

PetMed Express, Inc. (NASDAQ: PETS) Investment Letter

October 5, 2010

On September 28, 2010, we spoke with [Bruce Rosenbloom](#), Chief Financial Officer of [PetMed Express, Inc.](#)

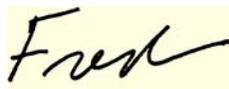
The clients and employeesⁱ of the [Fredric E. Russell Investment Management Co.](#), as of October 5, 2010, have a position of more than one hundred thousand shares in [PetMed Express, Inc.](#), which does business under the name [1-800-PetMeds](#). As part of our routine research into companies in which we're invested, we like to call company management and discuss the company with them.

Talking with management and visiting companies gives us the stimulation and the insight that a good teacher adds to the student's reading of a textbook.

Conversations with management can uncover facts that are not available in the public documents that a company must produce. The Securities and Exchange Commission requires all publicly traded companies to file quarterly income statements and balance sheets, as well as an annual document, called the 10-K, which gives a wealth of information about the company, including balance sheets, income statements, cash flow statements, pension funding, stock option arrangements, executive compensation, and much more. Particularly interesting to me is the listing of the risks that the company faces. The list is comprehensive and the descriptions are stark, making it unwise to read this document late at night, as the long list of risks may scare the reader and make it difficult to sleep.

Lawyers have a big hand in the 10-K, requiring management of the company to be extremely cautious about the company's outlook, and almost pessimistic in its forecasts. Sometimes the company describes a certain risk in particularly ominous or negative tones. As you will see below when we quote sections from [PetMed's](#) latest 10-K filing and when we dig deeper by talking with management, we find that certain risks are not as powerful or as likely to materialize as the 10-K suggests. But it is our job to dig deep and find the whole truth, to make the 10-K come alive. Digging deep, we can find both sides of the story. We can then make the 10-K and other research more useful, more powerful and get a fuller, more sophisticated view of the company's prospects. To do this, we have found that a private conversation with top management, usually the chief executive officer or the chief financial officer, is an effective way to read between the lines.

Best,



Fredric E. Russell

[Bruce Rosenbloom](#) of [PetMed Express, Inc.](#) knows the internet pet medication business well, and our phone call with [Mr. Rosenbloom](#) on September 28 inspired Katie Michaels-Johnson, one of my colleagues, to write the following piece on her beagle, the safety of veterinary drugs, and the marketplace position of [PetMed Express](#).



Kaylee the beagle enjoys a trip to the Joe Station Bark Park dog park in downtown Tulsa.

A Tail of Two PETS

Katie's (and Kaylee's) Story

I am the proud mother of a five-year-old beagle named Kaylee. I want the best for Kaylee, especially when it comes to her health, but I have little time and money to spend on veterinarian visits and on medications.

Usually, when I want to save time and money buying items, like books or bed sheets, I order them online. It is fast and easy, and the product shows up at my door a week later without me ever needing to make a special trip to purchase it. Medications, however, are an entirely different animal than books. If a book arrives and it's missing a few pages, that's frustrating, but it won't kill anybody. If I order medication online, however, and I receive a product that's been tampered with or sold illegally, Kaylee could get sick or, worse, die.

I am not the only one who worries about the safety of prescription veterinary medicine. On March 11, 2010, the United States Food and Drug Administration warned against buying medicine for pets unless a veterinarian has examined the animal and written a prescription for its medication.

‘Some of the Internet sites that sell pet drugs represent legitimate, reputable pharmacies,’ says Martine Hartogensis, D.V.M., deputy director of the Office of Surveillance and Compliance in the FDA’s Center for Veterinary Medicine (CVM). ‘But others are fronts for unscrupulous businesses operating against the law.’

The FDA has found companies that sell unapproved pet drugs and counterfeit pet products, make fraudulent claims, dispense prescription drugs without requiring a prescription, and sell expired drugs.

‘Pet owners who purchase drugs from these companies may think they are saving money,’ says Hartogensis, ‘but in reality, they may be short-changing their pet’s health and putting its life at risk.’

A foreign or domestic pharmacy may claim that one of its veterinarians on staff will “evaluate” the pet after looking over a form filled out by the pet owner, and then prescribe the drug. ‘A veterinarian should physically examine an animal prior to making a diagnosis to determine the appropriate therapy,’ says Hartogensis.ⁱⁱ

The United States Food and Drug Administration is especially concerned that pet owners are going online to buy two types of common prescription veterinary drugs: nonsteroidal anti-inflammatory drugs (NSAIDs) and heartworm preventives.

‘Both drugs can be dangerous if there is no professional involvement,’ says Hartogensis. ‘It’s not generally a concern if the owner uses a legitimate online pharmacy and mails in a prescription from their veterinarian, who is monitoring the animal. But if there is no veterinarian-client-patient relationship, it’s a dangerous practice.’ⁱⁱⁱ

At first, I thought this warning meant I would not be able to order medication for Kaylee online. Luckily, however, online ordering can be safe as well as easy, the FDA says, so long as you shop only at websites that belong to a [Veterinary-Verified Internet Pharmacy Practice Site \(Vet-VIPPS\)](#), that is, one accredited by the National Association of Boards of Pharmacy, which oversees both human and animal pharmacies.

To read the full Investment Letter, please email us at contact@ferimc.com or call (918) 743-5959. You could also fill out your contact information at <http://www.ferimc.com/contact.html>, we will contact you as soon as possible.