

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Liberator Medical Holdings, Inc. (LBMH)

MARK LIBRATORE is Founder and CEO of Liberator Medical Holdings, Inc. As founder of Liberty Medical Supply, Inc., Mr. Libratore originated the innovative, advertising-driven marketing model that eventually grew that company into its present leadership position as the nation's largest direct-to-consumer diabetic supplier, with sales now approaching \$1 billion. His market-making national strategies included initiating the creation, execution and supervision of tens-of-millions of dollars in direct-response and multi-media messaging to Medicare-eligible diabetics, generating an unprecedented 10 to 1 ratio of revenue returned per advertising dollar, with repeat orders fueling rapid revenue growth. Mr. Libratore's sensitivity to the needs of chronically ill home healthcare patients contributed to another key component of Liberty's success: superior, highly personal and responsive customer service, which included the ease of direct to insurer billing. In 1996, Mr. Libratore sold Liberty Medical Supply to Polymedica Corporation, but remained to serve as President of Liberty and Vice President of Polymedica, before eventually moving on to found Liberator Medical Supply, Inc., in 2001. A key priority for Mr. Libratore's new company was to quickly establish infrastructure to replicate the proven success of his original diabetes marketing model by adapting it to expand to patient populations that include — as well as diabetes — mastectomy, ostomy, urological and mobility. Today, as a subsidiary of publicly owned Liberator Medical Holdings, Inc., Liberator Medical Supply has, under Mr. Libratore's leadership, integrated 21st century technologies, establishing five vertical distribution channels offering multiple product lines to meet the increasing demands of these rapidly growing Medicare-eligible patient populations.

TWST: What is Liberator Medical Holdings?

Mr. Libratore: Liberator Medical Holdings is the parent corporation, the public entity that merged and acquired Liberator Medical Supply, Inc., which I founded in 2000. Liberator was conceived to emulate Liberty, my first medical supply company, which I'd founded back in 1989. Its marketing model, which I originated, fueled its rapid growth as direct-to-consumer mail order provider of diabetic supplies. That marketing model is what's unique. Through advertising, we attract consumers with disease-specific supply needs who have a lifetime need for those supplies. The end result essentially is annuity-like incomes provided by those consumers on a continuum of repeat purchase orders for years going forward. I started in the business with a retail store, and I've retained that original store all through these years. Upon leaving Liberty, I went back to that retail store. I wanted to once again satisfy my entrepreneurial drive, and when I was in that store reviewing

and contemplating what new businesses to expand into, I realized that there were a number of businesses that could still follow the same model that we did at Liberty, which was advertising, attracting consumers, etc. Initially I started off into the mastectomy category. Over the years, we've developed that rather nicely, also got into ostomy, urological and mobility categories. When my non-compete expired about a year ago, I was able to then enter into the diabetic market, and we are now advertising for diabetics just as Liberty does or has in the past.

TWST: If we were speaking a year ago, what were the goals and objectives at that point? How well have you met those expectations?

Mr. Libratore: We have been constrained somewhat by not having adequate capital. We have been able to, over the past year-and-a-half or couple of years, deploy regular advertising and right now, we are embarking on doing that on a regular basis.

TWST: If we could look at the next year to 24 months, what are the goals, objectives and priorities? What is the agenda? What would make that time frame a success?

Mr. Libratore: We continue to attract and raise capital to continue to execute our business model and right now we are continuing the process of doing that. Part of that includes some testing of two divisions that we started. That will be concluded some time at the end of August. When that testing is concluded, we will be able to better project some of the paths that we will follow on those other two divisions. Right now, in the diabetic arena, we are very satisfied with the performance there. As I said, we are continuing to advertise going forward, and that is going to be a significant part of our company and a high growth area for us.

reimbursement have not been able to access the kind of capital required to advertise in those spaces.

TWST: What is on the agenda to address funding needs?

Mr. Libratore: We have constantly been in touch with various funds, high-net-worth individuals, and other resources that we look to for our capital needs. From the standpoint that going forward we are well funded, I would say not yet. Are we adequately funded for the short-term? I would say yes.

TWST: What historically has been the shareholder base? Has that base undergone any recent changes?

Mr. Libratore: The big change was obviously when we merged with a public shell and became Liberator Medical Holdings. That brought in additional shareholders who we subsequently got to

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TWST: What is your view of what you consider to be the competitive landscape? What are its dynamics? Are there opportunities to grow through M&A activities, as well as to expand organically as you’ve described?

Mr. Libratore: When I first left Liberty, I was perhaps uncertain about this. There were a number of companies that were growing rapidly, following the same models that we had at Liberty in the diabetic arena. Since that time, a lot of those companies have consolidated. Liberty has acquired a number of them, as well as a couple that have been consolidated. Warburg Pincus has brought a couple together and because of that we are seeing sort of an opening right now in the marketplace with nearly as many smaller competitors advertising in the same spaces. For that reason, we got a good response in our diabetic advertising today. It was probably better than we would have, had the environment remained the same with all those other competitors aggressively out there. In some of the other venues, we are encountering very little competitive presence in terms of the type of marketing that we do. We are a little bit more unique in the sense that traditionally, in our marketplace, customers are obtained through a referral process, marketing to physicians, discharge planners and other people who are involved in a patient’s care. In our case, we market directly to the consumer, and, as you know, mail-order prices have gone up, and it is not inexpensive to advertise on TV. A lot of the other smaller suppliers in our space under Medicare

know. The public shell we merged with also had long term shareholders that we are now corresponding with.

TWST: In your discussions with the investment community, are there any recurring questions or misperceptions today? Do you feel that the Liberator Medical Holdings story is understood?

Mr. Libratore: We are telling the story to the investment community on an ongoing basis: we are pointing to our accomplishments in establishing a sophisticated infrastructure, successful advertising, demonstrating recurring revenue streams from multiple product lines in response to our advertising, and establishing and maintaining a blue ribbon management team who are proficient in this marketplace. Currently, our revenues vastly understate our capabilities and do not indicate the seven years of effort in building and maintaining a platform that can process and manage rapid growth.

TWST: Introduce us to your top-level management team, two or three of your key individuals.

Mr. Libratore: Bob Davis, my CFO, has been with me here for the past seven years, but he was also with me at Liberty Medical as CFO there as well. I refer to him as the architect of our business plan. He has carefully maintained, studied, and built the business model from a financial point of view over many, many years and is very familiar with the different divisions, the scalability, the finances required, and really indispensable in terms of a CFO.

Another strong player I have on board is John Leger. John Leger has been my right hand man at Liberty for many years as well. He has now joined us here in the last year or two and come on board to be our COO here at Liberator. John is just a well-rounded guy with sales, customer service, operations, and really has many, many years of experience in this marketplace, particularly in my style of business. He intuitively knows what to do in situations without my direction.

Another key player we have is Paul Levett. Paul Levett is a seasoned veteran of Wall Street advertising firms and has a keen instinct for direct marketing. He has specialized in direct marketing for many years. He is a perfect candidate as the head of our marketing area. He has a lot of industry contacts and knows the language, the people and how to handle millions of dollars in advertising, just as I have experienced in my years of experience in handling millions of dollars of advertising. I'd say that we couldn't really have a better team than Paul and I when it comes to putting together marketing efforts in this business sector.

TWST: What are the key metrics, events or combinations that investors should be focusing on? What should matter to investors? What matters to you?

Mr. Libratore: Advertising expenditures drive new sales and revenue growth, therefore advertising expenditures drive growth, but because of carry-overs to the forward periods, advertising spent in each quarter is a good indicator of growth and ongoing growth. I'd say another area that investors should watch would be our cost of goods, particularly if it is trending downwards. That indicates that through volume we are able to continually reduce our cost of goods, which increases our gross margin and therefore earnings.

TWST: What do you feel are the points that compel investors to include LBMH as part of their current portfolios and as part of their longer-term investment strategies?

Mr. Libratore: Basically, we are a proven management. We grew revenues from zero to \$100 million in a company over seven years. Liberty is going to be approaching \$1 billion soon, with a proven historical return on advertising of at least \$10 for every dollar spent. The potential is a market demographic with millions of potential customers and billions of dollars in growth revenue. We've developed five vertical distribution channels modeled after the diabetes model. We have strong payer sources. Our primary payment source is Medicare. We are in a highly fragmented industry with only one major competitive presence. We have very high and sustainable gross margins at 45% plus.

TWST: Is there anything you would like to add?

Mr. Libratore: Acquisitions in this space are getting more attractive as we see that Medicare continues to ratchet up the cost of doing business in this sector. One of the areas, for instance, is accreditation. Companies that are in our space are now predicted to all be required to be accredited in the upcoming years, particularly if you want to participate in the Medicare Competitive Bidding Program, which was initiated several years ago. We have crossed that hurdle. We have actually become accredited, so that puts us in the elite group of medical suppliers that are able to participate in the various programs that are being offered. We are actually seeing that insurance companies are requiring accreditation now, too, as well, so having that feather in our cap is a big advantage. We think that the mix of players that we have on board here lends itself to investigating and going into all kinds of other new areas that we haven't explored yet. We've just started to touch an area called mobility. Mobility encompasses everything from power wheelchairs, scooters, home modifications and stair-lifts, to vehicle modifications. It is just a whole category of products and services that are relatively high ticket. We are finding out that the competition in that area is relatively weak, particularly from a standpoint of marketing, as well as providing professional service and educating the builders, municipalities, and other people out there as to what's required. As soon as they receive that education and understand what's required for handicapped people, it opens up a very large market for us and for other people who are looking at those areas.

TWST: Thank you.

MARK LIBERATORE

President & CEO

Liberator Medical Holdings, Inc.

2979 SE Gran Park Way

Stuart, FL 34997

(772) 287-4598

(772) 286-7881 – FAX

www.liberatormedical.com