

November 14, 2008

Key Metrics

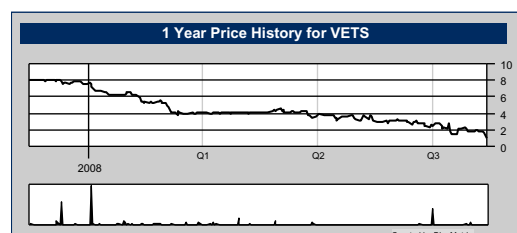
VETS - NASDAQ	\$1.05
Pricing Date	11/13/2008
Price Target	NA
52-Week Range	\$8.04-\$1.00
Shares Outstanding (mm)	23.7
Market Capitalization (\$mm)	\$24.8
3-Mo Average Daily Volume	25,905
Institutional Ownership	26%
Debt/Total Capital	16.0%
ROE	NM
Book Value/Share	\$2.48
Price/Book	0.4x
Dividend Yield	NM
LTM EBITDA Margin	NM

EPS(\$) FY: December

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	(0.21)	--	(0.13)A	--	(0.06)E
2Q-Jun	(0.12)	--	(0.22)A	--	(0.03)E
3Q-Sep	(0.15)	--	(0.09)E	--	0.00E
4Q-Dec	(0.16)	--	(0.09)E	--	0.00E
FY	(0.64)	--	(0.53)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	--	20.6E
2Q-Jun	17.7	--	17.9A	--	24.1E
3Q-Sep	17.7	--	18.8E	--	26.4E
4Q-Dec	16.4	--	18.4E	--	26.1E
FY	69.3	--	73.0E	--	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

3Q08 Preview: Earnings Expected To Improve to (\$0.09); Hold

Investment Highlights:

- **Pet DRx plans to announce 3Q08 results after the market close on Friday, November 14.** Pet DRx is scheduled to report 3Q08 EPS on Friday after the market closes. We expect EPS of (\$0.09) versus (\$0.15) LY due primarily to lower projected interest expense payments. A conference call is scheduled for Monday, November 17th, at 10:30 a.m. EST.
- **Revenues expected to expand sequentially on comp sales gains and one new hospital acquisition.** We expect total sales to expand to \$18.8mm, up 6% Y/Y, on 4% comparable store sales growth and one new store opening in 3Q08. Similar to 2Q's results, we would expect the majority of the company's hospitals to achieve relatively strong same store sales results, with a handful of units keeping the overall average down.
- **EBIT margins expected to remain challenged; lower interest expense should improve EPS.** Similar to sales, we expect the majority of the company's hospitals to generate double-digit gross/hospital margins; however, the projected underperforming units should keep operating losses relatively constant Y/Y. Lower projected interest expense payments should improve Y/Y and sequential EPS results.
- **Acquisition pace remains behind expectations; maintain Hold rating.** While we believe the company is actively seeking out acquisition opportunities, transactions remain below expectations, and without more substantial top-line growth, EPS and margins could remain pressured. We maintain our Hold rating on the shares.

EQUITY RESEARCH

PetDRx (VETS)

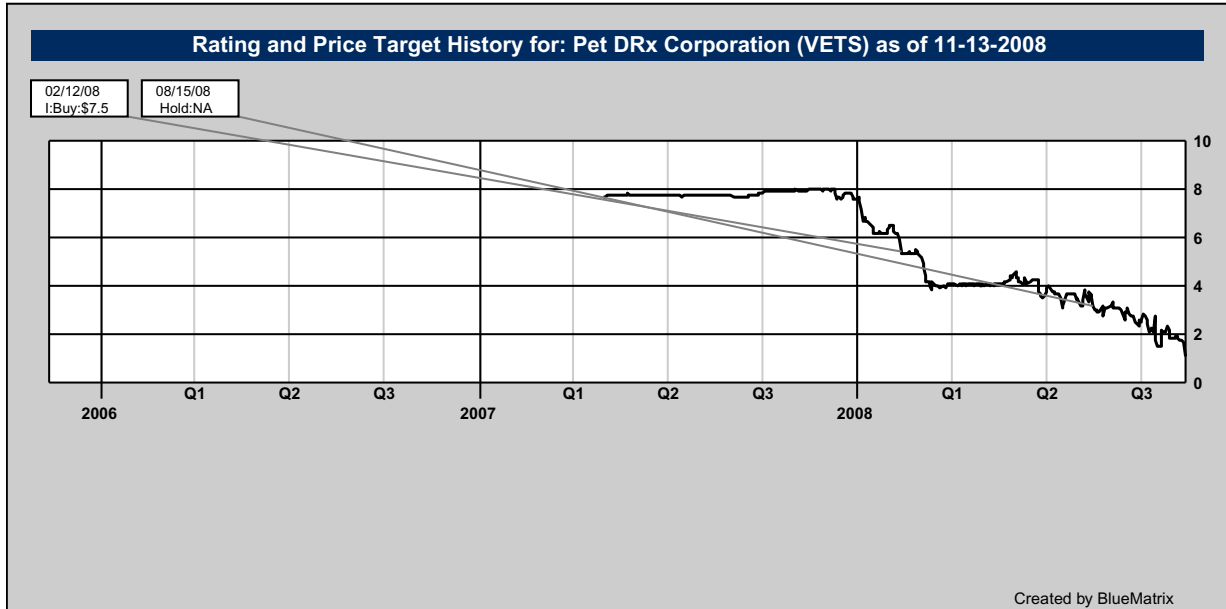
(In Millions, Except Per Share Data)

	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]	55.32	36.54
HOLD [H]	43.62	31.71
SELL [S]	1.06	0.00

Meaning of Ratings

- A) Buy means reasonable outperformance relative to the market (Russell 2000) over 12-18 months.
- B) Hold means market-type (Russell 2000) risk adjusted performance; potential source of funds.
- C) Sell means expected to underperform the market (Russell 2000) over 12-18 months.

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