Mossberg's Investor Digest

December 2010

Issue #30

From the Editor…

Looking back over this past year, it was clearly a better year for equity markets than the preceding one. The Russell 3000 increased 19% and the S&P 500 increased 17%. Despite the improved performance, investors were reluctant to invest in equities and we saw net withdrawals from equity funds for the first 33 weeks of the year. Recently it appears the bond markets are faltering and we have begun to see new flows back into equities. This bodes well for equity valuations next year.

S&P valuation – S&P 500 companies are expected to report a 47% growth in earnings this year and 13% in 2011. Based on consolidated earnings estimates, the current valuation of the S&P 500 is 14x and 12x the 2010 and 2011 earnings estimates, respectively. Given the historical mean of 16x, it appears there is upside potential for the market.

Thank you for your interest in Mossberg's Investor Digest. I welcome your feedback.

Dave Mossberg

December 2010 Issue

Luby's (NYSE:LUB) - *$6.59, December 3, 2010, Page 3* – The recent acquisition of Fuddruckers has transformed the company into a multi-brand food service company with a national footprint. Luby's cafeteria business turnaround is complete and the company is profitable. With a book value of $5.75 the company offers investors a classic value story with a growth catalyst.

Datalink Corporation (Nasdaq: DTLK) - *$4.50, December 17, 2010, Page 4* – Datalink Corporation offers consolidation and virtualization solutions and services to data centers. The Street is currently confirming Datalink's return to profitability with estimates of $0.30 for FY10 and $0.43 for FY11. If recent trends continue, the company could have some real upside in its operating results.

Ebix, Inc. (Nasdaq: EBIX) – *$23.74, December 29, 2010, Page 5* – Ebix, Inc is a leading international supplier of software and e-commerce solutions to the insurance industry. It appears Ebix has built a strong competitive moat with recurring revenue streams and attractive returns. For long term holders, shares should appreciate from both multiple expansion and earnings growth.

Liberator Medical Holdings (OTCBB: LBMH) – $1*.20, December 30, 2010, Page 6* – Liberator Medical Holdings is a national direct-to-consumer provider of high quality and innovative medical supplies to Medicare-eligible seniors. The Company appears to be at an inflection point. During FY10 the company expanded its infrastructure and became debt free. Both the OTC Bulletin Board listing and the recent financial restatements may be working together to create an interesting opportunity for investors looking for a healthcare growth story off the beaten path.

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Mossberg's Investor Digest Idea Performance

The table shows the relative change in the value of the ideas published since Mar '09 and the Russell 3000. ***Performance data quoted represents past performance and does not guarantee future results.*** Current performance of ideas may be lower or higher than the performance quoted.

Company	Pub. Date	Original Price	Recent Price	Change	Russell 3000 Change Since Pub. Date	Relative Perf. vs. Russell 3000
World Acceptance (Nasdaq: WRLD)	13-Mar-09	14.08	54.49	287.0%	71.9%	215.1%
Integrated Silicon Solution (Nasdaq: ISSI)	20-Mar-09	1.55	8.11	423.2%	69.2%	354.0%
Intevac (Nasdaq: IVAC)	23-Mar-09	5.34	14.41	169.9%	59.2%	110.7%
Carriage Services (NYSE: CSV)	30-Mar-09	1.50	4.90	226.7%	64.9%	161.8%
Pure Technologies (TSX: PUR)	14-Apr-09	3.26	4.63	42.0%	53.8%	-11.8%
RadioShack (NYSE: RSH)	20-Apr-09	9.55	18.64	95.2%	55.3%	39.8%
Evolution Petroleum (Amex: EPM)	24-Apr-09	2.68	6.60	146.3%	48.9%	97.4%
ePlus (Nasdaq: PLUS)	29-Apr-09	12.00	23.66	97.2%	47.3%	49.9%
Signet Jewlers (NYSE: SIG)	11-May-09	17.76	43.42	144.5%	41.8%	102.7%
Smart Balance (Nasdaq: SMBL)	15-May-09	7.71	4.36	-43.5%	46.5%	-89.9%
Virtus (Nasdaq: VRTS)	22-May-09	15.15	47.49	213.5%	45.6%	167.9%
China 3C (OTCBB: CHCG.OB)	31-May-09	1.08	0.20	-81.5%	40.3%	-121.8%
Virtusa (Nasdaq: VRTU)	16-Jun-09	7.26	15.81	117.8%	41.5%	76.3%
MedQuist (Nasdaq MEDQ)	18-Jun-09	4.34	8.79	102.5%	40.4%	62.2%
GameStop (NYSE: GME)	26-Jun-09	22.17	22.75	2.6%	40.1%	-37.5%
CPI Corp (NYSE: CPY)	29-Jun-09	15.93	22.51	41.3%	39.0%	2.3%
Mattel (NYSE: MAT)	10-Jul-09	14.63	25.82	76.5%	46.2%	30.2%
Novavax (Nasdaq: NVAX)	17-Jul-09	3.04	2.57	-15.5%	37.0%	-52.5%
ABB (NYSE: ABB)	20-Jul-09	15.89	22.19	39.6%	37.0%	2.6%
Teva Pharmaceutical (Nasdaq: TEVA)	21-Jul-09	48.78	51.99	6.6%	35.3%	-28.8%
Palm Harbor Holmes (Nasdaq: PHHM)	11-Aug-09	2.73	0.08	-97.1%	29.0%	-126.1%
Adaptec	25-Aug-09	3.02	2.71	-10.3%	24.9%	-35.2%
TierOne Corp. (Nasdaq: TONEQ.PK)	31-Aug-09	1.20	0.01	-99.2%	24.8%	-123.9%
Dover Motorsports (NYSE: DVD)	31-Aug-09	1.49	1.75	17.4%	24.8%	-7.3%
Graphic Packaging (NYSE: GPK)	18-Sep-09	2.29	3.98	73.8%	19.6%	54.2%
White Electronic Designs (Nasdaq: WEDC)	21-Sep-09	4.52	7.00	54.9%	20.0%	34.9%
John B Sanfilippo & Son (Nasdaq: JBSS)	30-Sep-09	11.92	12.72	6.7%	21.0%	-14.3%
Hastings Entertainment (Nasdaq: HAST)	30-Sep-09	4.19	6.11	45.8%	21.0%	24.8%
TurboSonic Technologies (OTCBB: TSTA.OB)	13-Oct-09	1.20	0.25	-79.2%	18.9%	-98.1%
Verisk Analytics (Nasdaq: VRSK)	23-Oct-09	28.37	34.47	21.5%	18.9%	2.6%
Iconix Brand Group (Nasdaq: ICON)	30-Oct-09	11.66	19.74	69.3%	24.4%	44.9%
FTI Consulting (NYSE: FCN)	30-Oct-09	40.81	37.41	-8.3%	24.4%	-32.7%
Vimicro (Nasdaq: VIMC)	19-Nov-09	4.18	3.67	-12.2%	17.8%	-30.0%
Haynes International (Nasdaq: HAYN)	19-Nov-09	25.96	42.15	62.4%	17.8%	44.5%
TomoTherapy (Nasdaq: TOMO)	27-Nov-09	3.16	3.65	15.5%	18.4%	-2.9%
Abraxas Petroleum (Nasdaq: AXAS)	27-Nov-09	1.99	4.15	108.5%	18.4%	90.1%
Aeropostale (NYSE: ARO	18-Dec-09	21.60	25.00	15.7%	16.3%	-0.6%
Alamo Group (NYSE: ALG)	19-Dec-09	15.45	27.64	78.9%	16.3%	62.6%
inContact (Nasdaq: SAAS)	22-Dec-09	2.73	3.32	21.6%	14.6%	7.0%
Speedway Motorsports (NYSE: TRK)	24-Dec-09	17.28	15.52	-10.2%	13.6%	-23.8%
AspenBio Pharma (Nasdq: APPY)	22-Jan-10	2.20	0.61	-72.4%	17.1%	-89.5%
MarineMax (NYSE: HZO)	27-Jan-10	9.53	9.48	-0.5%	16.6%	-17.1%
Cano Petroleum (Amex: CFW)	27-Jan-10	0.87	0.36	-58.6%	16.6%	-75.2%
Yuchai International Limited (NYSE: CYD)	31-Jan-10	13.18	29.87	126.6%	19.3%	107.3%
Geo Group (NYSE: GEO)	12-Feb-10	19.34	24.79	28.2%	18.7%	9.4%
Rambus (Nasdaq: RMBS)	19-Feb-10	22.45	20.35	-9.4%	15.1%	-24.4%
Belo Corporation (NYSE: BLC)	26-Feb-10	6.73	7.13	5.9%	15.6%	-9.7%
America Service Group (Nasdaq: ASGR)	26-Feb-10	14.86	15.13	1.8%	15.6%	-13.8%
Dyanamex (Nasdaq: DDMX)	8-Mar-10	15.50	24.76	59.7%	11.8%	47.9%
Innerworkings (Nasdaq: INWK)	12-Mar-10	5.30	6.57	23.9%	10.6%	13.4%
Wet Seal (Nasdaq: WTSLA)	22-Mar-10	4.60	3.71	-19.3%	9.2%	-28.5%
Heelys (Nasdaq: HLYS)	24-Mar-10	2.40	3.21	33.8%	9.0%	24.8%
American Reprographics (NYSE: ARP)	2-Apr-10	9.00	7.55	-16.1%	8.1%	-24.2%
Techumsea (Nasdaq: TECUA)	13-Apr-10	13.04	13.44	3.1%	6.1%	-3.0%
AstroTech (Nasdaq: ASTC)	16-Apr-10	3.43	1.15	-66.5%	6.4%	-72.9%
A. C. Moore Arts & Crafts (Nasdaq: ACMR)	23-Apr-10	4.07	2.52	-38.0%	3.9%	-41.9%
Physicians Formula Holdings (Nasdaq: FACE)	1-May-10	3.04	3.79	24.7%	5.4%	19.3%
Twin Disc (Nasdaq: TWIN)	7-May-10	12.40	28.80	132.3%	14.5%	117.7%
CB Richard Elllis (NYSE:CBG)	19-May-10	15.12	20.86	38.0%	13.8%	24.2%
DJSP Enterprises (Nasdaq:DJSP)	28-May-10	6.38	0.65	-89.9%	16.1%	-106.0%
AOL (NYSE: AOL)	18-Jun-10	22.74	24.06	5.8%	13.6%	-7.8%
Vantage Drilling (Amex: VTG)	28-Jun-10	1.46	2.02	38.4%	18.2%	20.1%
Broadvision (Nasdaq: BVSN)	28-Jun-10	12.05	12.98	7.7%	18.2%	-10.5%
Tuesday Morning (Nasdaq: TUES)	30-Jun-10	3.99	5.42	35.8%	23.4%	12.4%
Manitex International, Inc (Nasdaq: MNTX)	9-Jul-10	1.98	3.85	94.4%	18.2%	76.3%
S1 Corporation (NASDAQ: SONE)	16-Jul-10	5.88	7.13	21.3%	20.0%	1.2%
Duoyuan Printing, Inc age (NYSE: DYP)	27-Jul-10	8.14	2.86	-64.9%	14.2%	-79.1%
Moody's Corporation (NYSE: MCO)	31-Jul-10	23.55	26.51	12.6%	15.5%	-3.0%
Reddy Ice Holdings Holdings (NYSE: FRZ)	7-Aug-10	2.91	2.75	-5.7%	13.6%	-19.3%
FARO Technologies (Nasdaq: FARO)	16-Aug-10	18.83	32.74	73.9%	18.3%	55.5%
BluePhoenix Solutions (Nasdaq: BPHX)	18-Aug-10	1.45	2.00	37.9%	16.6%	21.3%
Apache Corporation (NYSE: APA)	27-Aug-10	89.96	119.52	32.9%	19.7%	13.2%
Imperial Sugar (Nasdaq: IPSU)	10-Sep-10	13.87	13.25	-4.5%	14.9%	-19.4%
ART Technology Group (Nasdaq: ARTG)	24-Sep-10	3.80	5.99	57.6%	10.7%	46.9%
Unifi (NYSE: UFI)	24-Sep-10	13.80	17.13	24.1%	10.7%	13.4%
Safeguard Scientifics (NYSE: SFE)	30-Sep-10	12.53	16.97	35.4%	11.2%	24.2%
Global Traffic Network (Nasdaq: GNET)	8-Oct-10	5.93	9.30	56.8%	8.9%	47.9%
Pure Cycle Corp. (Nasdaq: PCYO)	19-Oct-10	3.34	3.55	6.3%	8.9%	-2.6%
Triple-S Management Corp. (NYSE: GTS)	29-Oct-10	16.87	19.53	15.8%	7.1%	8.6%
SureWest Communications (Nasdaq: SURW)	29-Oct-10	7.89	10.65	35.0%	7.1%	27.9%
Arden Group (Nasdaq: ARDNA)	5-Nov-10	93.80	84.80	-9.6%	3.3%	-12.9%
Body Central (Nasdaq: BODY)	5-Nov-10	13.65	14.33	5.0%	3.3%	1.7%
LaserCard (Nasdaq: LCRD)	17-Nov-10	4.56	6.25	37.1%	7.3%	29.7%
Mitek (OTCBB: MITK)	24-Nov-10	3.99	5.30	32.8%	5.2%	27.7%
			Average	**36.4%**	**22.9%**	**13.5%**

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Best Idea Profile: **Luby's Inc (NYSE:LUB)**

DESCRIPTION:

Headquartered in Houston, Luby's Inc. is a multi-branded restaurant and contract food services industry operator. The company's primary brands include Luby's Cafeteria, Luby's Culinary Contract Services, and Fuddruckers. The brand portfolio also includes Luby's, Etc. and Koo Koo Roo Chicken Bistro. Luby's currently operates 155 restaurants located throughout the United States. These establishments are located in close proximity to retail centers, business developments and residential areas. Of the 155 restaurants, 83 are located on properties that are owned by the company and 72 are on leased premises. In July '10, LUB completed the acquisition of substantially all of the assets of Fuddruckers. Upon the completion of the acquisition, LUB became the owner and operator of 56 Fuddruckers locations, with franchisees currently operating an additional 130 locations and 3 Koo Koo Roo Chicken Bistro ("Koo Koo Roo") locations. The company also operates culinary contract services at 18 locations as Luby's Culinary Services provides food service management to healthcare, educational and corporate dining facilities.

KEY INVESTMENT CONSIDERATIONS:

Fuddruckers Acquisition – On July 26, 2010 Luby's completed the acquisition of substantially all of the assets of Fuddruckers. This acquisition gives the company the opportunity to utilize synergies, cost savings and operational efficiencies within a reasonable period of time. It also adds a growth opportunity to a company that has long been a value story. This event also transformed the company into a multi-brand food service company with a national footprint.

Cafeteria Chain Turnaround – Last year, Luby's announced a cash flow improvement and capital redeployment plan focused on improving cash flow from operations, which included closing 25 underperforming stores in the first quarter of FY10. In conjunction with these store closings, the company incurred a non-cash pre-tax $19.0 million impairment charge during 4Q09. The closure of these locations eliminated negative cash flow incurred from their operations and is estimated to generate approximately $25 million to $30 million in cash from the sale of the properties based on current estimates of individual property values. Luby's has also stepped up efforts to attract restaurant customers with a focus on local and on-line marketing. The company reported a positive and growing trend in year-over-year traffic comparables for the third and fourth quarters of fiscal year 2010.

Underlying Assets – Luby's Cafeterias has 96 operating locations with seating capacity for 250 to 300 customers at each location. The company owns the underlying land and buildings for 68 of the Luby's restaurant locations. Eight of these restaurant properties contain excess building space, which is leased to tenants unaffiliated with Luby's, Inc. The company's real estate can, depending on the method, be valued in excess of $5 per share.

Seasoned Management – Both CEO Christopher Pappas and COO Harris Pappas have a long and successful history in the restaurant business. Collectively they own just under 30% Luby's common stock, which also leaves their interest closely aligned with that of the other shareholders.

Insider Buying – Over 150,000 shares of Luby's common stock has recently been purchased by insiders.

Strong Cash Flow and Balance Sheet – For the FY Ended August 2010, the company generated $9.1 million in operating cash flow. Luby's currently has $2.3 million in cash and $19.5 million in property held for sale on the balance sheet.

VALUATION:

Luby's cafeteria business turnaround is complete and the company is profitable. With a book value of $5.75 the company offers investors a classic value story with a growth catalyst.

(Luby's Inc: NYSE)
Investment Data (as of 12/3/10)

Recent Price	**$6.59**
52-Week Range	$3.30 - $6.97
Fiscal Year End	Aug
Shares Outstanding	28MM
Average Trading Volume (3 mos)	50,000
Market Capitalization	$185MM
Cash	$2.3MM
Long Term Debt	$42MM
Enterprise Value (EV)	$225MM
LT Debt/ Equity	0.26
BV/ Share	$5.75
TTM Revenue	$245MM
P/ Revenue	0.8x
TTM EPS	$(0.10)
P/ EPS	NA
TTM EBITDA	$13MM
EV/ EBITDA	$17x

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Best Idea Profile: **Datalink Corporation (NASDAQ:DTLK)**

DESCRIPTION:

Headquartered in Chanhassen, MN; Datalink Corporation offers consolidation and virtualization solutions and services to ensure that data center infrastructures are flexible, shared, and manageable. DTLK's virtualization portfolio supports near-term needs and helps organizations develop and execute long-term strategies for data center efficiency. DTLK virtualization infrastructure assessments provide end-to-end views of existing resources, including servers (both physical and virtual) applications and storage. DTLK has a portfolio of solutions concentrated in three areas; consolidation and virtualization, enhanced data protection and advanced network infrastructures. Datalink offers a full suite of practice-specific analysis, design, implementation, management, and support services. DTLK has 120 service professionals and support service members based throughout the U.S. Customers view these professional services teams as an extension of their IT organization which is a key differentiator.

KEY INVESTMENT CONSIDERATIONS:

Expanding Market - Businesses are beginning to focus on cautious growth—how to retain customers and maintain a competitive position. Datalink expects this priority shift will motivate customers to assess and deploy technologies that add strategic business value to their organizations through scalable, shared and flexible IT capabilities. A key component of these new trends in technology is virtualization as organizations continue to consolidate and virtualize their server environments. Gartner estimates the server virtualization management market will grow by nearly a 30% compound annual growth rate (CAGR) between 2008 and 2013.

Strong Value Proposition – Migrating data centers to those that are more efficient, scalable, and flexible, is complex. As a result, companies are looking for providers, such as Datalink to sort through their options, define migration plans, and execute accordingly. Organizations are increasingly looking outside their in-house staff to leverage the expertise of companies, such as DTLK, for strategy definition and execution. The downsizing of IT departments in light of current economic conditions also necessitates increased reliance on external service providers.

Differentiated Approach – Unlike many of its competitors, Datalink is not tied to a limited number of manufacturers or particular technologies. This gives the company the flexibility to be consultative in its approach. Datalink customers value objectivity and rely on DTLK to help choose the best available hardware and software and tailor it to their individual needs.

Strong Vendor Relationships – Datalink has strong, established relationships with the major storage, server, and networking hardware and software suppliers. The company has expertise in open system environments that includes UNIX, Microsoft Windows, Linux, Solaris, and in-depth knowledge of all major hardware platforms manufactured by industry leaders, such as NetApp, Inc., Hitachi Data Systems Corporation, Cisco Systems, Inc., Symantec Corporation, and Dell Inc. This expertise has earned DTLK preferred status with many of its principal suppliers. Preferred status often enables DTLK to participate in our suppliers' new product development, evaluation, introduction and marketing programs.

Improving Results – Datalink had a profitable history prior to the recession. After several quarters of losses, the company has recently returned to profitability with two consecutive quarters of profitability. During 3Q10, rev increased 62% to $69MM. The combination of cloud computing, technical innovation and an improving IT environment should provide a better operating environment for the company going forward.

VALUATION:

At the end of the most recent quarter, the company had a record backlog of $52 million and a strong balance sheet with $17 million in cash and no long term debt. The street is currently confirming Datalink's return to profitability with estimates of $0.30 for FY10 and $0.43 for FY11. If recent trends continue, the company could have some real upside in its operating results.

(Datalink Corp: NASDAQ)
Investment Data (as of 12/17/10)

Recent Price	**$4.50**
52-Week Range	$2.96 - $5.00
Fiscal Year End	Dec
Shares Outstanding	13.4MM
Average Trading Volume (3 mos)	35,000
Market Capitalization	$60MM
Cash	$17.2MM
Long Term Debt	NA
Enterprise Value (EV)	$41MM
LT Debt/ Equity	NA
BV/ Share	$3.32
TTM Revenue	$254MM
P/ Revenue	$0.2x
TTM EPS	$(0.02)
P/ EPS	NA
TTM EBITDA	$5.6MM
EV/ EBITDA	$7.3x

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Best Idea Profile: **Ebix, Inc (NASDAQ:EBIX)**

DESCRIPTION:

Headquartered in Atlanta, Ebix, Inc is a leading international supplier of software and e-commerce solutions to the insurance industry. These solutions range from carrier systems, agency systems and exchanges to custom software development entities involved in the insurance and financial industries. Ebix's goal is to be a leading provider of back end insurance transactions in the world. Ebix combines the newest technologies along with its internal capabilities in consulting, systems design and integration, and web and application hosting to meet the needs of organizations. Increased M&A activity along with competitive pressures have left many insurance industry participants looking for more efficiency. Ebix believes the insurance industry will increasingly need to drive efficiencies through online exchanges and reduced paper based processes, thereby creating additional opportunities for the company.

KEY INVESTMENT CONSIDERATIONS:

International Footprint – Ebix's innovative exchange strategy and its global reach positions the company as an industry leader in the worldwide insurance exchange industry. Ebix systems are multi-lingual, multi-currency and work in French, Portuguese, Spanish, Japanese, Chinese and English. The company currently works with businesses in more than 50 countries across six continents. Ebix has a global footprint and currently has over 30 offices world-wide.

Strategic Industry Position – Ebix's Life Exchange unit processes close to 16 million life sales illustrations every year. Ebix's annuity exchange assists with producing over $60B in premiums annually in the United States. The company's solution is used by over 100,000 users in the United States. With the aggregation of a large community of insurance companies and brokers on its exchanges, Ebix is seen as a vehicle to insurance markets by these entities. Companies not using Ebix exchanges risk losing access to the aggregated markets that Ebix could offer them access to.

Market Consolidator – The company has a proven record as a market consolidator. Ebix has announced nearly a dozen acquisitions over the last two years. Yet the company has performed quite well financially with strong growth in revenue, cash flow, and earnings-per-share. The company has depth within its management structure with a team of 63 VP level and above seasoned professionals that collectively have over a thousand years of executive leadership with rapidly growing organizations. Ebix's also owns IT centers in India that help it maintain quality and cost control.

Strong Financial Track Record – Ebix has an exceptionally strong record of growth and profitability. From FY05 through FY09, the company grew rev from $24MM to nearly $100MM. During the same period, Ebix more than doubled net margin from 19% to 40%. For Q310, Ebix reported that 3 of its four reporting channels had double digit rev growth. Ebix reported $33MM in 3Q rev with net income of $17MM, or a 77% increase over the same period.

Recurring Revenue Model – Over 70% of the company's revenues are generated from recurring sources. With a 99% plus customer retention rate, Ebix has a solid revenue base to build upon that produces a high degree of visibility into its growth earnings.

Non-Cyclical Business – Ebix has accelerated its growth during the recession. The company has seen only one of its four reporting lines affected due to general economic conditions.

VALUATION:

Estimates are $1.45 for FY10, which gives the stock an attractive multiple of 17x. While prospects for growth appear strong, there are some doubters. As of the end of Nov, almost 30% of the float was short, which may create some near term volatility in the stock. However, it appears Ebix has built a strong competitive moat with recurring revenue streams and attractive returns. For long term holders, shares should appreciate from both multiple expansion and earnings growth.

(Ebix, Inc: NASDAQ)
Investment Data (as of 12/29/10)

Recent Price	**$23.74**
52-Week Range	$6.25 - $28.21
Fiscal Year End	Dec
Shares Outstanding	34.8MM
Average Trading Volume (3 mos)	730,000
Market Capitalization	$826MM
Cash	$18MM
Long Term Debt	$44MM
Enterprise Value (EV)	$852MM
LT Debt/ Equity	N/A
BV/ Share	$6.13
TTM Revenue	$128MM
P/ Revenue	$6.4x
TTM EPS	$1.41
P/ EPS	17x
TTM EBITDA	$57MM
EV/ EBITDA	15x

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Best Idea Profile: Liberator Medical Holdings, Inc. (OTCBB: LBMH.OB)

DESCRIPTION:

Headquartered in Stuart, Florida; Liberator Medical Holdings, Inc. is a national direct-to-consumer provider of high quality and innovative medical supplies to Medicare-eligible seniors. Liberator Medical offers consumers a simple, reliable way to purchase medical supplies that are needed on a regular basis, with the convenience of direct billing to Medicare and private insurance. Approximately 97% of Liberators revenues come from supplying products, service and support to meet the rapidly growing requirements of diabetes, urological, ostomy and mastectomy patients.

KEY INVESTMENT CONSIDERATIONS:

Healthcare Market – According to the Centers for Medicare and Medicaid Services (CMS), national healthcare spending will nearly double to $2.8 trillion by 2011, up from $1.42 trillion in 2001. As the baby boomer population ages, the medical supply industry will experience a 20-year explosion in growth. Currently, more than 90 million Americans live with chronic diseases, including Alzheimer's disease, arthritis, cancer, cardiovascular disease, chronic obstructive lung disease, and diabetes.

Growth Niche – The Company targets Medicare-eligible seniors with chronic illness. According to the U.S. Department of Health and Human Services, Medicare and Medicaid have combined annual payments of $775 billion. First Research estimates the number of Americans over 65 will double from 34 million to 62 million between 2000 and 2025. The research firm Rand estimates the number of Americans with two or more chronic conditions will increase from 60 to 81 million between the years 2000 and 2020. Current out-of-pocket spending for Americans age 65 and over with two chronic conditions is approximately $750 per year. The number of Medicare beneficiaries is expected to nearly double to 77 million by 2030 from 40 million in 2000, according to the Centers for Medicare and Medicaid Service.

Seasoned Management Team – The current management team has a successful and proven track record in the healthcare industry. Liberator Medical's management team includes CEO Mark Libratore, CFO Robert Davis and COO John Leger. Mr. Libratore is the founder of Liberty Medical Supply, Inc., Mr. Davis was its CFO from 1995 to 1999 and Mr. Leger was its Sr. Vice- President of Operations. Liberty Medical Supply was the largest diabetic supply company in the United States generating approximately $600 million in revenue when it was sold to MedCo for $1.3 billion in 2007.

Strong Margins with recurring revenue – Liberator's products have gross margins which range from 45% to over 70%. As the company scales it will benefit from additional volume discounts from its suppliers, which should provide margin support. Liberators customers have regularly re-occurring and predictable supply needs, so inventory management is very efficient. (Inventory turns 2-3 times per month).

Uncertainty – LBMH will be restating its financial statements for 4Q09, 1Q10 and 2Q10, and two days ago the company reported in an SEC filing that its FY10 10K would be filed late. The restatement was due to the valuation of some convertible notes and had no impact on operating income, operating expenses, total assets or the company's cash position. The 10k filing is being delayed due to fact that LBMH's prior audit firm is no longer in operation. Accounting issues are definitely a red flag and accordingly the stock has taken a haircut in recent weeks. However, the reasons appear to be mild and as they are cleared up, the valuation of the stock should improve.

VALUATION:

LBMH appears to be at an inflection point. During FY10 the company expanded its infrastructure and became debt free. Both the OTC Bulletin Board listing and the recent financial restatements may be working together to create an interesting opportunity for investors looking for a healthcare growth story off the beaten path.

(Liberator Medial Holdings: OTCBB:LBMH)
Investment Data (as of 12/30/10)

Recent Price	**$1.20**
52-Week Range	$1.06 - $2.44
Fiscal Year End	Sep
Shares Outstanding	44.57MM
Average Trading Volume (3 mos)	18,986
Market Capitalization	$53MM
Cash	$7MM
Long Term Debt	NA
Enterprise Value (EV)	$50MM
LT Debt/ Equity	NA
BV/ Share	$.40
TTM Revenue	$37MM
P/ Revenue	$1.4x
TTM EPS	$0.06
P/ EPS	20x
TTM EBITDA	$4.3MM
EV/ EBITDA	$11.5x

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