

October 3, 2008

Key Metrics

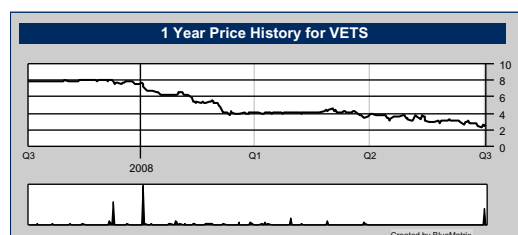
VETS - NASDAQ	\$2.60
Pricing Date	10/02/2008
Price Target	NA
52-Week Range	\$8.04-\$1.00
Shares Outstanding (mm)	23.7
Market Capitalization (\$mm)	\$61.5
3-Mo Average Daily Volume	24,176
Institutional Ownership	26%
Debt/Total Capital	16.0%
ROE	NM
Book Value/Share	\$2.48
Price/Book	1.0x
Dividend Yield	NM
LTM EBITDA Margin	NM

EPS(\$) FY: December

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	(0.21)	--	(0.13)A	(0.04)E	(0.06)E
2Q-Jun	(0.12)	--	(0.22)A	(0.01)E	(0.03)E
3Q-Sep	(0.15)	--	(0.09)E	0.01E	0.00E
4Q-Dec	(0.16)	(0.08)E	(0.09)E	0.02E	0.00E
FY	(0.64)	(0.51)E	(0.53)E	(0.02)E	(0.08)E
P/E	NM		NM		NM

Revenue(\$mm)

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	17.4	--	17.8A	23.8E	20.6E
2Q-Jun	17.7	--	17.9A	27.6E	24.1E
3Q-Sep	17.7	19.8E	18.8E	28.9E	26.4E
4Q-Dec	16.4	21.0E	18.4E	28.9E	26.1E
FY	69.3	76.6E	73.0E	109.2E	97.2E



Company Description: Pet DRx Corporation (www.petdrx.com) provides primary veterinary and specialty care services to companion animals through a network of veterinary hospitals in California. Its services include general medical treatment for pets, including preventive care, such as vaccinations, examinations, spraying, and dental care; and a range of specialized diagnostic and medical services, such as x-ray, ultra-sound internal medicine, surgery, cardiology ophthalmology, dermatology, oncology, and other services.

Pet DRx Corporation

Rating: Hold

Starting At The Top; PetDRx Announces Management Changes

Investment Highlights:

- CEO/Director Steps Down: Chairman Gene Burleson Appointed Interim CEO.** Pet DRx announced that Bob Wallace has stepped down as CEO/Director of the company but has agreed to serve as a consultant for 90 days to ensure a smooth transition. Chairman Gene Burleson will serve as interim-CEO immediately. Mr. Wallace was the founder of the company's "hub-and-spoke" strategy. We do not expect this strategy to change. In the interim, Mr. Burleson provides a strong track record within healthcare and, most recently, was Chairman of the Board (1989 to 1997), President and CEO (1990 to 1997) of GranCare, which grew sales from roughly \$10mm to approximately \$1.5bn during his tenure.
- Hospital margins down but not necessarily out; the majority of the hospitals appear to be performing well.** While gross margins have disappointed to-date, we believe the overall model is sound as two-thirds of the hospitals have shown roughly 10% comp sales growth and some hospital margins are at nearly 14%. Unfortunately, veterinary staff losses have caused a handful of units to underperform. With roughly 26 units, the overall impact to margins has been magnified. While it will likely take time to turn the underperforming units around, the appointment of David Reed, DVM, as Senior Vice President of Operations, appears positive as he currently operates two of the company's more profitable units.
- Steps apparently taken to accelerate acquisition activity.** The company has closed one acquisition with one definitive agreement and signed letters of intent with two others, but remains behind our initial expectations for roughly 20 additions in 2008. Harry Zimmerman, an integral part of the management team, in our view, that grew Encore Medical Corp. (2000 to 2006) from \$30mm in revenue to \$450mm, has joined the company as Chief of Business Development. Mr. Zimmerman could help accelerate growth.
- Trimming sales and EPS estimates; one acquisition completed YTD.** We are reducing our sales (down \$3.6mm in FY08E and \$12mm in FY09E) and EPS estimates (down \$0.02 in FY08E and \$0.06 in FY09E) to reflect lower than expected acquisition activity. With the industry highly fragmented, roughly 95% of companion hospitals are owned by small, independent operators; more accretive acquisitions could alter EPS estimates materially.
- Maintain Hold rating; awaiting additional acquisitions.** While yesterday's announcement appears to be a step in the right direction toward correcting recent issues, we are maintaining our Hold rating on the shares and await more substantial acquisition announcements.

PetDRx (VETS)

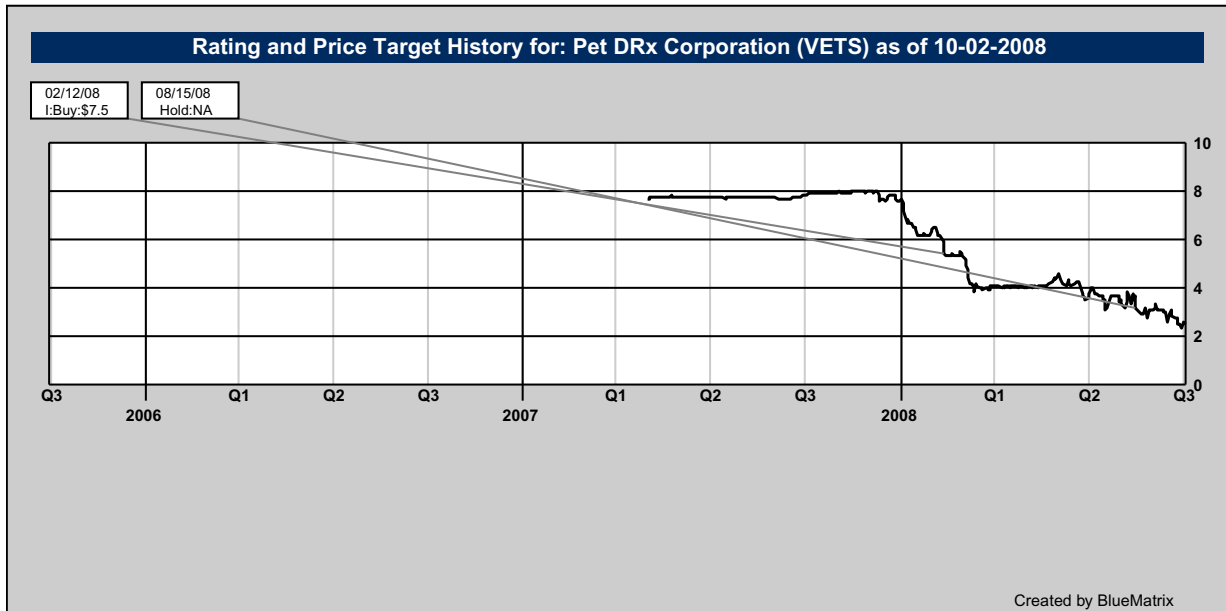
(In Millions, Except Per Share Data)

	FY* 2006	Q1* Mar-07	Q2* Jun-07	Q3* Sep-07	Q4* Dec-07	FY* 2007	Q1 Mar-08	Q2 Jun-08	Q3E Sep-08	Q4E Dec-08	FYE 2008	Q1E Mar-09	Q2E Jun-09	Q3E Sep-09	Q4E Dec-09	FYE 2009
Sales	70.3	17.4	17.7	17.7	16.4	69.3	17.8	17.9	18.8	18.4	73.0	20.6	24.1	26.4	26.1	97.2
<i>% Increase</i>	NA	NA	NA	NA	NA	-1.4%	2.3%	1.1%	6.2%	12.0%	5.3%	15.5%	34.5%	40.4%	41.8%	33.2%
Cost of Goods Sold	67.4	17.1	16.9	16.2	15.6	65.9	16.1	16.6	17.2	16.7	66.7	18.1	21.0	22.7	22.2	84.0
<i>As % Sales</i>	95.9%	98.0%	95.3%	91.7%	95.2%	95.0%	90.4%	92.9%	91.5%	91.0%	91.5%	88.0%	87.0%	86.0%	85.0%	86.4%
<i>% Increase</i>	NA	NA	NA	NA	NA	-2.3%	-5.6%	-1.5%	6.0%	7.0%	1.3%	12.4%	25.9%	32.0%	32.5%	25.9%
Gross Profit	2.9	0.4	0.8	1.5	0.8	3.4	1.7	1.3	1.6	1.7	6.2	2.5	3.1	3.7	3.9	13.2
<i>Margin</i>	4.1%	2.0%	4.7%	8.3%	4.8%	5.0%	9.6%	7.1%	8.5%	9.0%	8.5%	12.0%	13.0%	14.0%	15.0%	13.6%
<i>% Increase</i>	124.5%	NA	NA	NA	NA	19.6%	384.9%	53.6%	8.8%	111.5%	81.6%	44.8%	146.1%	131.3%	136.4%	112.0%
SG&A	4.7	4.5	3.0	3.7	3.4	14.6	3.8	3.5	3.5	3.4	14.2	3.5	3.5	3.5	3.5	14.0
<i>As % Sales</i>	6.7%	25.9%	16.9%	21.0%	20.4%	21.1%	21.3%	19.6%	18.6%	18.5%	19.5%	17.0%	14.5%	13.3%	13.4%	14.4%
<i>% Increase</i>	NA	NA	NA	NA	NA	NA	-16.2%	17.1%	-5.9%	1.5%	-2.7%	-7.7%	-0.2%	0.0%	2.9%	-1.4%
Operating Profit	(1.8)	(4.2)	(2.2)	(2.2)	(2.6)	(11.2)	(2.1)	(2.2)	(1.9)	(1.7)	(8.0)	(1.0)	(0.4)	0.2	0.4	(0.8)
<i>Margin</i>	-2.6%	-23.9%	-12.2%	-12.7%	-15.6%	-16.1%	-11.7%	-12.5%	-10.1%	-9.5%	-10.9%	-5.0%	-1.5%	0.7%	1.6%	-0.8%
<i>% Increase</i>	NA	NA	NA	NA	NA	NA	50.1%	-3.1%	15.4%	32.1%	28.6%	-50.6%	-83.6%	-110.3%	-123.8%	NA
Interest Expense	4.3	1.1	1.1	1.1	1.0	4.3	1.2	2.7	0.3	0.3	4.5	0.3	0.3	0.3	0.3	1.2
Other Income	2.0	0.7	0.7	0.0	0.0	1.3	0.2	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Pretax Profit	(4.1)	(4.6)	(2.6)	(3.4)	(3.6)	(14.1)	(3.0)	(5.1)	(2.2)	(2.0)	(12.3)	(1.3)	(0.7)	(0.1)	0.1	(2.0)
<i>Margin</i>	-5.9%	-26.3%	-14.7%	-19.0%	-21.7%	-20.4%	-16.9%	-28.4%	-11.6%	-11.1%	-16.9%	-6.4%	-2.8%	-0.4%	0.4%	-2.0%
<i>% Increase</i>	NA	NA	NA	NA	NA	NA	34.1%	-95.1%	35.3%	42.7%	12.7%	-56.0%	-86.9%	-95.2%	-105.6%	NA
Taxes(benefit)	0.2	0.2	0.2	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
<i>Rate</i>	-5.1%	-3.6%	-6.3%	-0.4%	0.0%	-2.4%	-0.3%	-0.8%	0.0%	0.0%	-0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income--Oper.	(4.4)	(4.7)	(2.8)	(3.4)	(3.6)	(14.5)	(3.0)	(5.1)	(2.2)	(2.0)	(12.4)	(1.3)	(0.7)	(0.1)	0.1	(2.0)
<i>Margin</i>	-6.2%	-27.2%	-15.6%	-19.1%	-21.7%	-20.9%	-17.0%	-28.6%	-11.6%	-11.1%	-17.0%	-6.4%	-2.8%	-0.4%	0.4%	-2.0%
<i>% Increase</i>	NA	NA	NA	NA	168.7%	NA	36.2%	-84.9%	35.5%	42.7%	14.4%	-56.1%	-87.0%	-95.2%	-105.6%	NA
EPS--Operations	(0.20)	(0.21)	(0.12)	(0.15)	(0.16)	(0.64)	(0.13)	(0.22)	(0.09)	(0.09)	(0.53)	(0.06)	(0.03)	(0.00)	0.00	(0.08)
<i>% Increase</i>	NA	NA	NA	NA	NA	NA	36.3%	-77.7%	38.2%	45.6%	17.9%	-57.9%	-87.0%	-95.2%	-105.6%	NA
Shares Out. Diluted	21.6	22.7	22.7	22.7	22.5	22.5	22.8	23.7	23.7	23.7	23.5	23.7	23.7	23.7	23.7	23.7

Source: Company reports and Morgan Joseph estimates

* Pro Forma adjustments give effect as if XLNT acquired operations January 1, 2006

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Morgan Joseph & Co. Inc. makes a market in the shares of VETS.

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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	56.67	33.33
HOLD [H]	42.22	31.58
SELL [S]	1.11	0.00

- Meaning of Ratings
- A) Buy means reasonable outperformance relative to the market over 12-18 months.
 - B) Hold means market-type risk adjusted performance; potential source of funds.
 - C) Sell means expected to underperform the market.

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