principal executive officer) Officer and Director
/s/ Marc Puleo, M.D. Marc Puleo, M.D.	Chairman of the Board and President Officer and Director

/s/ Bruce S. Rosenbloom -------------------------- Bruce S. Rosenbloom	Chief Financial Officer and Treasurer (principal financial and accounting officer) Officer
/s/ Guven Kivilcim -------------------------- Guven Kivilcim	Director
/s/ Robert C. Schweitzer -------------------------- Robert C. Schweitzer	Director
/s/ Ronald J. Korn -------------------------- Ronald J. Korn	Director
/s/ Gian Fulgoni -------------------------- Gian Fulgoni	Director

CERTIFICATION

I, MENDERES AKDAG, certify that:

1. I have reviewed this annual report on Form 10-KSB of PetMed Express, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as

of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

By: /s/ Menderes Akdag

Menderes Akdag
Chief Executive Officer

CERTIFICATION

I, BRUCE S. ROSENBLOOM, certify that:

1. I have reviewed this annual report on Form 10-KSB of PetMed Express, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of

directors (or persons performing the equivalent functions):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls: and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

By: /s/ Bruce S. Rosenbloom

Bruce S. Rosenbloom
Chief Financial Officer

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PETMED EXPRESS, INC.

Form 10-KSB ANNUAL REPORT

FOR THE FISCAL YEAR ENDED:

MARCH 31, 2003

CONSOLIDATED FINANCIAL STATEMENTS

PETMED EXPRESS, INC AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
PetMed Express, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of PetMed Express, Inc. and Subsidiaries (the "Company") as of March 31, 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the two years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PetMed Express, Inc. and Subsidiaries at March 31, 2003, and the results of their operations and their cash flows for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/Goldstein Golub Kessler LLP

Goldstein Golub Kessler LLP

May 10, 2003
New York, New York

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PETMED EXPRESS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	March 31, 2003
ASSETS	
Current assets:	
Cash and cash equivalents	$ 984,169
Accounts receivable, less allowance for doubtful accounts of $16,644	651,883
Inventories	4,268,146
Prepaid expenses and other current assets	478,108
Total current assets	6,382,306
Property and equipment, net	1,496,979
Deferred income taxes	581,356
Intangible asset	365,000
Other assets	200,155
Total assets	$ 9,025,796
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	$ 3,296,223
Current portion of loan obligation	68,442
Total current liabilities	3,364,665
Loan obligation, less current portion	68,443
Total liabilities	3,433,108
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; 18,460,878 shares issued	

and outstanding	18,461
Additional paid-in capital	7,279,207
Accumulated deficit	(1,713,878)
Total shareholders' equity	5,592,688
Total liabilities and shareholders' equity	$ 9,025,796

See accompanying notes to consolidated financial statements

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PETMED EXPRESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended March 31,	
	2003	2002
Sales	$ 54,974,916	32,025,931
Cost of sales	31,517,639	18,894,493
Gross profit	23,457,277	13,131,438
Operating expenses:		
General and administrative	7,956,786	6,094,493
Advertising	11,649,811	5,717,242
Severance charges	-	195,000
Depreciation and amortization	367,673	376,763
Total operating expenses	19,974,270	12,383,498
Income from operations	3,483,007	747,940
Other income (expense):		
Adjustment of estimate for legal settlement	-	345,000
Gain (loss) on disposal of property and equipment	15,000	(314,332)
Interest expense	(30,658)	(48,835)
Interest income	6,973	18,582
Other, net	6,084	77,058
Total other income (expense)	(2,601)	77,473
Income before provision for income taxes	3,480,406	825,413

Provision for income taxes	222,841	-
Net income	$ 3,257,565	825,413
Net income per common share:		
Basic	$ 0.19	0.05
Diluted	$ 0.16	0.04
Weighted average number of common shares outstanding:		
Basic	17,300,130	16,360,010
Diluted	20,749,515	19,739,493

See accompanying notes to consolidated financial statements

PETMED EXPRESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Fiscal years ended March 31, 2003 and March 31, 2002

	Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumul
	Shares	Amounts	Shares	Amounts	Capital	Defic
Balance, March 31, 2001	2,500	8,898	16,360,010	16,360	6,528,885	(5,796
Net income	-	-	-	-	-	825
Balance, March 31, 2002	2,500	8,898	16,360,010	16,360	6,528,885	(4,971
Issuance of common stock from exercise of stock options	-	-	1,018,833	1,019	304,360	
Issuance of common stock from exercise of warrants	-	-	1,082,035	1,082	274,375	
Tax benefit related to stock options exercised	-	-	-	-	171,587	
Net income	-	-	-	-	-	3,257
Balance, March 31, 2003	2,500	8,898	18,460,878	18,461	7,279,207	(1,713

See accompanying notes to consolidated financial statements

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

	Year Ended March 31, 2003	2002
Cash flows from operating activities:		
Net income	$ 3,257,565	825,413
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	367,673	376,763
Tax benefit related to stock options exercised	171,587	-
Amortization of deferred membership fee revenue	-	(140,048)
(Gain) loss on disposal of property and equipment	(15,000)	314,332
Bad debt expense	15,027	6,862
Deferred income taxes	(581,356)	-
(Increase) decrease in operating assets and liabilities:		
Accounts receivable	(375,397)	(135,907)
Inventories	(1,961,526)	(1,675,226)
Prepaid expenses and other current assets	(329,500)	(126,494)
Other assets	(150,000)	(42,500)
Accounts payable and accrued expenses	571,228	1,072,829
Net cash provided by operating activities	970,301	476,024
Cash flows from investing activities:		
Net proceeds from the sale of property and equipment	15,000	2,016,921
Purchases of property and equipment	(744,596)	(555,645)
Purchase of intangible asset	(365,000)	-
Net cash (used in) provided by investing activities	(1,094,596)	1,461,276
Cash flows from financing activities:		
Payments on mortgage payable	-	(1,566,833)
Payments on capital lease obligations	-	(247,209)
(Payments) borrowings on loan agreement	(68,442)	205,327
Payments on line of credit agreement	(141,214)	-
Proceeds from the exercise of stock options and warrants	580,836	-
Net cash provided by (used in) financing activities	371,180	(1,608,715)

Net increase in cash and cash equivalents	246,885	328,585
Cash and cash equivalents, at beginning of year	737,284	408,699
Cash and cash equivalents, at end of year	$ 984,169	737,284
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 30,675	29,150
Cash paid for income taxes	$ 508,000	-

See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Organization

PetMed Express, Inc. and its subsidiaries, d/b/a 1-800-PetMeds, (the "Company") is a leading nationwide pet pharmacy. The Company markets prescription and non-prescription pet medications, along with health and nutritional supplements, for cats and dogs direct to the consumer.

The Company markets its products through national television, on-line and direct mail advertising campaigns, which aim to increase the recognition of the "1-800-PetMeds" brand name, increase traffic on its web site at www.1800PetMeds.com , acquire new customers, and maximize repeat purchases. The majority of all of the Company's sales are to residents of the United States. The Company's executive offices are located in Pompano Beach, Florida.

During the fiscal year ended March 31, 2001, the Company formed two wholly owned subsidiaries. One company was formed to assist in the purchasing of products and the other for advertising. The Company's fiscal year end is March 31. References herein to fiscal 2003 or 2002 refer to the Company's fiscal years ended March 31, 2003 and 2002, respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

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 and handling 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 one to three banking days. Credit card sales minimize our accounts receivable balances relative to our sales. The Company maintains an allowance for doubtful accounts for losses that the Company estimates will arise from the customers' inability to make required payments, arising from either credit card charge-backs or insufficient fund checks. The Company determines its estimates of the uncollectibility of accounts receivable by analyzing historical bad debts and current economic trends. At March 31, 2003 the allowance for doubtful accounts was approximately $17,000.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at March 31, 2003, consist of the Company's cash accounts, overnight repurchase agreements, and short-term investments with a maturity of three months or less. The carrying amount of cash equivalents approximates fair value.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Use of Estimates

The preparation of 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(1) Summary of Significant Accounting Policies (Continued)

Inventories

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. The Company writes down its inventory for estimated obsolescence. At March 31, 2003 the inventory reserve was approximately $87,000.

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 seven 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 a comparison of the carrying amount of the asset to net future cash flows expected to be generated from the asset.

Intangible Asset

The intangible asset consists of a toll free telephone number, which the Company obtained in the quarter ended September 30, 2002. The Company paid $365,000, to reimburse previously expended advertising costs relating to obtaining the rights to the toll free number. In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, the intangible asset is not being amortized, and is subject to an annual review for impairment.

Advertising

The Company's advertising expense consists primarily of television advertising, internet marketing, 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 Stock-Based Compensation

The Company accounts for employee stock options using the intrinsic value method as prescribed by Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees. The Company follows the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for employee stock options. Had the Company determined employee compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income would have been decreased to the pro forma amounts indicated below:

Year Ended March 31,	2003	2002
Reported net income:	$ 3,257,565	$ 825,413
Deduct: total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects	285,258	129,465
Proforma net income:	2,972,307	695,948
Reported basic net income per share:	$ 0.19	$ 0.05
Proforma basic net income per share:	$ 0.17	$ 0.04
Reported diluted net income per share:	$ 0.16	$ 0.04
Proforma diluted net income per share:	$ 0.14	$ 0.04

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(1) Summary of Significant Accounting Policies (Continued)

The per share weighted-average fair value of stock options granted during fiscal 2003 and 2002 was $1.28, and $.70, respectively, on the date of grant using the Black Scholes option-pricing model, as prescribed by SFAS No. 123, with the following weighted-average assumptions: dividend yield 0.0 percent and 0.0 percent; risk-free interest rates of 4.0 percent and 6.0 percent; expected lives of 3-5 years and 3-5 years, and expected volatility of 62 percent and 60 percent, respectively.

Fair Value of Financial Instruments

The carrying amounts of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. The carrying amount of the loan payable approximates fair value as their interest rates approximate current market rates.

Comprehensive Income

The Company has adopted SFAS No. 130, Reporting Comprehensive Income, which requires that all items that are recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The items of other comprehensive income that are typically required to be displayed are foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. There were no items of other comprehensive income for any periods presented herein.

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 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.

Recent Accounting Pronouncements

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

(2) Property and Equipment

Major classifications of property and equipment consist of the following:

	March 31, 2003
Leasehold improvements	289,901
Computer software	327,197
Furniture, fixtures and equipment	1,606,484
Equipment and software under capital lease	113,398
	2,336,980
Less: accumulated depreciation and amortization	(840,001)
Property and equipment, net	$ 1,496,979

Amortization expense for equipment and software under capital leases was $24,123 and $93,169 for fiscal 2003 and 2002, respectively.

(3) Mortgage Payable, Line of Credit Agreement and Loan Obligation

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. 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.

On July 22, 2002, the Company executed an agreement which increased the line of credit from $150,000 to $1,000,000. On March 18, 2003, the Company increased the line of credit agreement from $1,000,000 to $2,000,000, effective through July 22, 2004. The interest rate is at the published thirty day London Interbank Offered Rates ("LIBOR") plus 2.65% (3.92% at March 31, 2003), and contains various financial and operating covenants. At March 31, 2003, there was no outstanding balance under the line of credit agreement.

On March 12, 2002, the Company entered into a $205,000, three year term loan agreement with a bank, with interest accruing at the lending institution's base rate plus 1% (5.25% at March 31, 2003). The loan proceeds were used to purchase a $250,000 computer server. The aggregate loan maturities are $68,000 per year for three years.

The line of credit and the term loan are secured by substantially all of the Company's assets.

(4) Shareholders' Equity

On November 22, 2000, Tricon Holdings, LLC, a Florida limited liability corporation ("Tricon") a related party (see Note 7), acquired 10,000,000 shares of the Company's authorized and unissued shares of common stock and warrants to purchase 3,000,000 shares of the Company's authorized and unissued shares of common stock. The warrants are exercisable at $.33 per share and expire on November 22, 2005. Tricon acquired the Company's shares and warrants in exchange for $2,000,000, which was paid in fiscal year 2001.

On May 31, 2001, the Company's Board of Directors adopted an amendment to the Corporations Articles of Incorporation to provide for the increase in the authorized amount of shares of common stock from 20,000,000 to 40,000,000 and adopt an amendment to the Company's 1998 Stock Option Plan (the "Plan") to increase the number of shares of common stock issuable under the Plan from 3,000,000 to 5,000,000 shares.

Preferred Stock

In April 1998, the Company issued 250,000 shares of its $.001 par value preferred stock at a price of $4.00 per share, less issuance costs of $112,187. Each share of the preferred stock is convertible into approximately 4.05 shares of common stock at the election of the shareholder. The preferred stock was recorded at $887,813, net of the value of the beneficial conversion feature of $771,525. The value of the beneficial conversion feature was computed as the difference between the closing market price of the Company's common stock ($1.75 per share) and the conversion price of the preferred stock ($.988 per share) on the date the preferred stock was sold. This amount was immediately recognized as a reduction to net income available to common stockholders. The shares have a liquidation value of $4.00 per share and may pay dividends at the sole discretion of the Company. The Company does not anticipate paying dividends to the preferred shareholders in the foreseeable future. Each share of preferred stock is entitled to one vote on all matters submitted to a vote of shareholders of the Company. As of March 31, 2003, 2,500 shares of the convertible preferred stock remained unconverted and outstanding.

(5) Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities are as follows:

	March 31, 2003	March 31, 2002
Deferred tax assets:		
Bad debt and inventory reserves	39,041	30,946
Deferred compensation (stock options)	59,814	231,400
Intangible assets	-	7,410
Accrued expenses	58,033	155,087
Net operating loss carryforward	1,439,932	1,856,732
Deferred tax assets	1,596,820	2,281,575
Less: valuation allowance	(938,766)	(2,204,877)
Total deferred tax assets	658,054	76,698
Deferred tax liabilities:		
Depreciation	(76,698)	(76,698)
Total net deferred taxes	$ 581,356	$ -

The change in the valuation allowance for the year ended March 31, 2003, is approximately $1,266,000. At March 31, 2003, the Company had net operating loss carryforwards of approximately $3,800,000, of which $159,000 relate to the exercise of stock options that will result in an adjustment to equity when the benefit is realized. The net operating loss carryforwards expire in the years 2013 through 2020. The use of such net operating loss carryforwards is limited to approximately $266,000 annually; due to the November 22, 2000 change of control.

The reconciliation of income tax provision computed at the U.S. federal statutory tax rates to income tax expense is as follows:

	March 31, 2003	March 31, 2002
Income taxes at U.S. statutory rates	$ 1,183,338	$ 280,640
State income taxes, net of federal tax benefit	126,339	29,962
Permanent differences	1,512	877
Other	177,763	-
Change in valuation allowance	(1,266,111)	-
Utilization of net operating loss carryforwards	-	(311,479)
	$ 222,841	$ -

(6) Stock Options and Warrants

Stock Options Granted to Employees

The Company established the 1998 Stock Option Plan (the "Plan") effective July 31, 1998, which provides for the issuance of qualified options to officers, directors and key employees, and nonqualified options to consultants and other service providers. The Company has 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 2,639,600 options outstanding under the Plan and 104,000 non plan options at March 31, 2003. Options issued prior to July 31, 1998 are not included in the Plan.

A summary of the status of stock options and certain warrants issued by the Company, together with changes during the periods indicated, is presented in the following table:

	Options	Weighted-average exercise price
Balance at March 31, 2002	4,544,700	$ 1.24
Options Granted	387,500	1.26
Options Canceled	(695,100)	2.81
Balance at March 31, 2002	4,237,100	0.98
Options Granted	910,432	0.75
Options and Warrants Exercised	(1,800,868)	0.36
Options Canceled	(603,064)	1.45
Balance at March 31, 2003	2,743,600	$ 1.06

The following table summarizes information for options currently outstanding and exercisable at March 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number	Weighted-average Remaining Life	Weighted-average Exercise Price	Number	Weighted-average Exercise Price
$ 0.20 - $0.86	862,500	4.35 years	$ 0.44	539,164	$ 0.40
1.05 - 1.76	1,756,500	4.74 years	1.28	1,503,200	1.28
1.90 - 4.50	124,600	4.07 years	2.43	34,600	3.80
$ 0.20 - $4.50	2,743,600	4.58 years	$ 1.06	2,076,964	$ 1.09

At March 31, 2003 and March 31, 2002, the number of options exercisable was 2,076,964 and 2,752,803, respectively, and the weighted-average exercise price of those options was $1.09 and $.96, respectively. Adjustments are made for options forfeited prior to vesting.

Warrants

At March 31, 2003, there were 2,775,000 warrants outstanding. On November 22, 2000, Tricon Holdings, LLC, a Florida limited liability corporation ("Tricon"), acquired 10,000,000 shares of the Company's authorized and unissued shares of common stock and warrants to purchase 3,000,000 shares of the Company's authorized and unissued shares of common stock. The warrants are exercisable at $.33 per share and expire on November 22, 2005, and were assigned a value of $601,260 using the Black Scholes option-pricing model, as prescribed by SFAS No. 123, with the following weighted-average assumptions: dividend yield 0.0 percent; risk-free interest rates of 6.00 percent; expected lives of 3-5 years, and expected volatility of 91 percent. On September 30, 2002, Tricon exercised 300,000 warrants at the exercise price of $.33 per share, and the Company received proceeds of $99,000.

(7) Related Party Transactions

Guven Kivilcim, a member of Tricon Holdings, LLC and a member of the Company's board of directors, has an interest in Intelligent Switching & Software LLC, and Numind Software Systems, Inc., with which the Company conducted business with during the fiscal years ended March 31, 2003 and 2002. Intelligent Switching & Software LLC provided the Company with long distance telecommunication services, and Numind Software Systems, Inc. provided the Company with Internet and website design and hosting services. The Company paid $154,000 and $64,000 to Intelligent Switching & Software LLC, and $45,000 and $0 to Numind Software Systems, Inc., for services during the fiscal years ended March 31, 2003 and 2002, respectively. The Company owed $5,000 and $64,000 to Intelligent Switching & Software LLC, and $14,000 and $37,000 to Numind Software Systems, Inc., which were included in the Company's accounts payable balance as of March 31, 2003 and 2002, respectively.

(8) Net Income Per Share

In accordance with the provisions of SFAS No. 128, "Earnings Per Share," basic net income per 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 share includes the dilutive effect of potential stock options exercises, calculated using the treasury stock method. Outstanding stock options, warrants, 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 share computations for the periods presented:

	March 31, 2003	March 31, 2002

Net income (numerator):		
Net income	$ 3,257,565	$ 825,413
Shares (denominator)		
Weighted average number of common shares outstanding used in basic computation	17,300,130	16,360,010
Common shares issuable upon exercise of stock options and warrants	3,439,260	3,369,358
Common shares issuable upon conversion of preferred shares	10,125	10,125
Shares used in diluted computation	20,749,515	19,739,493
Net income per common share:		
Basic	$ 0.19	$ 0.05
Diluted	$ 0.16	$ 0.04

At March 31, 2003, 124,600 shares of common stock options and warrants, with a weighted average exercise price of $2.43, were excluded from the diluted net income per share computation as their exercise prices were greater than the average market price of the common shares for the period.

(9) Valuation and Qualifying Accounts

Activity in the Company's valuation and qualifying accounts consists of the following:

	Year Ended March 31,	
	2003	2002
Allowance for doubtful accounts:		
Balance at beginning of period	$ 7,475	$ 9,740
Provision for doubtful accounts	14,759	(319)
Write-off of uncollectible accounts receivable	(5,590)	(1,946)
Balance at end of period	$ 16,644	$ 7,475

Valuation allowance for deferred tax assets:		
Balance at beginning of period	2,204,877	2,554,081
(Deletions) / additions	(1,266,111)	(349,204)
Balance at end of period	$ 938,766	$ 2,204,877

(10) Commitments and Contingencies

Legal Matters

Various complaints had 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, alleged violations of the Pharmacy Practice Act and regulations promulgated thereunder. The vast majority of the complaints alleged that the Company, through its pharmacists, improperly dispensed prescription-required veterinary medication based on prescriptions verified through the Company's discontinued alternate veterinarian program. The alternate veterinarian program used a veterinarian outside the state of Florida to verify prescriptions for certain pets outside the state of Florida. While the program was not used for pets residing in the state of Florida, the complaints had, for the most part, been filed with the Florida Board of Pharmacy. Other complaints alleged the dispensing of medication without a valid prescription, the sale of non-conforming products and that the Company's pharmacy was operating at the same location as another pharmacy, with which it had 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.

(10) Commitments and Contingencies (Continued)

In 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. As of March 31, 2003, the Company had paid all fines in full to cover any or all administrative and investigative costs associated with these settlements. At March 31, 2003, there was no accrual relating to 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, which was paid in September 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. Accordingly, a gain of $345,000 was reflected in the statement of income for the year ended March 31, 2002, to reflect the adjustment to this settlement.

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 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. 1114; Count II: Infringement of Unregistered Trademarks Under Section 43(a) of the Lanham Act, 15 U.S.C. 1125(a); Count III: False Advertising Under Section 43(a) of the Lanham act, 15 U.S.C. 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. Subsequent to the year ended March 31, 2003, the Company reached a final settlement agreement with Novartis. According to the confidential settlement agreement dated April 7, 2003, the Company has satisfactorily resolved the contested issues raised by the complaint and the confidential settlement terms will not have a material impact on the Company's operations and financial results.

The Company is a defendant in a lawsuit in Texas state district court seeking injunctive and monetary relief styled Texas State Board of Pharmacy and State Board of Veterinary Medical Examiners v. PetMed Express, Inc. Cause No.GN-202514, in the 201st Judicial District Court, Travis County, Texas. The Company in its initial pleading denied the allegations contained therein. The Company will vigorously defend, is confident of its compliance with the applicable law, and finds wrong-on-the-facts the vast majority of the allegations contained in the Plaintiffs' supporting documentation attached to the lawsuit. Discovery has recently commenced. At this early stage of the litigation it is difficult to assess any possible outcome or estimate any potential loss in the event of an adverse outcome.

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.

(10) Commitments and Contingencies (Continued)

Employment Agreement

On March 16, 2001, the Company entered into an employment agreement with its Chief Executive Officer ("CEO"). Under the terms of this three-year agreement the Company will pay the CEO an annual salary of $150,000 for the first six months of the agreement, and thereafter his annual salary will be increased to $200,000. The Company also granted the CEO options to purchase 750,000 shares of its common stock under the Company's 1998 Stock Option Plan at an exercise price of $.32 per share, which vest at the rate of 187,500 options on each of March 16, 2001, 2002, 2003 and 2004.

Operating Lease

The Company leases their 32,000 square foot principal executive offices and warehouse, which expires in fiscal 2007. The Company is responsible for certain maintenance costs, taxes and insurance under this lease. The future minimum annual lease payments as of March 31, 2003, are as follows:

Years Ending March 31,	
2004	$ 277,000
2005	288,000
2006	300,000
2007	50,000
Total lease payments	$ 915,000

Rent expense was $253,000 and $149,000 for the year ended March 31, 2003 and 2002, respectively.

(11) Subsequent Events

Subsequent to fiscal 2003, the Company received net proceeds of $766,000 upon the exercise and issuance of 644,166 shares of common stock, of which 600,000 shares were exercised by the Company's president.

(12) Quarterly Financial Data (unaudited)

Summarized unaudited quarterly financial data for fiscal 2003 and 2002 is as follows:

Quarter Ended:	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2
Sales	$ 14,830,755	$ 14,229,702	$ 11,050,124	$ 14,864,
Income from operations	$ 1,291,235	$ 307,754	$ 693,269	$ 1,190,
Net income	$ 902,329	$ 204,887	$ 434,710	$ 1,715,
Diluted net income per share	$ 0.04	$ 0.01	$ 0.02	$ 0

Quarter Ended:	June 30, 2001	September 30, 2001	December 31, 2001	March 31, 2
Sales	$ 5,363,650	$ 7,762,825	$ 8,248,904	$ 10,650,
(Loss) income from operations	$ (880,765)	$ 56,246	$ 368,433	$ 1,204,
Net (loss) income	$ (1,090,684)	$ 393,378	$ 353,348	$ 1,169,

Diluted net (loss) income per share	$ (0.07)	$ 0.02	$ 0.02	$ 0

(a) The Company recorded a deferred tax asset of approximately $581,000, during the quarter ended March 31, 2003, resulting in an increase of diluted net income of $.03 per share.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PETMED EXPRESS, INC

Form 10-KSB ANNUAL REPORT

FOR THE FISCAL YEAR ENDED:

MARCH 31, 2003

EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description	Number of Pages in Original Document+	Incorporated By Reference
10.9	Third Line of Credit ($2,000,000) Agreement with SouthTrust Bank, N.A.	20	**
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	**
21.1	Subsidiaries of the Company	1	**

** Filed herewith