

DOVER SADDLERY INC

FORM 10-Q (Quarterly Report)

Filed 11/13/09 for the Period Ending 09/30/09

Address	525 GREAT ROAD LITTLETON, MA 01460
Telephone	978-952-8062
CIK	0001071625
Symbol	DOVR
SIC Code	5940 - Miscellaneous Shopping Goods Stores
Industry	Apparel/Accessories
Sector	Consumer Cyclical
Fiscal Year	12/31

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

Form 10-Q

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

For the Fiscal Quarter Ended September 30, 2009

OR

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

Commission File Number 000-51624

Dover Saddlery, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of other jurisdiction of
incorporation or organization)

04-3438294
(I.R.S. Employer Identification No.)

525 Great Road, Littleton, MA 01460
(Address of principal executive offices)

(978) 952-8062
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company", in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Shares outstanding of the registrant's common stock (par value \$0.0001) on November 5, 2009: 5,187,038

DOVER SADDLERY, INC. AND SUBSIDIARIES
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FOR THE QUARTER ENDED SEPTEMBER 30, 2009

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

DOVER SADDLERY, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)
(unaudited)

	<u>September 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 444	\$ 448
Accounts receivable	660	833
Inventory	16,402	17,330
Prepaid catalog costs	1,530	1,673
Prepaid expenses and other current assets	1,355	997
Total current assets	<u>20,391</u>	<u>21,281</u>
Net property and equipment	3,404	3,599
Other assets:		
Deferred income taxes	659	583
Intangibles and other assets, net	943	989
Total other assets	<u>1,602</u>	<u>1,572</u>
Total assets	<u>\$ 25,397</u>	<u>\$ 26,452</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligation and outstanding checks	\$ 497	\$ 481
Accounts payable	2,043	2,168
Accrued expenses and other current liabilities	3,389	3,640
Deferred income taxes	276	212
Total current liabilities	<u>6,205</u>	<u>6,501</u>
Long-term liabilities:		
Revolving line of credit	7,300	8,300
Subordinated notes payable, net	5,022	4,906
Capital lease obligation, net of current portion	58	125
Total long-term liabilities	<u>12,380</u>	<u>13,331</u>
Stockholders' equity:		
Common Stock, par value \$0.0001 per share; 15,000,000 shares authorized; issued 5,187,038 as of September 30, 2009 and December 31, 2008	1	1
Additional paid in capital	44,972	44,801
Treasury stock, 795,865 shares at cost	(6,082)	(6,082)
Accumulated deficit	(32,079)	(32,100)
Total stockholders' equity	<u>6,812</u>	<u>6,620</u>
Total liabilities and stockholders' equity	<u>\$ 25,397</u>	<u>\$ 26,452</u>

See accompanying notes.

DOVER SADDLERY, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenues, net	\$ 18,545	\$ 19,022	\$ 54,056	\$ 56,617
Cost of revenues	11,744	12,031	34,507	36,296
Gross profit	6,801	6,991	19,549	20,321
Selling, general and administrative expenses	5,869	6,326	18,370	19,196
Income from operations	932	665	1,179	1,125
Interest expense, financing and other related costs, net	346	317	996	966
Other investment loss, net	(20)	(20)	(1)	(18)
Income before income tax provision	566	328	182	141
Provision for income taxes	294	154	161	76
Net income	<u>\$ 272</u>	<u>\$ 174</u>	<u>\$ 21</u>	<u>\$ 65</u>
Net income per share				
Basic	<u>\$ 0.05</u>	<u>\$ 0.03</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.03</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>
Number of shares used in per share calculation				
Basic	5,187,000	5,187,000	5,187,000	5,157,000
Diluted	5,247,000	5,274,000	5,233,000	5,266,000

See accompanying notes.

DOVER SADDLERY, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flows
(In thousands)
(unaudited)

	Nine Months Ended	
	September 30, 2009	September 30, 2008
Operating activities:		
Net income	\$ 21	\$ 65
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	585	598
Deferred income taxes	(12)	—
Loss from investment in affiliate, net	1	18
Stock-based compensation	135	115
Non-cash interest expense	259	194
Changes in current assets and liabilities:		
Accounts receivable	173	463
Inventory	928	(970)
Prepaid catalog costs and other current assets	(214)	(831)
Accounts payable	(125)	(5)
Accrued expenses, other current liabilities and income taxes payable	(250)	(1,621)
Net cash provided by (used in) operating activities	1,501	(1,974)
Investing activities:		
Purchases of property and equipment	(386)	(887)
Investment in affiliate	—	(33)
Change in other assets	(27)	(68)
Net cash used in investing activities	(413)	(988)
Financing activities:		
Borrowings under revolving line of credit, net	(1,000)	3,100
Change in outstanding checks	50	31
Payment of financing costs	(40)	—
Payments on capital leases	(102)	(110)
Net cash (used in) provided by financing activities	(1,092)	3,021
Net (decrease) increase in cash and cash equivalents	(4)	59
Cash and cash equivalents at beginning of period	448	309
Cash and cash equivalents at end of period	\$ 444	\$ 368
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 738	\$ 773
Income taxes	\$ 353	\$ 1,136
Supplemental disclosure of non-cash financing activities		
Issuance of common stock in connection with investment in affiliate	\$ —	\$ 380
Equipment acquired under capital leases	\$ —	\$ 100

See accompanying notes.

DOVER SADDLERY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

A. Nature of Business and Basis of Preparation

Dover Saddlery, Inc., a Delaware corporation (the “Company”), is a leading specialty retailer and the largest direct marketer of equestrian products in the United States. The Company sells its products through a multi-market channel strategy, including direct and retail, with stores located in Massachusetts, New Hampshire, Delaware, Texas, Maryland, Virginia, New Jersey, Georgia and Rhode Island. The Company provides a complete line of products, as well as specially developed private label offerings from its direct marketing headquarters, warehouse, and call center facility in Littleton, Massachusetts.

Revenues are recognized when payment is reasonably assured, the product is shipped and title and risk of loss have transferred to the customer. For direct merchandise sales, this occurs when product is delivered to the common carrier at the Company’s warehouse. For retail sales, this occurs at the point of sale.

Our quarterly product sales, as a percentage of any calendar year’s results, have ranged from a low of approximately 20% to a high of approximately 32%. The beginning of the spring outdoor riding season in the northern half of the country has typically generated a slightly stronger second quarter of the year, and the holiday buying season has generated additional demand for our equestrian product line in the fourth quarter of the year. Revenues for the first and third quarters of the calendar year have tended to be somewhat lower than the second and fourth quarters. The Company anticipates that revenues will continue to vary somewhat by this seasonal pattern.

The Company offers a comprehensive selection of products required to own, train and compete with a horse, selling from under \$1.00 to over \$8,000. Our equestrian product line includes a broad variety of separate items, such as saddles, tack, specialized apparel, footwear, horse clothing, horse health and stable products. Separate reporting of the revenues of these numerous items is not practical.

The Company views its operations and manages its business as one operating segment utilizing a multi-channel distribution strategy. Market channel revenues are as follows (dollars in thousands):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2009</u>	<u>September 30, 2008</u>	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Revenues, net — direct	\$ 11,864	\$ 13,077	\$ 36,042	\$ 40,661
Revenues, net — retail stores	6,681	5,945	18,014	15,956
Revenues, net — total	<u>\$ 18,545</u>	<u>\$ 19,022</u>	<u>\$ 54,056</u>	<u>\$ 56,617</u>

The accompanying condensed consolidated financial statements comprise those of the Company, its wholly-owned subsidiaries, and its investment in affiliates. All inter-company accounts and transactions have been eliminated in consolidation. The accompanying condensed consolidated financial statements as of September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008 are unaudited. In management’s opinion, these unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2008 and include all adjustments, consisting of only usual recurring adjustments, necessary for a fair presentation of the results for such interim periods. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results expected for the full year ended December 31, 2009.

Certain footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to pertinent rules and regulations, although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited December 31, 2008 financial statements, which are included in our Annual Report on Form 10-K, filed on March 31, 2009.

B. Accounting for Stock-Based Compensation

The Company recognizes the fair value of compensation cost of stock-based awards on a straight-line basis over the vesting period of the award. Stock-based compensation for the three months ended September 30, 2009 and 2008 was \$44,000 and \$38,000, respectively. For the nine months ended September 30, 2009 and 2008, stock-based compensation was \$135,000 and \$115,000, respectively.

There was no activity related to stock option grants, exercises or forfeitures for the nine months ended September 30, 2009, except for the forfeiture, in August 2009, by former Director William Meagher of 20,440 stock options following his resignation from the Company’s Board of Directors.

The amount of stock-based compensation expense that may be recognized for outstanding, unvested options as of September 30, 2009 was approximately \$475,000, to be recognized on a straight-line basis over the employee’s remaining weighted average vesting term which was 4 years. As of September 30, 2009, the intrinsic value of all “in the money” outstanding options was approximately \$190,000.

C. Inventory

Inventory consists of finished goods in the Company’s mail-order warehouse and retail stores. The Company’s inventories are stated at the lower of cost, with cost determined by the first-in, first-out method, or net realizable value. The Company maintains a reserve for excess and obsolete inventory. This reserve was \$95,000 as of September 30, 2009 and December 31, 2008. The Company continuously monitors the salability of its inventories to ensure adequate valuation of the related merchandise.

D. Advertising

The Company recognizes deferred costs over the period of expected future revenue, which is less than one year. Deferred costs as of September 30, 2009 and December 31, 2008 were \$1,530,000 and \$1,673,000, respectively. The combined marketing and advertising costs charged to selling, general, and administrative expenses for the three months ended September 30, 2009 and 2008 were \$1,802,000 and \$2,229,000, respectively. For the nine months ended September 30, 2009 and 2008 combined marketing and advertising costs charged to selling, general, and administrative expenses were \$6,059,000 and \$6,844,000, respectively.

E. Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The comprehensive income for the three months ended September 30, 2009 and 2008 was comprised entirely of the current period net income of \$272,000 and \$174,000, respectively. For the nine months ended September 30, 2009 and 2008, the comprehensive income was comprised entirely of the current period net income of \$21,000 and \$65,000, respectively.

F. Net Income Per Share

A reconciliation of the number of shares used in the calculation of basic and diluted net income per share is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Basic weighted average common shares outstanding	5,187	5,187	5,187	5,157
Add: Dilutive effect of assumed stock option and warrant exercises less potential incremental shares purchased under the treasury method	60	87	46	109
Diluted weighted average common shares outstanding	5,247	5,274	5,233	5,266

For the three months ended September 30, 2009 and 2008, and the nine months ended September 30, 2009 and 2008, approximately 573,000 and 803,000 options and warrants to acquire common stock were excluded from the diluted weighted average shares calculation as the effect of such options and warrants is anti-dilutive.

G. Financing Agreements

Revolving Credit Facility

The \$14,000,000 senior revolving credit facility, of which up to \$2,000,000 can be in the form of letters of credit, bears interest at the base rate, announced from time to time by the bank, plus an applicable margin determined by the Company's funded debt ratio. At September 30, 2009, the LIBOR rate (base rate) was 0.26%, plus the applicable margin of 3.5%. Interest is payable monthly. At its option, the Company may have all or a portion of the unpaid principal under the credit facility bear interest at various LIBOR or prime rate options.

The Company is obligated to pay commitment fees of 0.25% per annum on the average daily, unused amount of the line of credit during the preceding quarter. All assets of the Company collateralize the senior revolving credit facility. Under the terms of the credit facility, the Company is subject to certain covenants including, among others, maximum funded debt ratios, operating cash flows, current asset ratios, and capital expenditures. At September 30, 2009, the Company was in compliance with all of its covenants under the credit facility. The revolving line of credit is due in full in January 2011.

On March 27, 2009, the Company amended its senior revolving credit facility with RBS Citizens Bank N.A. to adjust various covenant levels for fiscal year 2009, due to the on-going impact of the economic recession. The maximum amount to be borrowed was reduced from \$18,000,000 to \$14,000,000 in 2009, through June 2010, and will then reduce to \$13,000,000 on June 30, 2010.

At September 30, 2009, the Company had the ability to borrow \$14,000,000 on the revolving line of credit, subject to certain covenants, of which \$7,300,000 was outstanding, bearing interest at the net revolver rate of 3.76%. At December 31, 2008, the Company had the ability to borrow \$18,000,000, of which \$8,300,000 was outstanding, bearing interest at the net revolver rate of 2.5%.

Senior Subordinated Notes Payable and Warrants

In December 2007, the Company issued \$5,000,000 in senior subordinated notes payable. The notes are subordinated in right of payment to existing and future senior debt, rank equal in right of payment with any future senior subordinated debt and are senior in right of payment to any future subordinated debt. Interest accrues at an annual rate of 14%, of which 12% is payable quarterly in arrears. The remaining 2% per annum is deferrable, and if deferred, shall be compounded and due in full on December 11, 2012. As of September 30, 2009, the Company had deferred \$194,833 of interest since loan inception. Prepayment on the principal amount due under the notes may voluntarily be made at any time, plus accrued and unpaid interest and a prepayment fee of 5% of the prepaid amount if paid prior to the first anniversary, 4% if paid prior to the second anniversary, 3% if paid prior to the third anniversary, and 0% if paid after December 11, 2010.

In connection with the issuance of the subordinated notes, the Company issued warrants to the note holders, exercisable at any time after December 11, 2007 for an initial 118,170 shares of its common stock at an exercise price of \$3.96 per share. The number of shares to be received for the warrants, upon exercise, is subject to change in the event of additional equity dividend issuances or stock splits. The warrants were estimated to have a fair value of \$272,000, which was reflected as a discount of the proceeds. The discount is amortized as interest expense over the life of the notes. The warrants were valued using a Black-Scholes calculation with a risk free interest rate of 4.3%, an expected life of 9 years (which reflects the contractual term), a price volatility of 43.4% and a dividend yield of 0%. In September 2009, the Company modified certain terms of the warrants and reduced the exercise price to \$2.75 per share. A charge of \$36,000 was recognized in conjunction with the warrant modification included in interest expense.

As of September 30, 2009, the net \$5,022,000 subordinated notes, on the condensed consolidated balance sheet, reflect the \$5,000,000 face value, plus the \$194,833 in deferred interest less the remaining unamortized net discount of \$172,465. As of December 31, 2008, the net \$4,906,000 subordinated notes, on the condensed consolidated balance sheet, reflect the \$5,000,000 face value, plus the \$119,833 in deferred interest less the remaining unamortized net discount of \$213,262.

Under the terms of the subordinated note agreements, the Company is subject to certain covenants, including, among others, maximum funded debt ratios, operating cash flows, current asset ratios and capital expenditures. On March 27, 2009, the Company

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amended the senior subordinated loan agreement to adjust various covenant levels for the fiscal year 2009, due to the on-going impact of the economic recession. At September 30, 2009, the Company was in compliance with all of its covenants.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. Outstanding checks, net of cash balances in a single bank account, are classified as outstanding checks in current liabilities.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, line of credit advances, and notes payable. The carrying value of cash and cash equivalents, accounts receivable, and accounts payable reflects fair value due to their short-term nature. The carrying value of the line of credit reflects fair value due to variable interest rates. The carrying value of the subordinated notes payable, as of September 30, 2009, is not materially different from the fair value of the notes.

H. Investment in Affiliate

On April 11, 2008, the Company acquired a significant non-controlling interest in Hobby Horse Clothing Company, Inc. (HH), in exchange for 81,720 shares of unregistered Dover common stock. The Company accounts for this investment using the equity method.

The Company acquired 40% of the common stock of HH, a privately owned company. The total acquisition costs included \$380,000 in common stock, as well as \$33,300 in professional fees. The valuation of the Company's stock was set using an average closing price of the Company's common stock over the days immediately proceeding and including the acquisition date. Based on the purchase allocation, the total acquisition cost of \$413,300 was allocated to the fair value of the Company's share of net assets acquired, including approximately \$138,000 of intangible assets, which represents the difference between the cost and underlying equity in HH's net assets at the date of acquisition.

The Company recorded a net loss for the three months ended September 30, 2009 and 2008 of \$(19,868) and \$(20,024), respectively. For the nine months ended September 30, 2009 and 2008 a net loss was recorded of \$(982) and \$(17,637), respectively. Company's share of HH's net loss and the intangible asset customer list amortization (resulting from the purchase price allocation) were included in "other investment loss, net" in the accompanying condensed consolidated statements of operations. The carrying value at September 30, 2009, was \$316,800 and was included in intangibles and other assets, net in the accompanying condensed consolidated balance sheets.

Under certain circumstances, the Company may have the right, or obligation, to acquire the remaining 60% of the common stock of HH.

I. Income Taxes

At September 30, 2009, the Company had no liability recorded for unrecognized tax benefits. The Company records interest and penalties related to income taxes as a component of income tax expense. During the nine months ended September 30, 2009, the Company recognized \$1,048 in interest and penalty expense. At December 31, 2008, the Company recognized \$8,883 in interest and penalty expense.

Tax years 2005 through 2008 remain subject to examination by the IRS, and 2004 through 2008 tax years remain subject to examination by Massachusetts and various other jurisdictions. The current examination by Massachusetts for the years ended 2004 to 2006 concluded with a small tax credit due to the Company.

J. Related Party Transactions

On October 26, 2007, the disinterested members of the Audit Committee of the Board of Directors approved a \$5,000,000 subordinated debt financing facility as part of a plan to refinance the Company's former subordinated debt with Patriot Capital. The new sub-debt facility was led by BCA Mezzanine Fund, L.P., which participated at \$2,000,000 (in which Company Board member Gregory Mulligan holds a management position and indirect economic interest). The current subordinated loans were consummated as

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of December 11, 2007. Except as noted above with respect to Mr. Mulligan, there is no relationship, arrangement or understanding between the Company and any of the Subordinated Holders or any of their affiliates, other than in respect of the loan agreement establishing and setting forth the terms and conditions of this mezzanine loan agreement. For the three and nine months ended September 30, 2009 and 2008, the Company recognized \$175,000 and \$525,000 in interest expense for the subordinated notes payable, of which \$25,000 and \$75,000 was accrued in each period as deferred interest, payable upon maturity, respectively. In September 2009, the Company modified certain terms of the warrants and reduced the exercise price to \$2.75 per share. A charge of \$36,000 was recognized in conjunction with the warrant modification. These warrant modifications were determined to be in the best interests of the Company, following review by the Audit Committee and approval of the Board of Directors, with Mr. Mulligan abstaining in both cases.

In October of 2004, the Company entered into a lease agreement with a minority stockholder. The agreement, which relates to the Plaistow, NH retail store, is a five year lease with options to extend for an additional fifteen years. During the three months ended September 30, 2009 and 2008, the Company expensed in connection with this lease \$47,000. During the nine months ended September 30, 2009 and 2008, the Company expensed in connection with this lease \$144,000 and \$140,000, respectively. In addition, a related deposit of \$18,750 is recorded as prepaid expenses and other current assets, as of September 30, 2009 and December 31, 2008.

In order to expedite the efficient build-out of leasehold improvements in its new retail stores, the Company utilizes the services of a real estate development company owned by a non-executive Company employee and minority stockholder to source construction services and retail fixtures. Total payments made to the real estate development company for the three months ended September 30, 2009 and 2008, consisting primarily of reimbursements for materials and outside labor for the fit-up of stores, were \$16,000 and \$103,000, respectively. For the nine months ended September 30, 2009 and 2008, reimbursements for materials and outside labor for the fit-up of stores, were \$89,000 and \$247,000, respectively.

K. Commitments and Contingencies

Lease Commitments

The Company leases its facilities and certain fixed assets that may be purchased for a nominal amount on the expiration of the leases under non-cancelable operating and capital leases that extend through 2019. These leases, which may be renewed for periods ranging from one to five years, include fixed rental agreements as well as agreements with rent escalation clauses.

In connection with retail locations, the Company enters into various operating lease agreements, with escalating rental payments. The effects of variable rent disbursements have been expensed on a straight-line basis over the life of the lease. As of September 30, 2009 and December 31, 2008, there was approximately \$328,000 and \$233,000, respectively, of deferred rent recorded in accrued expenses and other current liabilities.

Contingencies

From time to time, the Company is exposed to litigation relating to our products and operations. As of September 30, 2009, we were not currently engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material, adverse affect on our financial condition or results of operations.

The Company has been named as a defendant in litigation brought by one of its customers against the manufacturer of a riding helmet for injuries sustained in an equestrian accident. To the best of our knowledge, the product was designed and manufactured by our vendor to industry standards. The claim against the Company is covered by our insurance, and it vigorously denies liability.

Recent Accounting Pronouncements

Business Combinations. In December 2007, the Financial Accounting Standards Board (“FASB”) issued new guidance on business combinations. This guidance establishes principles and requirements for how the Company: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The business combinations guidance also requires acquisition-related transaction and restructuring costs to be expensed

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rather than treated as part of the cost of the acquisition. This guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted the business combination guidance on January 1, 2009 and will only impact the Company if any acquisitions are completed subsequently.

In April 2009, the FASB issued guidance relating to accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. This pronouncement requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, as determined in accordance with the fair value measurements guidance, if the acquisition-date fair value can be reasonably estimated. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized in accordance with the accounting guidance for contingencies. This pronouncement became effective for the Company as of January 1, 2009, and the provisions of the pronouncement are applied prospectively to business combinations with an acquisition date on or after the date the guidance became effective. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

Consolidation — Noncontrolling Interests. In December 2007, the FASB issued guidance on noncontrolling interests which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (formerly known as minority interest) and for the deconsolidation of a subsidiary. This guidance clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This guidance also requires presentation on the face of the consolidated statement of income of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest, resulting in an increase to consolidated net income. This guidance requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company adopted this statement as of January 1, 2009, and it had no impact on the Company's financial conditions, results of operations or cash flows.

Derivatives and Hedging. In March 2008, the FASB issued new disclosure requirements for derivative instruments and hedging activities. The new disclosure requirements will provide users of financial statements with an enhanced understanding of: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for; and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative instruments. This statement applies to all entities and all derivative instruments. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this guidance on January 1, 2009 and it did not impact the Company's results of operations, cash flows or financial position.

In June 2008, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) which clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception to derivative accounting. The Company adopted this guidance as of January 1, 2009 and it did not have a material impact on the Company's consolidated financial statements.

Intangible Assets. In April 2008, the FASB issued guidance on determining the useful life of intangible assets. The intent of the guidance is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This guidance requires an entity to disclose information for a recognized intangible asset that enables users of the financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company adopted this guidance on January 1, 2009. The adoption of this guidance did not have a material impact on the Company's financial position or results of operations.

Subsequent Events. In May 2009, the FASB issued guidance on subsequent events which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance is based on the same principles as currently exist in auditing standards and was issued by the FASB to include accounting guidance that originated as auditing standards into the body of authoritative literature issued by the FASB. The standard addresses the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which

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an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted this guidance during the quarterly period ended June 30, 2009. For the quarter ended September 30, 2009, the Company evaluated subsequent events through November 5, 2009, which was the date the accompanying financial statements were available to be issued.

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

This Quarterly Report on Form 10-Q, including the following discussion, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve substantial risks and uncertainties. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, the words "projected", "anticipated", "planned", "expected", and similar expressions are intended to identify forward-looking statements. In particular, statements regarding future financial targets or trends are forward-looking statements. Forward-looking statements are not guarantees of our future financial performance, and undue reliance should not be placed on them. Our actual results, performance or achievements may differ significantly from the results, performance or achievements discussed in or implied by the forward-looking statements. Factors that could cause such a difference detailed in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 ("fiscal 2008") and in our subsequent periodic reports on Form 10-Q. We disclaim any intent or obligation to update any forward-looking statement.

Overview

We are a leading specialty retailer and the largest direct marketer of equestrian products in the U.S. For over 30 years, Dover Saddlery has been a premier upscale marketing brand in the English-style riding industry. We sell our products through a multi-market channel strategy, including direct and retail. This multi-market channel strategy has allowed us to use catalogs and our proprietary database of over two million names of equestrian enthusiasts as a primary marketing tool to increase catalog sales and to drive additional business to our e-commerce websites and retail stores.

In the third quarter of 2009, the Company continued to benefit financially from the ongoing implementation of management's cost reduction program. These measures helped to mitigate the continuing adverse impacts of the current global recession and hesitant consumer confidence, which have resulted in a contraction in specialty retail consumer spending over the past twelve to fifteen months. As a result, the Company had developed several short-term strategies to maintain or expand market share, reduce operating costs and reduce capital expenditures. As previously reported, in order to manage our way through these uncertain times, our retail expansion has been slowed, and we will be extremely opportunistic in negotiating leases for the balance of 2009 and 2010.

Consolidated Performance and Trends

The Company reported net income in the third quarter of 2009 of \$272,000 or \$0.05 per diluted share, compared to net income of \$174,000 or \$0.03 per diluted share for the corresponding period in 2008.

The third quarter of 2009 results reflect our continuing efforts to execute our growth strategy in the retail market channel where revenues increased 12.4% to \$6.7 million in the quarter. This trend of increased revenue in the retail market channel may be slowed or eroded by continued delays in the execution of our new store expansion strategy, constraints in available capital, and interim declines in consumer demand at our retail stores impacted by the current global financial and credit crisis. We respond to fluctuations in revenues primarily by delaying the opening of new stores, adjusting marketing efforts and operations to support our retail stores and manage costs, as well as continuing to focus on our proprietary store optimization modeling to determine the rate and location of new store openings. Our direct market channel revenues decreased 9.3%, to \$11.9 million in the third quarter of 2009, due to a combination of factors, including lower unit volumes attributable to the significant consumer spending slowdown in the overall economy. We respond to fluctuations in our direct customers' response by adjusting the quantities of catalogs mailed and other marketing and customer-related strategies and tactics in order to maximize revenues and manage costs. The reversal of these trends of decreased direct revenue and delays in our new store growth plan is dependent upon the response of our customers to these and evolving market conditions.

In this time of economic uncertainty, it is very difficult to accurately predict economic trends; however, as changing market conditions become clear, we will adapt our strategies to address these new conditions.

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Single Reporting Segment

The Company operates and manages its business as one operating segment utilizing a multi-channel distribution strategy.

Results of Operations

The following table sets forth our unaudited results of operations as a percentage of revenues for the periods shown (1):

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenues, net	100.0%	100.0%	100.0%	100.0%
Cost of revenues	63.3	63.2	63.8	64.1
Gross profit	36.7	36.8	36.2	35.9
Selling, general and administrative expenses	31.6	33.3	34.0	33.9
Income from operations	5.0	3.5	2.2	2.0
Interest expense, financing and other related costs, net	1.9	1.7	1.8	1.7
Other investment loss, net	(0.1)	(0.1)	—	(0.1)
Income before income tax provision	3.1	1.7	0.3	0.2
Provision for income taxes	1.6	0.8	0.3	0.1
Net income	1.5	0.9	—	0.1

(1) Certain of these amounts may not properly sum due to rounding

The following table presents certain selected unaudited operating data (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenues, net — direct	\$ 11,864	\$ 13,077	\$ 36,042	\$ 40,661
Revenues, net — retail stores	6,681	5,945	18,014	15,956
Revenues, net — total	<u>\$ 18,545</u>	<u>\$ 19,022</u>	<u>\$ 54,056</u>	<u>\$ 56,617</u>

Other operating data:

Number of retail stores (1)	13	11	13	11
Capital expenditures	105	390	386	887
Gross profit margin	36.7%	36.8%	36.2%	35.9%
Adjusted EBITDA(2)	1,159	895	1,899	1,838
Adjusted EBITDA margin(2)	6.2%	4.7%	3.5%	3.2%

(1) Includes twelve Dover-branded stores and one Smith Brothers store; the September 30, 2009 store count includes the Alpharetta, GA Dover-branded store opened in Q4 2008, and the North Kingstown, RI Dover-branded store opened in Q1 2009.

(2) When we use the term “Adjusted EBITDA”, we are referring to net income minus interest income and other income plus interest expense, income taxes, non-cash stock-based compensation, non-cash goodwill impairment charge, depreciation, amortization and other investment income, net. We present Adjusted EBITDA because we consider it an important supplemental measure of our performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

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Adjusted EBITDA has some limitations as an analytical tool and you should not consider it in isolation or as a substitute for net income, operating income, cash flows from operating, investing or financing activities or any other measure calculated in accordance with U.S. generally accepted accounting principles. Some of the limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or capital commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the impact of an impairment charge that might be taken, when future results are not achieved as planned, in respect of goodwill resulting from any premium the Company might pay in the future in connection with potential acquisitions;
- Adjusted EBITDA does not reflect the interest expense or cash requirements necessary to service interest or principal payments on our debt, or to pay related finance charges;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- although stock-based compensation is a non-cash charge, additional stock options might be granted in the future, which might have a future dilutive effect on earnings and EPS; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table reconciles Adjusted EBITDA to net income (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net income	\$ 272	\$ 174	\$ 21	\$ 65
Depreciation	181	190	580	575
Amortization of intangible assets	2	2	5	23
Stock-based compensation	44	38	135	115
Interest expense, financing and other related costs, net	346	317	996	966
Other investment loss, net	20	20	1	18
Provision for income taxes	294	154	161	76
Adjusted EBITDA	<u>\$ 1,159</u>	<u>\$ 895</u>	<u>\$ 1,899</u>	<u>\$ 1,838</u>

Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008

Revenues

Our total revenues were \$18.5 million for the three months ended September 30, 2009, down from \$19.0 million for the corresponding period in 2008, a decrease of \$0.5 million or 2.5%. Revenues in our direct market channel were \$11.9 million, a decrease of \$1.2 million, or 9.3 % from the corresponding period in 2008. Revenues in our retail market channel increased \$0.7 million, or 12.4%, to \$6.7 million. The decrease in our direct market channel was due to lower unit volumes attributable to the continuing consumer slowdown in the overall economy and fewer catalogs mailed. The increase in revenues from our retail market channel was due primarily to the opening of new stores in 2008 and 2009 and resulting increases in retail revenues. Same store sales performance reflected a decrease of 2.3% over prior year, attributable to the continuing economic recession.

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Gross Profit

Gross profit for the three months ended September 30, 2009 decreased 2.7% to \$6.8 million, from \$7.0 million for the corresponding period in 2008. Gross profit, as a percentage of revenues, for the three months ended September 30, 2009 was 36.7% compared to 36.8% for the corresponding period in 2008. The decrease in gross profit of \$0.2 million was attributable to lower revenues in our direct market channel. The decrease in gross profit as a percentage of revenues was attributable to variations in our overall product mix.

Selling, General and Administrative

Selling, general and administrative expenses were reduced 7.2% for the three months ended September 30, 2009 to \$5.9 million, from the \$6.3 million for the corresponding period in 2008; a savings of \$0.4 million. As a percentage of revenues, SG&A expenses decreased to 31.6% of revenues, from 33.3% of revenues for the corresponding period in 2008. Significant cost reductions in marketing, catalog and professional fees offset planned increases in facility costs in support of retail market channel revenue growth.

Interest Expense

Interest expense, including amortization of deferred financing costs attributed to our subordinated debt and revolving credit facility and a warrant modification charge, remained constant for the three months ended September 30, 2009 and 2008 at \$0.3 million.

Income Tax Provision

The provision for income taxes was \$0.3 million for the three months ended September 30, 2009, reflecting an estimated tax provision of 52.0%, compared to \$0.2 million for the corresponding period in 2008, reflecting an estimated tax provision of 47.1%. The effective tax provision for the year to date periods were recorded based upon management's best estimates of the estimated effective rates for the entire respective years, and are adjusted each quarter. The increased estimated rate is attributable to increased state tax rates and liabilities.

Net Income

The net income for the third quarter of 2009 increased to \$272,000, compared to \$174,000 in the third quarter of 2008. This increase in the net income of \$98,000 was due primarily to increased revenues from our retail sales channel, improved margins, as well as strategic cost reductions in marketing, and catalog costs. The resulting quarterly income per diluted share increased to \$0.05 in the third quarter of 2009 compared to \$0.03 per diluted share for the corresponding period in 2008.

Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

Revenues

Our total revenues were \$54.1 million for the nine months ended September 30, 2009, down from \$56.6 million for the corresponding period in 2008, a decrease of \$2.5 million or 4.5%. Revenues in our direct market channel were \$36.0 million, a decrease of \$4.6 million, or 11.4% from the corresponding period in 2008. Revenues in our retail market channel increased \$2.1 million, or 12.9%, to \$18.0 million. The decrease in our direct market channel was due to lower unit volumes attributable to the continuing consumer slowdown in the overall economy and fewer catalogs mailed. The increase in revenues from our retail market channel was due primarily to the opening of new stores in 2008 and 2009 and resulting increases in retail revenues. Same store sales decreased 4.3% over prior year, attributable to the continuing economic recession.

Gross Profit

Gross profit for the nine months ended September 30, 2009 decreased 3.8% to \$19.5 million, from \$20.3 million for the corresponding period in 2008. Gross profit, as a percentage of revenues, for the nine months ended September 30, 2009 was 36.2% compared to 35.9% for the corresponding period in 2008. The decrease in gross profit of \$0.8 million was attributable to lower revenues in our direct market channel. The increase in gross profit as a percentage of revenues was attributable to variations in our overall product mix.

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Selling, General and Administrative

Selling, general and administrative expenses were reduced \$0.8 million for the nine months ended September 30, 2009 to \$18.4 million compared to \$19.2 million for the corresponding period in 2008; a savings of 4.3%. As a percentage of revenues, SG&A expenses increased to 34.0% of revenues, from 33.9% of revenues for the corresponding period in 2008. Cost reductions in marketing, catalog costs, labor and professional fees offset planned increases in facility costs in support of retail market channel revenue growth.

Interest Expense

Interest expense, including amortization of deferred financing costs attributed to our subordinated debt and revolving credit facility and a warrant modification charge, remained constant for the nine months ended September 30, 2009 and 2008 at \$1.0 million.

Income Tax Provision

The provision for income taxes was \$0.2 million for the nine months ended September 30, 2009, reflecting an estimated tax provision of 88.2%, compared to \$0.07 million for the corresponding period in 2008, reflecting an estimated tax provision of 54.0%. The effective tax provision for the year to date periods were recorded based upon management's best estimates of the estimated effective rates for the entire respective years, and are adjusted each quarter. The increased estimated rate is attributable to increased state tax rates and liabilities.

Net Income

The net income for the nine months ended September 30, 2009 was \$21,000, compared to \$65,000 for the corresponding period in 2008. This decrease in the net income was due primarily to reduced revenues attributable to soft consumer demand. The resulting income per diluted share decreased to \$0.00 for the nine months ended September 30, 2009 as compared to income per diluted share of \$0.01 for the corresponding period in 2008.

Seasonality and Quarterly Fluctuations

Since 2001, our quarterly product sales have ranged from a low of approximately 20% to a high of approximately 32% of any calendar year's results. The beginning of the spring outdoor riding season in the northern half of the country has typically generated a slightly stronger second quarter of the year, and the holiday buying season has generated additional demand for our normal equestrian product lines in the fourth quarter of the year. Revenues for the first and third quarters of the calendar year have tended to be somewhat lower than the second and fourth quarters. We anticipate that our revenues will continue to vary somewhat by season. The timing of our new retail store openings has had, and is expected to continue to have, a significant impact on our quarterly results. We will incur one-time expenses related to the opening of each new store. As we open new stores, (i) revenues may spike and then settle, and (ii) pre-opening expenses, including occupancy and management overhead, are incurred, which may not be offset by correlating revenues during the same financial reporting period. As a result of these factors, new retail store openings may result in temporary declines in operating profit, both in dollars and as a percentage of sales.

Liquidity and Capital Resources

For the nine months ended September 30, 2009, we decreased our cash by \$4,000. While pursuing our growth strategy, with one new store opening, cash was utilized for new store inventory and capital expenditures. The Company's results from operations, including net income and carefully planned reductions in inventories, generated cash flows of \$1.5 million, which were utilized to reduce borrowings under our revolving credit facility. The Company is in compliance with all covenants under both credit facilities. When necessary, we plan in the future to seek additional financing from banks, or through public offerings or private placements of debt or equity securities, strategic relationships, or other arrangements. In the event we fail to meet our financial covenants with our banks, we may not have access through our line of credit to sufficient working capital to pursue our growth strategy, or if our covenant non-compliance triggers a default, our loans may be called requiring the repayment of all amounts on our loans.

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Operating Activities

Cash provided by our operating activities for the nine months ended September 30, 2009 was \$1.5 million compared to \$2.0 million utilized in the corresponding period in 2008. For the nine months ended September 30, 2009, cash outflows consisted and increase in accounts payable of \$0.1 million, reductions in accrued expenses, other current liabilities and income taxes payable of \$0.3 million, and decreases in prepaid catalogs and other current assets of \$0.2 million. Cash inflows included reductions in accounts receivable and inventories. The results of operations consisted of the net loss, non-cash expenses of depreciation, amortization, non-cash interest and other expenses of \$1.0 million. For the nine months ended September 30, 2008, cash outflows consisted primarily of seasonal increases in inventories of \$1.0 million, prepaid catalogs and other current assets of \$0.8 million, as well as reductions in accrued expenses, other current liabilities and income taxes payable of \$1.6 million, offset by decreased receivables of \$0.5 million, non-cash expenses of \$0.9 million and the net income of \$0.07 million.

Investing Activities

Cash utilized in our investing activities was \$0.4 million for the nine months ended September 30, 2009 compared to \$1.0 million for the corresponding period in 2008. For both periods, investing activities consisted primarily of retail store build-out and equipment costs. Increases in investment activities, pending improvement in the current economic uncertainty, can be expected in future periods to outfit our new retail stores.

Financing Activities

Net cash utilized in our financing activities was \$1.1 million for the nine months ended September 30, 2009, compared to \$3.0 million provided in the corresponding period in 2008. For the nine months ended September 30, 2009, we utilized cash from our operating activities to reduce our net borrowings by \$1.0 million under our revolving credit facility. For the nine months ended September 30, 2008, we funded our seasonal operating and investing activities with net borrowings of \$3.1 million under our revolving credit facility.

Revolving Credit Facility

On March 27, 2009, the Company amended its senior revolving credit facility with RBS Citizens Bank N.A. to adjust various covenant levels for fiscal year 2009, due to the on-going impact of the economic recession. In addition, the maximum amount to be borrowed was reduced from \$18,000,000 to \$14,000,000 in 2009, through June 2010, and will then reduce to \$13,000,000 on June 30, 2010. As of September 30, 2009, the revolving credit facility borrowing limit was \$14,000,000, subject to certain covenants, and the amount outstanding under the credit facility was \$7,300,000 at the net revolver rate of 3.76%, and the unused amount available was \$6,700,000. Borrowings are secured by substantially all of the Company's assets. Under the terms of this credit facility, the Company is subject to various covenants. At September 30, 2009, the Company was in compliance with all of its covenants under the credit facility.

Senior Subordinated Notes Payable and Warrants

In December 2007, the Company entered into a subordinated loan agreement with BCA Mezzanine Fund, LP, Cephas Capital Partners, LP, and SEED Ventures, LP (jointly, the "Subordinated Holders"), which provided for the issuance of a senior subordinated note payable, which is due in full on December 11, 2012, for aggregate proceeds of \$5,000,000. The note is subordinated in right of payment to existing and future senior debt ranks equal in right of payment with any future senior subordinated debt and is senior in right of payment to any future subordinated debt. Interest accrues at an annual rate of 14%, of which 12% is payable quarterly in arrears on the fifth business day of the following month. The remaining 2% per annum is deferrable, and if deferred, shall be compounded annually and due in full on December 11, 2012. As of September 30, 2009, the Company had deferred \$194,833 of interest since inception. Prepayment on the principal amount due under the note may voluntarily be made at any time, plus accrued and unpaid interest and a prepayment fee of 5% of the prepaid amount if paid prior to the first anniversary, 4% if paid prior to the second anniversary, 3% if paid prior to the third anniversary, and 0% if paid after December 11, 2010. As of September 30, 2009, the balance of the subordinated notes was \$5,000,000. Under the terms of this senior subordinated credit facility, the Company is subject to various covenants. On March 27, 2009, the Company amended the subordinated loan agreement to adjust various covenant levels for fiscal year 2009, due to the on-going impact of the economic recession. At September 30, 2009, the Company was in compliance with all of its covenants under the credit facility.

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Simultaneously with the issuance of this note, we issued warrants to the Subordinated Holders, exercisable at any time after December 11, 2007, for an initial 118,170 shares of our common stock at an initial exercise price of \$3.96 per share. The number of shares to be received for the warrants, upon exercise, is subject to change in the event of additional equity dividend issuances and/or stock splits. In September 2009, the Company modified certain terms of the warrants and reduced the exercise price to \$2.75 per share. A charge of \$36,000 was recognized in conjunction with the warrant modification.

Working Capital and Capital Expenditure Needs

We believe our existing cash, cash equivalents, expected cash to be provided by our operating activities, and funds available through our revolving credit facility will be sufficient to meet our currently planned working capital and capital expenditure needs over at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our marketing and sales activities, the expansion of our retail stores, the acquisition of new capabilities or technologies and the continuing market acceptance of our products. To the extent that existing cash, cash equivalents, cash from operations and cash from our revolving credit facility under the conditions and covenants of our credit facilities are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Although we are currently not a party to any agreement or letter of intent with respect to potential investments in, or acquisitions of, businesses, services or technologies which we anticipate would require us to seek additional equity or debt financing, we may enter into these types of arrangements in the future. There is no assurance that additional funds would be available on terms favorable to us or at all.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2008 Annual Report on Form 10-K, filed on March 31, 2009, in Note 2 of the Notes to the Consolidated Financial Statements and the “Critical Accounting Policies and Estimates” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations; as supplemented by the disclosures in the Notes to Condensed Consolidated Financial Statements in this Form 10-Q. In addition, we define our same store sales to include sales from all stores open for a full fifteen months following a grand opening, or a conversion to a Dover-branded store.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

At September 30, 2009, there had not been a material change in any of the market risk information disclosed by us in our Annual Report on Form 10-K for the year ended December 31, 2008. More detailed information concerning market risk can be found in Item 7A under the sub-caption “Quantitative and Qualitative Disclosures about Market Risk” of the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 47 of our Annual Report on Form 10-K for the year ended December 31, 2008.

Our objective in managing our long-term exposure to interest rate and foreign currency rate changes is to limit the material impact of the changes on cash flows and earnings and to lower our overall borrowing costs. We have calculated the effect of a 10% change in interest rates over a month-long period for both our debt obligations and our marketable securities investments and determined the effect to be immaterial. We do not foresee or expect any significant changes in the management of foreign currency or interest rate exposures or in the strategies we employ to manage such exposures in the near future.

Foreign Currency Risk

Nearly all of our revenues are derived from transactions denominated in U.S. dollars. We purchase products in the normal course of business from foreign manufacturers. As such, we have exposure to adverse changes in exchange rates associated with those product purchases, but this exposure has not been significant.

Interest Rate Sensitivity

We had cash and cash equivalents totaling \$444,000 at September 30, 2009. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. We intend to maintain our portfolio of cash equivalents, including money market funds and certificates of deposit. Due to the short-term nature of these

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investments, we believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates. As of September 30, 2009, all of our investments were held in money market funds and certificates of deposits.

Our exposure to market risk also relates to the increase or decrease in the amount of interest expense we must pay on our outstanding debt instruments, primarily certain borrowings under our revolving credit facility. The advances under this revolving credit facility bear a variable rate of interest determined as a function of the prime rate and the published LIBOR rate at the time of the borrowing. If interest rates were to increase by two percent, the additional interest expense as of September 30, 2009 would be approximately \$146,000 annually. At September 30, 2009, \$7,300,000 was outstanding under our revolving credit facility.

Item 4. Controls and Procedures.

Not Applicable.

Item 4T. Controls and Procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2009. The term “disclosure controls and procedures”, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2009, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

We maintain certain internal controls over financial reporting that are appropriate, in management’s judgment with similar cost-benefit considerations, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. No change in our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are exposed to litigation relating to our products and operations. Except as described below, we are not currently engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material, adverse affect on our financial condition or results of operations.

The Company has been named as a defendant in litigation brought by one of its customers against the manufacturer of a riding helmet for injuries sustained in an equestrian accident. To the best of our knowledge, the product was designed and manufactured by our vendor to industry standards. The claim against the Company is covered by our insurance, and it vigorously denies liability.

Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. You should carefully consider the specific risk factors listed under Part I, Item 1A of our Annual Report for the year ended December 31, 2008 on Form 10-K filed with the SEC on March 31, 2009, together with all other information included or incorporated in our reports filed with the Securities and Exchange Commission. Any such risks may materialize, and additional risks not known to us, or that we now deem immaterial, may arise. In

such event, our business, financial condition, results of operations or prospects could be materially adversely affected. If that occurs, the market price of our common stock could fall, and you could lose all or part of your investment.

This Quarterly Report on Form 10-Q includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the use of the words “believes”, “anticipates”, “plans”, “expects”, “may”, “will”, “would”, “intends”, “estimates”, and other similar expressions, whether in the negative or affirmative. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in the forward-looking statements made. We have included important factors in the cautionary statements below that we believe could cause actual results to differ materially from the forward-looking statements contained herein. The forward-looking statements do not reflect the potential impact of any future acquisitions, mergers or dispositions. We do not assume any obligation to update any forward-looking statements contained herein. In addition to the list of significant risk factors set forth in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, we continue to call your attention to the following information that might be considered material in evaluating the risks of our business and an investment in our common stock:

Current economic conditions and the global financial crisis may have an impact on our business and financial condition in ways that we currently cannot predict.

The global economy is currently experiencing a significant contraction, with an almost unprecedented lack of availability of business and consumer credit. This current decrease and any future decrease in economic activity in the United States or in other regions of the world in which we do business could adversely affect our financial condition and results of operations. Continued and potentially increased volatility, instability and economic weakness and a resulting decrease in discretionary consumer and business spending may result in a reduction in our revenues and adversely affect compliance with our loan covenants. We currently cannot predict the extent to which our revenues may be impacted. In addition, financial difficulties experienced by our suppliers or distributors could result in product delays and discontinuances, a lack of new products, inventory challenges, and less favorable trade credit terms.

A decline in discretionary consumer spending and related externalities could reduce our revenues.

Our revenues depend to a degree on discretionary consumer spending, which may decrease due to a variety of factors beyond our control. These include unfavorable general business, financial and economic conditions, increases in interest rates, increases in inflation, stock market uncertainty, war, terrorism, fears of war or terrorism, increases in consumer debt levels and decreases in the availability of consumer credit, adverse or unseasonable weather conditions, adverse changes in applicable laws and regulations, increases in taxation, adverse unemployment trends and other factors that adversely influence consumer confidence and spending. Any one of these factors could result in adverse fluctuations in our revenues generally and adversely affect compliance with our loan covenants. Our revenues also depend on the extent to which discretionary consumer spending is directed towards recreational activities generally and equestrian activities and products in particular. Reductions in the amounts of discretionary spending directed to such activities would reduce our revenues. Our customers’ purchases of discretionary items, including our products, may decline during periods when disposable income is lower, or periods of actual or perceived unfavorable economic conditions. If this occurs, our revenues would decline, which may have a material adverse effect on our business.

Material changes in cash flow, debt levels, and our financial results may adversely affect our growth and credit facilities, require the immediate repayment of all our loans, and limit the ability to open new stores.

During seasonal and cyclical changes in our revenue levels, to fund our retail growth strategy, and to fund increases in our direct business, we make use of our credit facilities, which are subject to EBITDA, total debt and related covenants. In the last fiscal quarter of fiscal year 2008 and in the first quarter of fiscal quarter of 2009, prior to loan amendment, we would have failed to comply with one or more of these covenants. If we are out of compliance with our covenants at the end of a fiscal period, it may adversely affect our growth prospects, require the consent of our lenders to open new stores, or in the worst case, trigger default and require the repayments of all amounts then outstanding on our loans. In the event of our insolvency, liquidation, dissolution or reorganization, the lenders under our revolving credit facility would be entitled to payment in full from our assets before distributions, if any, were made to our stockholders. In order to execute our retail store expansion strategy, we may need to borrow additional funds, raise additional equity financing or finance our planned expansion from profits. We may also need to raise additional capital in the future to respond to competitive pressures or unanticipated financial requirements. We may not be able to obtain additional financing, including the extension or refinancing of our revolving credit facility, on commercially reasonable terms or at all. A failure to obtain additional

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financing or an inability to obtain financing on acceptable terms could require us to incur indebtedness at high rates of interest or with substantial restrictive covenants, including prohibitions on payment of dividends. We may obtain additional financing by issuing equity securities that will dilute the ownership interests of existing shareholders. If we are unable to obtain additional financing, we may be forced to scale back operations or be unable to address opportunities for expansion or enhancement of our operations.

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

The Company did not issue or sell any equity securities in the three months ended September 30, 2009.

Item 3. Defaults Upon Senior Securities.

There were no defaults on the Company's senior securities in the three months ended September 30, 2009.

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

There were no matters submitted to a vote of security holders in the three months ended September 30, 2009.

Item 5. Other Information.

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2008 and in other filings, the Company received comments from the Securities and Exchange Commission Staff regarding its Annual Report on Form 10-K for the year ended December 31, 2007 (the "2007 Annual Report") and regarding its Current Report on Form 8-K filed with the SEC on April 15, 2008. The Company believes it has resolved all such comments.

In September 2009, the Company modified certain terms of the warrants and reduced the exercise price to \$2.75 per share. A charge of \$36,000 was recognized in conjunction with the warrant modification. These warrant modifications were determined to be in the best interests of the Company, following review by the Audit Committee and approval of the Board of Directors, with Mr. Mulligan abstaining in both cases.

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Item 6. Exhibits.

Exhibit List

<u>Number</u>	<u>Description</u>
*4.11	Amended and Restated Specimen Common Stock Purchase Warrant
*31.1	Certification of Principal Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
*31.2	Certification of Principal Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) or Rule 15d-14(a)
‡32.1	Certification by Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350

* Filed herewith.

‡ Furnished herewith.

SIGNATURES

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

DOVER SADDLERY, INC.

Dated: November 13, 2009

By: /s/ Michael W. Bruns
Michael W. Bruns, Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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* Filed herewith.

‡ Furnished herewith.

THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS WARRANT UNDER SAID ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO DOVER SADDLERY, INC. THAT SUCH REGISTRATION IS NOT REQUIRED.

AMENDED AND RESTATED COMMON STOCK PURCHASE WARRANT

No. W-5A

Original Issue Date: December 11, 2007

THIS IS TO CERTIFY THAT, for value received, _____, a _____, and its successors and permitted assigns (“Initial Holder”) are entitled, subject to the terms and conditions set forth in this Amended and Restated Common Stock Purchase Warrant (this “Warrant”), to purchase from **Dover Saddlery, Inc.**, a Delaware corporation, at any time and from time to time after 9:00 A.M., Providence, Rhode Island time on the Initial Exercise Date (as defined in Section 1 below) and on or prior to 5:00 P.M., Providence, Rhode Island time on the Expiration Date (as defined in Section 1 below), all or any portion of the Warrant Shares (as defined in Section 1 below), at a purchase price per share equal to the Exercise Price (as defined in Section 1 below). The number and character of the Warrant Shares and the Exercise Price are subject to adjustment as provided herein. This Warrant amends, restates and supersedes in its entirety that certain Common Stock Purchase Warrant No. W-2A (the “Initial Warrant”) issued to the Initial Holder on December 11, 2007.

1. Definitions. As used in this Warrant, the following terms shall have the respective meanings set forth below or elsewhere in this Warrant as referred to below:

“Appraisal Procedure” if applicable, shall mean a valuation of the Common Stock determined by an investment banking firm of national recognition, which firm shall be reasonably acceptable to the Corporation and Holder. If the Corporation and Holder are unable to agree upon an acceptable investment banking firm within ten (10) days after the date either party proposed that one be selected, the investment banking firm will be selected by an arbitrator located in Providence, Rhode Island, selected by the American Arbitration Association (or if such organization ceases to exist, the arbitrator shall be chosen by a court of competent jurisdiction). The arbitrator shall select the investment banking firm (within ten (10) days of its appointment) from a list, jointly prepared by the Corporation and Holder, of not more than six (6) investment banking firms of national standing in the United States, of which no more than three (3) may be named by the Corporation and no more than three (3) may be named by Holder. The arbitrator may consider, within the ten-day period allotted, arguments from the parties regarding which investment banking firm to choose, but the selection by the arbitrator shall be made in its sole discretion from the list of six (6). The Corporation and Holder shall submit their respective valuations and other relevant data to the investment banking firm, and the investment banking firm shall as soon as practicable thereafter make its own determination of the valuation amount. The final valuation amount for purposes hereof shall be the average of the two (2) valuation amounts closest together, as determined by the investment banking firm, from among the valuation amounts submitted by the Corporation and Holder and the valuation amount calculated by the investment banking firm. The determination of the final valuation amount by such investment-banking firm shall be final and binding upon the parties. The Corporation and Holder shall share equally the fees and expenses of the investment banking firm(s) and arbitrator (if any) used to determine the valuation amount.

“Capital Stock” means the Common Stock, and all other classes of common stock (whether voting or non-voting), and all other forms of capital stock or securities of Corporation (preferred or

otherwise).

“Common Stock” shall mean the shares of the Common Stock of the Corporation, \$0.0001 par value per share, and shall include the Corporation’s Common Stock authorized as at the date of this Warrant.

“Corporation” shall mean Dover Saddlery, Inc., a Delaware corporation, and/or any Person that shall succeed to, or assume the obligations of Dover Saddlery, Inc. hereunder.

“Determination Date” shall have the meaning set forth in subsection 2.4 hereof.

“Exercise Price” shall mean, as of the Initial Exercise Date, the Initial Exercise Price, and after the Initial Exercise Date, the Initial Exercise Price as adjusted from time to time pursuant to the terms of this Warrant.

“Expiration Date” shall mean the date that is nine (9) years from the Issue Date.

“Fair Market Value” shall have the meaning set forth in subsection 2.4 hereof.

“Holder” shall mean, as applicable, (i) the Initial Holder, (ii) any successor of the Initial Holder or (iii) any other holder of record of this Warrant or any portion thereof to whom this Warrant or any portion thereof shall have been transferred in accordance with the provisions of Section 9 hereof.

“Initial Exercise Date” shall mean the Issue Date.

“Initial Exercise Price” shall mean \$2.75 per share of Common Stock.

“Initial Holder” shall have the meaning set forth in the second paragraph hereof.

“Initial Warrant Shares” shall mean shares of Common Stock of the Corporation equal to eight-tenths of one percent (0.8%) of the total issued and outstanding Capital Stock of the Corporation, on a fully diluted basis (which on the date of this Warrant is 47,268 shares). The number of Initial Warrant Shares shall be computed as of the date of exercise (or, if applicable, each respective partial exercise) of this Warrant. For the avoidance of doubt, all outstanding options on the date of this Warrant shall be included in the “fully diluted” calculation, but options granted after the date of this Warrant under the 2005 Equity Incentive Plan, as presently constituted, shall not be taken into account.

“Issue Date” shall mean the Original Issue date stated on the face of this Warrant.

“Person” shall mean an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

“Purchase Price” shall mean the Exercise Price.

“Registration Rights Agreement” shall mean that certain Registration Rights Agreement, dated the date hereof, by and between Holder and the Corporation.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Subscription Form” shall have the meaning set forth in subsection 2.2 hereof.

“Warrant” shall have the meaning set forth in the second paragraph hereof.

“Warrant Shares” shall mean shares of Stock consisting of the Initial Warrant Shares, and at any time thereafter such Initial Warrant Shares, after giving effect to any adjustments in the number of Initial Warrant Shares as set forth in Section 5 hereof.

2. Exercise of Warrant.

2.1. Number of Shares Issuable upon Exercise. From and after the Initial Exercise Date through and including the Expiration Date, the holder hereof shall be entitled to receive, upon exercise of this Warrant in whole in accordance with the terms of subsection 2.2 hereof or upon exercise of this Warrant in part in accordance with subsection 2.3 hereof, shares of Common Stock of the Corporation, subject to adjustment pursuant to Section 4 hereof.

2.2. Full Exercise. This Warrant may be exercised in full by the holder hereof by delivery of an original or fax copy of the form of subscription attached as Exhibit A hereto (the “Subscription Form”) duly executed by such Holder, to the Corporation at its principal office or at the office of its warrant agent (as provided hereinafter), accompanied by payment, in cash, wire transfer, or by certified or official bank check payable to the order of the Corporation, in the amount obtained by multiplying the number of shares of Common Stock for which this Warrant is then exercisable by the Purchase Price then in effect.

2.3. Partial Exercise. This Warrant may be exercised in part (but not for a fractional share) by surrender of this Warrant in the manner and at the place provided in subsection 2.2 hereof except that the amount payable by the holder on such partial exercise shall be the amount obtained by multiplying (a) the number of shares of Common Stock designated by the holder in the Subscription Form by (b) the Purchase Price then in effect. On any such partial exercise, the Corporation, at its expense, will forthwith issue and deliver to or upon the order of the holder hereof a new Warrant of like tenor, in the name of the holder hereof or as such holder (upon payment by such holder of any applicable transfer taxes) may request, for the number of shares of Common Stock for which such Warrant may still be exercised.

2.4. Fair Market Value. Fair Market Value of a share of Common Stock as of a particular date (the “Determination Date”) shall mean:

(a) If the Corporation’s Common Stock is traded on an exchange, including, without limitation, the NASDAQ Stock Exchange (“NASDAQ”), then the average closing or last sale price, respectively, reported for the ten (10) business days immediately preceding the Determination Date.

(b) If the Corporation’s Common Stock is not traded on an exchange, but is traded on the NASD OTC Bulletin Board, then the mean of the average of the closing bid and asked prices reported for the ten (10) business days immediately preceding the Determination Date.

(c) If the Corporation’s Common Stock is not publicly traded, then as determined in accordance with the Appraisal Procedures, unless otherwise agreed to by the Corporation and Holder.

2.5. Corporation Acknowledgment. The Corporation will, at the time of the exercise of the Warrant, upon the request of the Holder acknowledge in writing its continuing obligation to afford to Holder any rights to which Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If Holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Corporation to afford to Holder any such rights.

2.6. Trustee for Warrant Holders. In the event that a bank or trust company shall have been appointed as trustee for the Corporation, such bank or trust company shall have all the powers and duties of a warrant agent (as hereinafter described) and shall accept, in its own name for the account of the Corporation or such successor person as may be entitled thereto, all amounts otherwise payable to the Corporation or such successor, as the case may be, on exercise of this Warrant pursuant to this Section 2.

2.7 Delivery of Stock Certificates, etc. on Exercise. The Corporation agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be deemed to be issued to Holder as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for such shares as aforesaid. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within seven (7) days thereafter, the Corporation at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder, or as Holder (upon payment by Holder of any applicable transfer taxes except as otherwise provided in Section 9 hereof) may direct in compliance with applicable securities laws, a certificate or certificates, accompanied by the legend in the form specified in Section 7 below, for the number of duly and validly issued, fully paid and nonassessable shares of Common Stock to which Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which Holder would otherwise be entitled, cash equal to such fraction multiplied by the then Fair Market Value of one full share, together with any other stock or other securities and property (including cash, where applicable) to which Holder is entitled upon such exercise pursuant to this Section 2 or otherwise.

3. Payment of Purchase Price.

3.1 Form of Payment. Payment may be made either in (i) cash or by certified or official bank check payable to the order of the Corporation equal to the applicable aggregate Purchase Price, (ii) by delivery of the Warrant, Common Stock and/or Common Stock receivable upon exercise of the Warrant in accordance with Section 3.2 below, or (iii) by a combination of any of the foregoing methods, for the number of shares of Common Stock specified in such form (as such exercise number shall be adjusted to reflect any adjustment in the total number of shares of Common Stock issuable to Holder per the terms of this Warrant) and Holder shall thereupon be entitled to receive the number of duly authorized, validly issued, fully-paid and non-assessable shares of Common Stock determined as provided herein.

3.2 Cashless Exercise. Notwithstanding any provisions herein to the contrary, if the Fair Market Value of one share of Common Stock on the Determination Date is greater than the Purchase Price per share (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the Holder may elect a cashless exercise of the Warrant and thereby elect to receive that lesser number of shares (as determined below) by surrender of this Warrant and cancellation of that portion of the Warrant being exercised at the principal office of the Corporation together with the properly endorsed Subscription Form, in which event the Corporation shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = Y \left(\frac{A-B}{A} \right)$$

Where X= the number of shares of Common Stock to be issued to the Holder

Y= the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised (at the date of such calculation)

A= the Fair Market Value of one share of the Corporation's Common Stock (at the date of such calculation)

B= Exercise Price (as adjusted to the date of such calculation)

4. Adjustments.

4.1. Reorganization, Consolidation, Merger, etc. . In case at any time or from time to time, the Corporation shall (a) effect a reorganization, (b) consolidate with or merge into any other person, (c) transfer voting control or direction over fifty percent (50%) or more of the Corporation's Capital Stock or (d) transfer all or substantially all of its properties or assets to any other Person in one or more related transactions or under any plan or arrangement contemplating the dissolution of the Corporation, then, in each such case, as a condition to the consummation of such a transaction, proper and adequate provision shall be made by the Corporation whereby the Holder, upon the exercise hereof as provided in Section 2 hereof at any time after the consummation of such transaction, shall be entitled to receive the stock and other securities and property (including cash) to which Holder would have been entitled upon such consummation or in connection with such dissolution, as the case may be, as if Holder had exercised this Warrant prior to such consummation or such effective date, all subject to further adjustment thereafter as provided in Section 5 hereof.

4.2 Continuation of Terms . Upon any reorganization, consolidation, merger, transfer (and any dissolution following any transfer) or other adjustment to the Initial Warrant Shares referred to in this Section 4, this Warrant shall continue in full force and effect and the terms hereof shall be applicable to the shares of Common Stock and other securities and property receivable on the exercise of this Warrant after the consummation of such reorganization, consolidation or merger or the effective date of dissolution following any such transfer, or any other adjustment to the Initial Warrant Shares referred to in this Section 4, as the case may be, and shall be binding upon the issuer of any such stock or other securities, including, in the case of any such transfer, the person acquiring all or substantially all of the properties or assets of the Corporation, whether or not such person shall have expressly assumed the terms of this Warrant as provided in Section 4.

5. Extraordinary Events Regarding Common Stock . In the event that the Corporation shall (a) issue additional shares of the Common Stock as a dividend or other distribution on outstanding Common Stock, (b) subdivide its outstanding shares of Common Stock, or (c) combine its outstanding shares of the Common Stock into a smaller number of shares of the Common Stock, then, in each such event, the Purchase Price shall, simultaneously with the happening of such event, be adjusted by multiplying the then Purchase Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such event and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such event, and the product so obtained shall thereafter be the Purchase Price then in effect. The Purchase Price, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described herein in this Section 5. The number of shares of Common Stock that the Holder shall thereafter, on the exercise hereof as provided in Section 2 hereof, be entitled to receive shall be increased or decreased to a number determined by multiplying the number of shares of Common Stock that would otherwise (but for the provisions of this Section 5) be issuable on such exercise by a fraction of which (a) the numerator is the Purchase Price that would otherwise (but for the provisions of this Section 5) be in effect, and (b) the denominator is the Purchase Price in effect on the date of such exercise.

6. Certificate as to Adjustments . In each case of any adjustment or readjustment in the shares of Common Stock issuable on the exercise of the Warrant, the Corporation at its expense will promptly cause its Chief Financial Officer or other appropriate designee to compute such adjustment or

readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Corporation for any additional shares of Common Stock issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock outstanding or deemed to be outstanding, and (c) the Purchase Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Corporation will forthwith mail a copy of each such certificate to the Holder and any Warrant agent of the Corporation (appointed pursuant to Section 11 hereof).

7. Stock Fully Paid; Reservation of Stock, etc. Issuable on Exercise of Warrant; Financial Statements. All of the Common Stock issuable upon the exercise of the rights represented by this Warrant (the "Issued Common Stock") will, upon issuance and receipt of the Exercise Price therefor, be fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issue thereof. The Corporation will at all times reserve and keep available, solely for issuance and delivery on the exercise of the Warrant, all shares of Common Stock from time to time issuable on the exercise of the Warrant. This Warrant entitles the Holder to receive copies of all financial and other information distributed or required to be distributed to the holders of the Corporation's Common Stock. The Issued Common Stock will be registered upon the terms and conditions set forth in the Registration Rights Agreement.

8. Investment Representation. Neither this Warrant nor the Warrant Shares issuable upon the exercise of this Warrant have been registered under the Securities Act, or any other securities laws. The Holder acknowledges by acceptance of the Warrant that (a) it has acquired this Warrant for investment and not with a view to distribution; (b) it has either a pre-existing personal or business relationship with the Corporation, or its executive officers, or by reason of its business or financial experience, it has the capacity to protect its own interests in connection with the transaction; and (c) it is an accredited investor as that term is defined in Regulation D promulgated under the Securities Act. Until registration pursuant to the Registration Rights Agreement, the Common Stock will bear a legend indicating that the securities represented thereby have not been registered under any State or Federal securities laws and are subject to certain customary transfer restrictions.

9. Assignment; Exchange of Warrant. Subject to compliance with applicable Securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered holder hereof (a "Transferor") with respect to any or all of the Common Stock from time to time issuable on the exercise of the Warrant. On the surrender for exchange of this Warrant, with the Transferor's endorsement in the form of Exhibit B attached hereto (the "Transferor Endorsement Form") and together with evidence reasonably satisfactory to the Corporation demonstrating compliance with applicable Securities Laws, which shall include, without limitation, a legal opinion from the Transferor's counsel that such transfer is exempt from the registration requirements of federal securities laws, the Corporation (at its expense but with payment by the Transferor of any applicable transfer taxes) will issue and deliver to or on the order of the Transferor thereof a new Warrant of like tenor, in the name of the Transferor and/or the transferee(s) specified in such Transferor Endorsement Form (each a "Transferee"), calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant so surrendered by the Transferor.

10. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Corporation of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Corporation or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Corporation at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

11. Warrant Agent. The Corporation may, by written notice to Holder, appoint an agent for the purpose of issuing Common Stock on the exercise of this Warrant pursuant to Section 2 hereof, exchanging this Warrant pursuant to Section 9 hereof, and replacing this Warrant pursuant to Section 10 hereof, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such agent.

12. Transfer on the Corporation's Books. Until this Warrant is transferred on the books of the Corporation, the Corporation may treat the registered holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

13 Notices, etc. All notices and other communications from the Corporation to the Holder shall be mailed by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Corporation in writing by Holder or, until any Holder furnishes to the Corporation an address, then to, and at the address of, the last Holder of this Warrant who has so furnished an address to the Corporation.

14. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant shall be governed by and construed in accordance with the laws of State of Delaware without regard to principles of conflicts of laws. Any action brought concerning the transactions contemplated by this Warrant shall be brought only in the state or federal courts located in the State of Delaware. The individuals executing this Warrant on behalf of the Corporation agree to submit to the jurisdiction of such courts and waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Warrant is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Warrant. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision. The Corporation acknowledges that legal counsel participated in the preparation of this Warrant and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Warrant to favor any party against the other party.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Corporation has executed this Warrant under seal as of September 24, 2009.

DOVER SADDLERY, INC.

By: _____
Name:
Title:

Witness:

FORM OF SUBSCRIPTION
(To be signed only on exercise of Warrant)

TO: Dover Saddlery, Inc.

The undersigned, pursuant to the provisions set forth in the attached Warrant (No. _____), hereby irrevocably elects to purchase (check applicable box):

- _____ shares of the Common Stock covered by such Warrant; or
- the maximum number of shares of Common Stock covered by such Warrant pursuant to the cashless exercise procedure set forth in Section 3.

The undersigned herewith makes payment of the full purchase price for such shares at the price per share provided for in such Warrant, which is \$ _____. Such payment takes the form of (check applicable box or boxes):

- \$ _____ in lawful money of the United States; and/or
- the cancellation of such portion of the attached Warrant as is exercisable for a total of _____ shares of Common Stock (using a Fair Market Value of \$ ___ per share for purposes of this calculation); and/or
- the cancellation of such number of shares of Common Stock as is necessary, in accordance with the formula set forth in Section 3, to exercise this Warrant with respect to the maximum number of shares of Common Stock purchaseable pursuant to the cashless exercise procedure set forth in Section 3.

The undersigned requests that the certificates for such shares be issued in the name of, and delivered to _____ whose address is _____.

The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable upon exercise of the within Warrant shall be made pursuant to registration of the Common Stock under the Securities Act of 1933, as amended (the "Securities Act") or pursuant to an exemption from registration under the Securities Act.

Dated: _____

(Signature must conform to name of Holder as specified on the face of the Warrant)

(Address)

FORM OF TRANSFEROR ENDORSEMENT
(To be signed only on transfer of Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto the person(s) named below under the heading "Transferees" the right represented by the within Warrant to purchase the percentage and number of shares of Common Stock of Dover Saddlery, Inc. to which the within Warrant relates specified under the headings "Percentage Transferred" and "Number Transferred," respectively, opposite the name(s) of such person(s) and appoints each such person Attorney to transfer its respective right on the books of Dover Saddlery, Inc. with full power of substitution in the premises.

Transferees	Percentage Transferred	Number Transferred
_____	_____	_____

Dated: _____, ____ ____

(Signature must conform to name of Holder as
specified on the face of the warrant)

Signed in the presence of:

(Name) (address)

ACCEPTED AND AGREED: _____ (address)
[TRANSFEREE]

(Name)

CERTIFICATION

I, Stephen L. Day, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DOVER SADDLERY, INC.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2009

/s/ Stephen L. Day
Stephen L. Day
President, Chief Executive Officer and Director
(Principal Executive Officer)

CERTIFICATION

I, Michael W. Bruns, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DOVER SADDLERY, INC.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2009

/s/ Michael W. Bruns
Michael W. Bruns
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of DOVER SADDLERY, INC. (the “Company”) for the fiscal quarter ended September 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stephen L. Day

Stephen L. Day
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 13, 2009

/s/ Michael W. Bruns

Michael W. Bruns
Chief Financial Officer
(Principal Financial Officer)

Date: November 13, 2009