



**Company Contact:**  
**Pet DRx Corporation**  
Harry L. Zimmerman  
[HZimmerman@petdrx.com](mailto:HZimmerman@petdrx.com)  
(615) 369-1914 – [www.petdrx.com](http://www.petdrx.com)

### **Pet DRx Reports Continued Quarter over Quarter Improvement with 2009 Third Quarter Results**

**BRENTWOOD, Tenn. (November 16, 2009)** – **Pet DRx Corporation (Nasdaq: VETS)**, a provider of veterinary primary care and specialized services to companion animals, today announced financial results for the third quarter ended September 30, 2009, and its results for the first nine months of 2009, which showed continued progress and improvement over its prior year results.

Revenues for the three and nine month periods ended September 30, 2009 from continuing operations were \$15.7 million and \$49.2 million, respectively, compared to revenues of \$17.3 million and \$52.2 million, respectively, in the same time periods one year ago. The decrease in revenues of 9.0% and 5.8%, respectively, continues to be primarily due to decreased volume of traffic at the Company's clinics as the California economy remained weak during the first nine months of 2009. Revenue decreases for the nine months ended September 30, 2009 from our same stores were partially offset by acquisition revenues of Valley Animal Medical Center which was not acquired until the beginning of the third quarter of 2008.

The Company's hospital contribution margin in the third quarter of 2009 from continuing operations improved to 7.9% when compared with 5.5% in the prior-year third quarter. For the nine months ended September 30, 2009, hospital contribution margin was 9.7% versus 7.9% for the same time period in 2008. The increase in hospital contribution margin continues to be driven by lowered veterinarian and staff payroll expenses which resulted from improvements made in aligning staff levels with revenues, coupled with the elimination of certain cost redundancies from the three hospital consolidations that took place during 2008.

“While we're concerned about the continuing effect the California economy is having on our revenues, we are pleased that we continue to show stronger hospital financial performance over the previous year,” said Gene Burleson, Chief Executive Officer of Pet DRx Corporation. “All of our hospitals have

continued to achieve positive Hospital EBITDA for the nine months ended September 30, 2009, so while the top line sales are not where we would like them to be, our hospitals are performing more efficiently this year and we are encouraged that when the California economy begins its recovery we will be in a position to capitalize on the increased revenues.”

Selling, general, and administrative expenses (“SG&A”), which was \$1.6 million and \$6.2 million in the three and nine months ended September 30, 2009, respectively, decreased by \$2.0 million and \$5.2 million, respectively, over the same time periods one year ago. The decrease in SG&A for the nine months of 2009 compared with 2008 was a result of the Company not having incurred certain expenses in 2009 that were incurred in 2008 including completing the relocation of its headquarters from California to Tennessee, charges incurred for reductions in corporate and executive level staff, and a one-time impairment charge of \$0.3 million on the carrying value of its vacant building that was later sold in 2009. Also leading to the decreased SG&A were reduced expenses from outside professional fees and stock compensation costs as compared to the same time periods one year ago.

For the third quarter of 2009, Pet DRx had an operating loss of \$398,000 compared to an operating loss in the third quarter of 2008 of \$2.7 million. For the nine months ended September 30, 2009, the operating loss was \$1.4 million as compared to an operating loss of \$7.2 million for the nine months ended September 30, 2008.

The net loss from continuing operations in the three and nine months ended September 30, 2009 was \$1.8 million and \$9.2 million, or a loss per share of (\$0.08) and \$(0.39), respectively, compared with a net loss in the same time periods in 2008 of \$3.0 million and \$11.1 million, or (\$0.13) and (\$0.47) loss per share, respectively. The net loss in the third quarter of 2009 includes interest expense of \$1.5 million, compared with \$0.3 million in the prior-year third quarter. The nine months ended September 30, 2009 includes a loss from the change in fair value of warrant liabilities of \$3.4 million and interest expense of \$4.3 million. Interest expense was \$4.2 million in the prior year nine month period. There was no gain or loss recognized in 2008 on the change in fair value of warrant liabilities. Excluding the loss from the change in fair value of warrant liabilities, the net loss from continuing operations for the first nine months of 2009 would have been \$5.8 million.

Earnings before interest, loss on change in fair value of warrant liabilities, income taxes, depreciation, and amortization (“Adjusted EBITDA”) for the three and nine months ended September 30, 2009 was \$0.3 million and \$0.6 million, respectively, as compared to negative Adjusted EBITDA of \$2.2 million in the third quarter of 2008 and \$5.6 million in the nine months ended September 30, 2008. This is an increase of \$2.5 million and \$6.2 million, respectively, in Adjusted EBITDA over the same periods in the prior year. The increase in Adjusted EBITDA in 2009 was primarily due to the reduced spending in selling,

general, and administrative expenses as compared to the same time period in the previous year as well as improved hospital contribution margins. See reconciliation of Adjusted EBITDA to Net Loss from Continuing Operations in the table below.

### **Conference Call**

Pet DRx management will host a conference call on Monday, November 16, 2009, beginning at 3:00 p.m. Eastern time to discuss third quarter 2009 results and to answer questions. Individuals interested in participating in the call should dial (888) 713-4214 from the U.S. or (617) 213-4866 from outside the U.S. and entering pass code 29319777. The live call also will be available in the Investors section of the Company's Web site at [www.petdrx.com](http://www.petdrx.com).

A telephone replay will be available for 48 hours beginning approximately one hour after the conclusion of the call by dialing (888) 286-8010 from the U.S. or (617) 801-6888 from outside the U.S., and entering reservation code 23626058. The webcast will be available in the Investors section of the Company's Web site for 14 days following the completion of the call.

### **About Pet DRx**

Pet DRx Corporation provides veterinary primary care and specialized services to companion animals through a network of fully-owned veterinary hospitals. The Company currently owns and operates 23 veterinary hospitals in the state of California, which it has organized into regional "hub and spoke" networks. Pet DRx provides a full range of general medical treatments for companion animals, including (i) preventive care, such as examinations, vaccinations, spaying/neutering and dental care and (ii) a broad range of specialized diagnostic and medical services, such as internal medicine, surgery, cardiology, ophthalmology, dermatology, oncology, neurology, x-ray, ultrasound and other services.

### **SAFE HARBOR STATEMENT**

*Certain statements and information included in this press release, including statements as to the expected operations of the Company, its prospects for growth, and future product and service offerings constitute "forward-looking statements" within the meaning of the Federal Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially, including, but not limited to, the ability of the Company to successfully acquire, integrate and operate veterinary hospitals and clinics, requirements or changes affecting the businesses in which the Company is engaged, veterinary services trends, including factors affecting supply and demand, the effect of competition, decline in demand for the Company's products or services, dependence on acquisitions for growth, labor and personnel relations, changing interpretations of generally accepted accounting principles, the Company's ability to service its substantial indebtedness, the level of direct costs and the Company's ability to maintain revenue at a level necessary to maintain expected operating margins, the level of selling, general and administrative costs, any impairment in the carrying value of the Company's goodwill and other intangible assets, changes in prevailing interest*

*rates, and general economic conditions. These and other risks and uncertainties are described in greater detail in the Company's filings with the Securities and Exchange Commission, including its reports on Forms 10-K and 10-Q, and the foregoing information should be read in conjunction with these filings. These forward-looking statements speak only as of the date hereof and the Company disclaims any intention or obligation to update or revise any forward-looking statements, either as a result of new information, future events or otherwise.*

**PET DRX CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended				Nine Months Ended			
	September 30,				September 30,			
	2009	%	2008	%	2009	%	2008	%
Revenue	\$ 15,734	100.0%	\$ 17,299	100.0%	\$ 49,158	100.0%	\$ 52,193	100.0%
Direct costs	14,488	92.0%	16,339	94.5%	44,375	90.3%	48,054	92.1%
Hospital contribution	1,246	7.9%	960	5.5%	4,783	9.7%	4,139	7.9%
Selling, general, and administrative expenses	1,644	10.4%	3,677	21.2%	6,204	12.6%	11,388	21.8%
Loss from operations	(398)	(2.5)%	(2,717)	(15.7)%	(1,421)	(2.9)%	(7,249)	(13.9)%
Other income (expense):								
Gain/(Loss) on change in fair value of warrant liabilities	144	0.9%	-	0.0%	(3,449)	(7.0)%	-	0.0%
Interest income	3	0.0%	5	0.0%	9	0.0%	344	0.7%
Interest expense	(1,535)	9.8%	(292)	(1.7)%	(4,324)	(8.8)%	(4,179)	8.0%
Loss before provision/(benefit) for income taxes	(1,786)	(11.4)%	(3,004)	(17.4)%	(9,185)	(18.7)%	(11,084)	(21.2)%
Provision/(benefit) for income taxes	23	0.1%	12	0.0%	28	0.0%	(17)	(0.0)%
Loss from continuing operations	(1,809)	(11.5)%	(3,016)	(17.4)%	(9,213)	(18.7)%	(11,067)	(21.2)%
Loss from discontinued operations, net of tax	-		(156)	(0.9)%	-		(371)	(0.7)%
Net loss	\$ (1,809)	(11.5)%	\$ (3,172)	(18.3)%	\$ (9,213)	(18.7)%	\$ (11,438)	(21.9)%
<b>Basic and diluted loss per common share</b>								
Loss from continuing operations	\$ (0.08)		\$ (0.13)		\$ (0.39)		\$ (0.47)	
Loss from discontinued operations	\$ (0.00)		\$ (0.00)		\$ (0.00)		\$ (0.02)	
Net loss per share	\$ (0.08)		\$ (0.13)		\$ (0.39)		\$ (0.49)	
Shares used for computing basic and diluted loss per share	23,674		23,656		23,665		23,357	

**PET DRX CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except par value and number of shares)

	September 30, 2009 (unaudited)	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,716	\$ 1,723
Trade accounts receivable, net	360	369
Inventory	944	1,154
Prepaid expenses and other	953	1,719
Assets held for sale	–	900
Due from related parties	–	32
Assets of discontinued operations	–	1
<b>Total current assets</b>	<b>5,973</b>	<b>5,898</b>
Property and equipment, net	6,832	7,422
Other assets:		
Goodwill	49,031	49,373
Other intangible assets, net	5,917	6,704
Restricted cash	425	500
Other	299	447
<b>Total assets</b>	<b>\$ 68,477</b>	<b>\$ 70,344</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term obligations, net of debt discount	\$ 3,778	\$ 3,718
Accounts payable	1,464	2,394
Accrued payroll and other expenses	4,391	6,551
Due to a related party	–	96
Obligations under capital leases, current portion	334	312
Deferred rent, current portion	8	–
Liabilities of discontinued operations	–	55
<b>Total current liabilities</b>	<b>9,975</b>	<b>13,126</b>
Long-term liabilities:		
Convertible debt, net of debt discount	9,239	4,949
Term notes, less current portion and net of debt discount	2,102	3,687
Warrant liabilities	213	–
Obligations under capital leases, less current portion	430	361
Deferred rent, less current portion	503	355
Other	150	83
<b>Total long term liabilities</b>	<b>12,637</b>	<b>9,435</b>
<b>Total liabilities</b>	<b>22,612</b>	<b>22,561</b>

Stockholders' equity:

Common stock, par value \$0.0001, 90,000,000 shares authorized and 23,690,460 and 23,660,460 outstanding as of September 30, 2009 and December 31, 2008, respectively, net of treasury shares of 1,361,574 at September 30, 2009 and December 31, 2008, respectively	2	2
Additional paid-in-capital	93,101	87,686
Accumulated deficit	(47,238)	(39,905)
Total stockholders' equity	<u>45,865</u>	<u>47,783</u>
Total liabilities and stockholders' equity	\$ <u>68,477</u>	\$ <u>70,344</u>

## NON-GAAP FINANCIAL MEASURES

The financial tables below contain certain non-GAAP financial measures as defined under SEC rules, such as Adjusted EBITDA for the three and nine month periods ended September 30, 2009 and 2008, respectively, and Hospital EBITDA for the three and nine month periods ended September 30, 2009 and 2008, respectively. As required by SEC rules, the Company has provided reconciliations of these measures to the most directly comparable GAAP measures, which are set forth in the tables below. The Company believes that each of the foregoing non-GAAP financial measures improves the transparency of the Company's disclosure, provides a meaningful presentation of the Company's results from its core hospital operations excluding the impact of items not related to the Company's ongoing core hospital operations, and improves the period-to-period comparability of the Company's results from its core hospital operations.

### ADJUSTED EBITDA

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net loss from continuing operations	\$ (1,809)	\$ (3,016)	\$ (9,213)	\$ (11,067)
Depreciation	433	333	1,249	967
Amortization	259	218	786	661
(Gain)/Loss on change in fair value of warrant liabilities	(144)	-	3,449	-
Interest expense, net	1,532	287	4,315	3,835
Provision/(benefit) for income taxes	23	12	28	(17)
Adjusted EBITDA	<u>\$ 294</u>	<u>\$ (2,166)</u>	<u>\$ 614</u>	<u>\$ (5,621)</u>

### HOSPITAL EBITDA

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Hospital contribution	\$ 1,246	\$ 960	\$ 4,783	\$ 4,139
Depreciation at hospitals	353	293	995	844
Amortization at hospitals	259	218	787	661
Hospital EBITDA	<u>\$ 1,858</u>	<u>\$ 1,471</u>	<u>\$ 6,565</u>	<u>\$ 5,644</u>