

MEDIRECT LATINO INC.

(MLTO - OTC:PK)

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Website: <http://www.medirectlatino.org>
Exchange: US-OTC Pink Sheets
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Recent Price: **\$8.10**
Target Price: **\$11.00**

SPECULATIVE POSITIVE RATING

Main Headquarters

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**Only Licensed Part B Medicare Provider to Hispanic Community
Company Overview**

MEDirect Latino Inc. (OTC:PK) is a uniquely positioned provider of direct-to-consumer Medicare reimbursed medical products, focused exclusively on chronic diseases and Type I & II Diabetes, afflicting the rapidly growing Hispanic community in the United States and Puerto Rico. MEDirect is the only company authenticated on national level to serve the Hispanic healthcare market as a direct-to-consumer Medicare provider.



- In September 2005, the company expanded outside of the US, to open a satellite distribution and service facility in San Juan, Puerto Rico, an expansion that could **add 250,000 potential customers** to the company's penetration plans in Puerto Rico, an eligible market of more than **\$300 million**.
- The current Hispanic market for MEDirects' products is conservatively estimated at approximately \$748 million in the continental United States. The market opportunity is understated as an estimated 1.2 million of the over 4.1 million Hispanics in the US, over age 65, eligible to receive Medicare benefits, are currently collecting these benefits with an estimate that **over 1.4 million** of those Medicare-eligible Hispanics have **diabetes** (potential continental U.S. market for MEDirect products of approximately **\$1 billion**).
- MLTO focuses on the distribution of products for the treatment of **Type II Diabetes**, which has **hit the Hispanic demographic 120% harder** than non-Hispanic whites in America, and ancillary diseases such as **high blood pressure and heart disease**.
- Agreements with diabetes medication suppliers such as **Bayer, Roche, Johnson & Johnson's LifeScan, The Vital Care Group and Abbott Labs** have positioned the company as growing force in the industry.
- The **Federal Balanced Budget Act of 1998** in Congress declared **diabetes an "epidemic disease"**, broadening the scope of Medicare reimbursement for products distributed directly to consumers. It has given patents access to products as **blood glucose meters, test strips, insulin pumps and lancets** from their local pharmacies.
- MLTO **added** a second shift of **customer service, billing and processing staff** to cope with surging average daily call volumes, shipments and gross billings following MLTO media campaign on Telemundo Network and UniVision in both the United States and Puerto Rico, launched late Q3 of 2005.
- The company's business model is proving extremely successful. January 2006 results for MLTO was superb. The **customer retention rate** was measured as high as **99%**. MEDirect Latino January-06 **gross billings rose 34%** to **\$804,949** during the month, over **December billings of \$596,747**, while **gross product profit margin** during the period remaining at **78%**. Total new patient shipments for January **climbed noticeably, by 31%** to **3,186** over December's new shipments of 2,441.
- MLTO 'patient hold journal' (approved and pending shipment for regulatory processing), closed the month of January **with 4,106 additional customers, an increase of 28%** over December 3,213 comparable number. MLTO expects to monetize its approved and pending patient orders in February, which is typical to the industry model.
- January results reflected an acceleration of the growth trend in monthly billing numbers and we construed from management's comments that actual results could outstrip guidance of FY 2006 Revenue and Pre-tax profit of \$15 million and \$5 million, respectively. Shares remain attractive given the unique competitive first-to-market position to underserved Hispanic patients that MLTO enjoys. We are optimistic that management can continue to manage strong organic growth with efficient operating plans. The announced change towards full reporting status and listing transfer to the NASDAQ by June 2006, will raise shareholder value and transpire into a higher MLTO valuation. Finally it is our view that MLTO is rapidly progressing to becoming a target for larger healthcare players seeking acquisition-based growth. See INVESTMENT THESIS & RECOMMENDATION for more in-depth discussion (Page 7-8)**

Medirect Latino Incorporated.		
<i>(all figures in Millions)</i>		
52 Week Hi/Lo Range	9.25/1.20	
Fiscal Year End	30-Jun	
Shares Outstanding (2/6/2006)	17.67	
Float (approximately)	1.20	
Share price (02/06/2006)	8.10	
Market Capitalization	143.1	
Average Volume (3 months)	0.0196	
Insider Ownership	54%	
Institutional Ownership	NA	
Enterprise Value	144.84	
Total Debt (09-30-05)	1.745	
Total Cash (09-30-05)	0.035	
	6/30/2005	6/30/2006
	FY2005 A	FY2006 E
Earnings Per Share (EPS)	-0.20	0.32
Book Value (\$/share)	-0.074	0.257
	FY2005 A	FY2006 E
Total Revenue	0.263	15.000
Cost of Sales	0.117	3.600
Gross Profit/Loss	0.146	11.400
Operating expenditures	1.437	6.250
Net Loss /Profit	-1.419	5.150
Tax Expense	0	0.928
Net Income	-1.419	4.223
NA = Not applicable/Not Available. A = Actual Reported figures E = Estimates		
Balance Sheet & Financial Statement Extracts (06-30-05)		
Current Assets	0.051	
Current Liabilities	1.044	
Total Assets	0.186	
Total Shareholders deficit	0.858	
Tax Loss Carryforwards	2.50	
Capital Structure (as at 06-30-05)		
Authorized Common Stock	50 000 000	
Authorized Preferred Stock	4 000 000	
Class A Cmmn Stock Authorized	5 000 000	
Class A Cmmn Stock Issued	2 500 000	
Outstanding Preferred Stock	1 200 697	
Outstanding Stock Options	None	
Warrants	None	

COMPANY

MEDirect Latino, incorporated in Florida during December 2002, is a pioneer **as national provider of direct-to-consumer medical products and the company is federally licensed**. MLTO has focused since the start on the **distribution of diabetic testing supplies to Hispanics**, who are **eligible for Medicare**. Over the past 3 years MEDirect has branched out to include other Medicare reimbursable medical supplies, that can help improve the quality of life of diabetics by meeting other needs than just testing blood glucose levels.

Management has refined, tested and carefully designed its business plan and has reached a point where scaling has become feasible and their strategy **also incorporates the added benefit of being largely non-cyclical in nature**. The company is reaping the unique benefits of having identified its target market and has found a highly effective and value-adding method (per dollar marketing spend) of reaching their target consumer. This is due to the **centralized nature of Spanish Television Channels**, which we will elaborate on later. A recent television campaign launched to expand into Puerto Rico has been a raging success, which is adding between 3000 and 4000 new customers monthly and is building traction during the present campaign life cycle. Call volumes during this campaign have registered 10 times higher during actual tests than expected. To illustrate the effectiveness of the TV campaign launched on the 3 main Spanish TV broadcasters (UniVision, Telemundo and Telemundo), the company has seen revenue of \$12.50 generated per each \$1 spent on advertising. The prime contributing factor in this outcome is as result of the fact of the concentrated and narrow nature of Hispanic TV, allowing MLTO to reach virtually its whole audience in this fashion.

MLTO created and **applied proprietary formulas to analyze and dissect traditional databases** of the Centers of Medicare & Medicaid (CMS), US Social Security Administration and the US Census Bureau. Using **filtering techniques of the data they extracted and identified key target markets** and demographic regions for aged Hispanics. This demographic research is at the core of the successful advertising campaign and any competitors relying on traditional demographic data will divert its focus on less lucrative markets and regions.

The current number of employees stands at 52 and management expects that in the next calendar year to increase the number of employees to 270 based on projected sales. To optimize productivity the company uses a robust 'next generation' HIPAA compliant software system, to automate a significant part of the routine functions, such as Medicare billing, re-ordering, customer list management, accounting and payroll. MEDirect's corporate headquarters are located in Plantation, Florida in a 6,000 square foot office and warehouse facility with a lease for this office expiring in September, 2007. MEDirect also has a satellite distribution and customer service facility located in San Juan, Puerto Rico. MEDirect's lease for this office space expires in May 2006.

INDUSTRY, COMPETITION AND HEALTHCARE SUPPLY MARKET

Medicare is a federally funded program that provides health insurance coverage for qualified persons, of age 65 or older, and for some disabled persons. The products that MLTO provides are reimbursable by Medicare, and are therefore subject to extensive regulation. MLTO is operating in the Health Products & Services industry under the regulation of US Dept of Health & Human Services (HHS) and Centers for Medicare and Medicaid Services (CMS). The company has **secured licenses to market its products both domestically and internationally** and any future competitor will be required to also obtain such licenses. This is but one of several factors creating barriers-to-entry into the market that MLTO serves.

The **Federal Balanced Budget Act of 1998** in Congress declared **diabetes an "epidemic disease"**, broadening the scope of Medicare reimbursement for products distributed directly to consumers. It has given patients access to products as **blood glucose meters, test strips, insulin pumps and lancets** from their local pharmacies. Current Medicare reimbursement guidelines stipulate, among other things, that quarterly orders of diabetes supplies to existing patients be verified with the patients before shipment, and that all doctors' orders for supplies be re-validated, every 12 months, through the receipt of new doctors' orders. This company offers a service where it process claims for product reimbursement directly to Medicare and private health insurance carriers. Medicare reimburses at 80% of the government-determined fee schedule amounts for reimbursable supplies, and then invoice for the remaining 20% to either third-party payers or directly to patients. Industry models show that approximately 10-12% of this 20% co-pay amount due - result in a bad debt charges, which MEDirect Latino has ample made allowance, for in their business model.

The Hispanic market for MEDirect's products is estimated at \$748 million in the continental US, but is understated due to some elderly Hispanic people being eligible for Medicare not currently collecting these benefits. Also of interest, is a study conducted called the National Health Interview Survey, identified an incidence of **120% higher frequency diagnosis** rate of Type I & II diabetes among Hispanics and Latinos, than among non-Hispanic Whites. Adjusting for this characteristic **implies a market in the continental US alone for MLTO that exceed the \$1 billion mark. Puerto Rico will provide an estimated recurring market opportunity of \$172 million**.

The company is targeting Type I&II Diabetes since these diseases have a **unique status within the Medicare reimbursement regime** and because of the **strong link to high blood pressure, heart disease and other chronic conditions that will represent additional growth opportunities for MLTO**.

See Appendix A-1 for Analyst Certification and Important Disclosures.

Hispanic Americans are the 2nd largest and **fastest growing minority group in the United States**. In 1998 there were 30 million Hispanics in the US (11% of the population). The Bureau of the Census estimates that by 2050, this section of the population will number 97 million and represent a quarter of the entire US population. Diabetes has proved to be a serious health challenge to Hispanic Americans relative to other ethnicities. In 2000, 3.1 million of the 30 million, (10.2%) had been diagnosed with diabetes. Since MLTO has an exclusive focus on the Hispanic community and emphasize their initial product mix around diabetes treatment, and has no direct competition, a major springboard for unprecedented growth currently exists.

STRATEGIC RELATIONSHIPS

- Medirect has attractive terms and agreements with many leading suppliers of diabetes equipment in the US, which include **Abbott Laboratories, Bayer, Roche, LifeScan, TheraSense the Vital Care Group and Johnson & Johnson**. Products supplied by these companies used by MLTO in turn for distribution to their clients are **co-branded**.



- The company has formed relationships with the key players in the Hispanic media industry, of which its partnership with **Univision** may be the most important. Univision **holds control of roughly 88% of the entire market of the over 65 Hispanic age group**.

PRODUCTS

The company targets individuals that are Medicare qualified. Consumers see the advertisement and if eligible they can call the company using a toll-free number, who will take care of the order for them at no initial layout and with no paperwork to complete. MEDirect Latino then verifies if the customer is Medicare qualified, consult a physician if necessary and proceed to ship supplies directly to the customer's home, fill out the paperwork and forms as specified by Medicare, bill 80% to Medicare and 20% to the customer.

The company operates its **inventory and warehouse under JIT (Just-In-Time) procedures**, whereby all of its medical supply manufacturers deliver products to its warehouse within 3-5 days from receipt of the purchase order (PO). Protocols and procedures are regularly reviewed to streamline efficiency at the warehouse.

A wide range of Diabetic products are currently being sold by MLTO including:

- Insulin Pumps.
- Control Solutions.
- Lancets.
- Lancing Devices.
- Blood Glucose Testing Strips.
- Blood Glucose Testing Monitors.
- Therapeutic Shoes and Inserts.



Because of its Medicare Part B provider status the company is planning to add additional product lines to its list of distributed products, provided these new products will also fall within licensure in the future. Adding more revenue lines will enable the company to leverage revenue growth from an existing customer base. Besides the existing products listed above, the company recently begun to also distribute the following products:

- Heating Pads.
- Seat lifts.

A single 3 month supply for a diabetic consist of 2-3 glucose test strips, 3 boxes of lancets and one lancing device. A control solution is needed ever 6 months and a blood-testing monitor every 5 years. The average customer has an initial invoice close to \$215 with following invoices approximating \$195 (\$800 for the 1st year total medical supply spending). **Since adding the 2 new products** above to its product mix, **MLTO has noticed the initial invoice average bill size increasing from \$215 to \$350**.

RECENT DEVELOPMENTS AND OUTLOOK

The recent monthly performance trends indicate an extremely favorable outlook for MLTO, moreover we believe there is no other company directly competing with MLTO on a nationwide basis in their market niche. However, there is no **assurance that such national competitor will not arise in the future. We do not anticipate any major changes in the Medicare reimbursement regimen in 2006.** Management intends to implement the following plans in 2006 in order to maintain and expand the present growth rate.

A move to staff the facility in San Juan, Puerto Rico with customer service representatives and logistical support personnel to expand current distribution services and reduce operating costs. Additionally, through this local presence MLTO can expand reimbursement services to the Commonwealth's dually eligible Medicare-Medicaid market. According to recent Commonwealth data, this expansion potentially adds over **250,000 customers to the market penetration plans in Puerto Rico, with a total dually eligible market potential of over \$300 million.** This facility will be used to directly distribute products to Puerto Rican customers, which are currently being serviced from the 6,000 square foot office/warehouse facility in Florida. Diverting shipments to the San Juan facility for Puerto Rico by pharmaceutical suppliers, will reduce operating costs by an estimated 2.5%, with a corresponding increase in net profit.

The expansion of services and products to the dually eligible Medicare-Medicaid market through the opening of this Puerto Rico hub, further enhances the mission of MEDirect Latino Inc. to fulfill the critical link between the Hispanic Medicare-eligible beneficiaries and their health care needs. By expanding their reimbursement model to Medicaid beneficiaries, as well as to the traditional market of Medicare, MLTO can immediately grow its potential customer base as this market is considered untapped.

The company is looking to duplicate this facility expansion to in other areas within the United States as sales justify the need, or when a particular state's Medicaid reimbursement system is ideally suited for its customer profile. Over 1,800 primary care physicians deal with MLTO staff residing in San Juan, will be used to directly market to additional healthcare professionals and to expand branding, raise awareness and lift its profile and visibility in Puerto Rico.

FINANCIALS

For the first 9 quarters since inception, the company produced only a small amount of revenue of approximately \$350,000 from initial test marketing. **Revenues started increasing substantially after the media campaign launch in Puerto Rico** that was done in March and the national US campaign in late September 2005. The table below shows the advancement of gross revenues following these TV network advertising initiatives for reported months and also sets forth our estimates for the remaining months of the current fiscal year to June 2006 (FY 2006):

Monthly Revenue		(\$)	M-O-M gr %
May	2005	32000	
June	2005	50000	56%
July	2005	83500	67%
August	2005	146000	75%
September	2005	304000	108%
October	2005	418000	38%
November	2005	540000	29%
December	2005	596717	11%
January	2006	804949	35%
February	2006	1123709	E
March	2006	1539481	E
April	2006	2139879	E
May	2006	3017229	E
June	2006	4224121	E
FY 2006		15019584	

Since the start of this significant sales jump in May, the **Gross Margin has averaged in the low 70% range, but has since improved to as high as 78%** for the month of January 2006. SG&A expenses of approximately \$275,000 were incurred, from inception to April, 2005. Since, May 2005 to September 2005, the company incurred approximately \$30,800 per month in such expenses. This increase was due to the increasing staffing costs to the current level of 42 employees, as well as the costs attributable to its publicly traded status, and the move to become a fully reporting company with the SEC. Presently, the SG&A level hovers at 78.5% of the gross revenue, and this percentage should continue to decline as gross revenues climb. The company has incurred net operating losses since inception.

At June 30, 2005 **net operating loss carry forward amounted to approximately \$2.5 million for U.S. tax purposes**, which begin expiring in the year 2023. The total accumulated shareholder's deficit stood at \$3.69 million as at September 30, 2005. We anticipate that profitability will be attained in the next 6 months that will yield positive EPS for the 12 months to June 2006 of 32c (FY 2006). For the 12 months ended June 2005 (FY 2005) the company reported a net loss of \$1.419 million or 20c EPS loss per basic share on basic weighted shares outstanding for the period of 7.194 million. In our EPS calculation we have used the US statutory tax rate of 35%, after taking a

full deduction of the \$2.5 million as credit against our pre-tax profit calculation of \$5.15 million. Full utilization of this amount is not certain however, which can have a meaningful impact on FY 2006 EPS. This assumption resulted in a net income figure of \$4.22 million. We have further assumed a weighted average common share count outstanding of 13 million shares, which produce the end result of 32c per share.

See Appendix A-I for Analyst Certification and Important Disclosures.

Liquidity and Capital Resources

Due to significant startup costs, the company has generated negative total cashflow from operations totaling \$2.04 million from 2002 to June 30, 2005. Cash flow generation is improving steadily and is expected to turn positive by Q2 2006 as sales increase, volumes pick up and outstanding receivables are collected. Fixed costs controls are also improving. **The cash position improved to \$35,186 on September 30, 2005** from just \$202 at the prior quarter end. **The company extinguished its cash overdraft of \$17,075 that existed on June 30, 2005.** Cash received from a long term debt offering in FY 2006 Q1 to September 30, 2005 amounted to a net \$537,000. On October 1, 2005 a private placement of common stock was done to raise a maximum of \$1,575,000, through issuance of 900,000 shares of common stock at the price of \$1.75 per share. The offer was over-subscribed with a total of \$2,245,260 being received, less \$175,000 in fees.

On November 1, 2005 the company entered into an agreement with **Oppenheimer & Co, Inc.**, as its exclusive placement agent to **sell \$10 million of equity and/or equity linked securities.** A signing fee of \$25,000 is payable to Oppenheimer & Co, Inc. the agreement, a cash commission of 7% of the aggregate amount of the proceeds received. Part of the additional fees include out-of-pocket expenses, which may not exceed \$50,000 without the company's prior consent. The company has the right to terminate the Offering in the event it is not completed within 60 days from the date of the Private Placement Memorandum. Additionally, **Oppenheimer & Co, Inc. shall receive non-callable warrants with a life of 5 years, to purchase MLTO common stock equal to 10% of the number of securities sold, exercisable at 120% of the price paid by the investors in the Offering.**

The company **does not anticipate any major capital expenditures** for the foreseeable future but additional capital will be raised to fund its 2006 media campaign for which roughly \$10 million is needed. **This may occur in close conjunction with its intended listing on the NASDAQ to broaden its shareholder base and improve the float.** The company intends issuing equity for this purpose and also plan to make use of bank debt financing if further capital is needed in operations. In the past the company has relied upon both preferred and common stock issuance and subordinated loans from management to pay media and operating expenses.

The company has raised \$5.1 million financing in total since 2002 in debt and equity based offerings as detailed below:

Type of Offering	Amount of Offering	Price Per Share	Closing Date
Series A Preferred	\$409,323	\$2.50	Dec-02
Debt Offering	\$701,047		Jul-03
Series A Preferred Conversion to B Preferred	\$575,280	\$2.30	Aug-03
Common Stock	\$639,137	\$2.00	Mar-05
Debt Offering	\$605,953		Sep-05
Common Stock	\$2,245,260	\$1.75	Nov-05
TOTAL FUNDS RAISED	\$5,176,000		

Other noteworthy financial and per share statistics are listed in the table found on page 1 of this report.

RISK FACTORS /CONCERNS

The business model, and longer term consistency of revenue and income potential, remain uncertain and is not fully proven. The company is **highly reliant on recurring business** MLTO business development is substantially dependent on the expertise of its management team and directors, the loss of which could materially adversely affect future anticipated results. The company is still considered to be a **development stage company** and generated limited reported revenues and short financial history. **Gross margins are very sensitive to changes in reimbursement rates** set by Medicare for medical products and **supplier prices charged to manufacture these products which are currently considered attractive.** A major adverse adjustment to one or both of these variables will severely impair profitability. The **FDA may make new rulings in future** which mandate a suspension or a recall of production or sales of products sold by MEDirect Latino, and result in MLTO losing sales and incurring expenses for a period until the company is in compliance with the regulations specified by the FDA or other regulatory body.

On Federal level, any reduction in Medicare or other government programs or private plan reimbursements currently available for these products would reduce the company's revenues.

See Appendix A-1 for Analyst Certification and Important Disclosures.

The company may not be able to generate or obtain sufficient funds to operate its business which, could harm results and force the company to curtail or cease planned operations. Most recent quarterly financials statements alert to the fact that liquidity may be insufficient to support the expansion, business and marketing plan(s) of MLTO. There can be no assurance the company will be successful in its effort to secure additional financing for the marketing campaign that lie ahead. New technologies that focus on finding more convenient less intrusive glucose measurement, than the drawing of blood method used by current consumable testing supplies, can negatively affect MEDirect's market.

The company also has **non-resident pharmacy licensing applications outstanding in several US states**, which may be denied by the particular US state. The sale of medical products entails the risk that patients may **institute product liability claims** which could be expensive. The company has insurance cover, but it may not provide adequate coverage against such potential claims. Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The stock is thinly traded at prices below \$8.50 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity. The reverse is true if one or more large investors decide to acquire a block of MLTO shares that would result in demand outstripping supply and result in an upward squeeze in the price given the low liquidity and daily trading volume.

We caution that historical volume activity on MLTO has been noticeably light, but we expect trading volumes to continue to trend higher over the coming months. Major dilution of common stock can occur if company issues large blocks of common stock or convertible debt are converted/warrants exercised into common stock, that can negatively impact on the value of the shares either theoretically or if sold in the open market. NASD and SEC Regulations covering rules on Penny Stocks apply for MLTO.

Further elaboration on risk factors are contained in Form 10-12G, filed with the SEC on February 8, 2006.

MANAGEMENT

Debra L. Towsley – President and Director

Debra Towsley currently serves as President and Director of the Company. Prior to founding MEDirect Latino Inc. in 2001, Ms. Towsley was Vice-President of Business Development for Sci-Fi MegaPlex, Inc. from 1998 to 2000. From 1998 to 1999, she was Director of Strategic Alliance Marketing for Universal Studios, in Orlando overseeing the marketing plan for the grand opening of Islands of Adventure and CityWalk projects, a \$1.5 billion dollars theme park expansion. From 1994 to 1998, she was Executive Director of Development for Cox Radio Group in Atlanta. Ms. Towsley held the position of Director of Marketing for Blockbuster Video in the State of Florida.

Raymond J. Talarico – CEO & Chairman of the Board

Mr. Talarico currently serves as Vice President of Sales and Marketing. In 2002 was a founder of the Company. He brings years of experience in the start up developmental phase of embryonic companies. Mr. Talarico was Chairman of the Fort Lauderdale based Sci-Fi MegaPlex, Inc. from 1998 to 2000, a Company founded around the genre of science fact, fiction and fantasy. Sci-Fi's national expansion began with the opening of retail stores in major markets such as Orlando and Atlanta and was in construction development in Puerto Rico's Plaza Las Americas and seven other major markets. Mr. Talarico resigned as Chairman in September 2000.

Charles W. Hansen III – Chief Operating Officer and Director

Charles W. Hansen III currently serves as Chief Operating Officer and Director of the Company. In 2000, Mr. Hansen served as president and chief operating officer of eComeCom.com, a public company designed to assist small to medium companies capitalize on strategic and competitive advantages in the industry. He also assisted companies in the process of becoming publicly traded, advising on corporate structuring, methods of debt and equity financing and locating strategic partners. In 1978 he was promoted to Vice President, NBC Group Station Sales. In 1984, Hansen moved to WPTV TV (NBC) West Palm Beach as General Sales Manager. In 1992, he accepted the position of President, General Manager of WNPL TV Naples/Ft Myers. In 1994 Hansen formed DHA production studios and served as President until 1998 when he joined PAX TV as part of the networks inaugural launch as the official Seventh Television Network.

Dr. Julio C. Pita – Co-Chairman, Corporate Spokesman, Director

Dr. Julio C. Pita currently serves as Co-chairman, Corporate Spokesman and Director of the Company. Dr. Pita his extensive experience as one of the leading diabetes-care specialists in the Hispanic community. Dr. Pita has been in private practice as an Endocrinologist since 1976, Chief Medical Director of the Diabetes Center at Mercy Hospital in Miami, Florida (2002 to present), and Vice President of Medical Affairs and Member of the Board of the Diabetes Treatment Centers of America in Nashville, Tennessee (1987 to 2002 as Board Member, and 1999 to 2002 as Vice President). Dr. Pita is currently the Chairman of the Board of Doctor Care, Inc. in Miami, Florida and a Clinical Assistant Professor at University of Miami's School of Medicine in Coral Gables, Florida. From 1997 through 2002, Dr. Pita served as Chairman of the Mercy Health Board in Miami, Florida, while from 1987 to 1988; he served as Chairman of the Advisory Committee of Clinical Endocrinologists of the National Endocrinology Society.

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William Van Aalten - General Operations Manager

William Van Aalten currently serves as General Operations Manager of the Company. In 1962 after attending Brooklyn College and taking a position as Pharmacy Manager at Gallery Drug, he was responsible for increasing revenues over 15% and developing the company into the largest independent pharmacy in the New York Metropolitan area. After 18 years with Gallery, Bill took a position as Director of Purchasing and Marketing for Kinray Inc., the largest drug wholesaler in New York City, at the time, and developed their innovative generic sales programs. He then founded Logen Pharmaceuticals, and as President generated over \$7 million in wholesale generic drug sales to pharmacies in the US.

Mr. Tomas T. Johansen - Director

Tomas Turull Johansen currently serves as a Director of the Company. As former Vice-President and General Manager of WLTV/Channel 23, Mr. Johansen brings over 30 years of management experience in the television industry. Mr. Johansen was responsible for all aspects of marketing, news, programming, promotions and productions for South Florida's oldest and most watched Spanish language television station and one of the top Hispanic stations in the US. In 1993, he joined Univision Television Group as Vice President and General Manger of WXTV-Channel 41 in New York/New Jersey, moving the next year to WLTV-Channel 23, Miami, Florida in the same capacity. Mr. Johansen, who is Cuban-born, is a graduate of Farleigh Dickinson University and majored in Spanish and International Relations.

Mr. Tomas Erban - Director

Tomas Erban currently serves as a Director of the Company. Mr. Erban was a Senior Partner with The Curtiss Group International, an executive development group and previously held the position of Vice President of Human Resources and Public Relations for Bacardi USA and North America. Previous to that he was VP of Marketing and Sales for Bacardi. Mr. Erban is fluent in Spanish and English and skilled in multicultural integration strategies. He holds a Bachelor of Science Degree in Business Administration from Boston University majoring in International Business. Currently he is Chair Elect of the Board of Directors for the YMCA of Greater Miami and also serves on the Board of Directors for Community Partnership for Homeless and is an Advisor.

INVESTMENT THESIS AND RECOMMENDATION

Our analysis suggests that **MEDirect Latino, Inc.** is an interesting speculative play among micro-cap companies offering **exposure to the investor on strong medical supply demand amongst the overlooked and underserved Hispanic community in both the US and Puerto Rico. The focus is on treatment of Diabetes Type II that is more prevalent amongst the Hispanic elderly compare to caucasians and due to the current reimbursement regime for Type II diabetes.** The company is enjoying a unique competitive position being the sole **Part B Medicare Provider** (direct-to-consumer) in the **US catering for the Hispanic demographic**, enabling it to capture market share from small local pharmacies unable to offer the same benefits.

MLTO is seeing **high margin recurring revenue streams** with approximately **80% of revenues coming from the US Government** as subsidies (payment remitted directly to MLTO) or Medicare payments for qualified applicants, with the patient being responsible for the remaining 20%. The company sells **3 month supplies of diabetic products per order** and the company has seen the **average initial order size rise to roughly \$300** from just \$215. Revenue growth has accelerated meaningfully following very successful television advertising efforts via Telemundo (US & Puerto Rico) and UniVision. The company has been able to optimize advertising dollars spent to reach its target market, due to the concentrated and limited TV viewing options available to them.

Both operating and financial risk involved in investing in a young healthcare company are typically high and should be considered by investors. In this case the risks are tied to the uncertainty surrounding changing legislation or changing customer preferences, or drop in reorder rates that will harm profitability. Marketing and regulatory compliance costs associated with initial customer qualification results in negative cash flow with respect to the first order from new customers. Readers should understand that there can be **no assurance that the company will be able to fast-track its intended path towards diversifying the product mix that will flow through directly to the top and or bottom line to build a consistent longer term profitable track record that will build shareholder value.**

We therefore only recommend investors that have a **high tolerance for risk** that are able and willing to forfeit either most or all of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to MLTO should do so with **absolute minimum 2 year investment horizon**, but preferably longer, to allow ample opportunity for growth to emerge until broader price discovery can materialize within the investment community that will **allow the value behind the current established customer base to be unlocked as new products are added to diversify the strong emphasis on diabetes.** Short term we see a modest retreat ahead, to allow MLTO shares to consolidate and form a base at higher levels, after the major advance of late. In the medium term a major risk factor of delays in receipt of additional funding to the count of \$10 million for its 2006 advertising campaign, may hinder further improvement in the rating of the shares until adequate funding is secured that will satisfy concerns that may be present, or resurface in the investor community.

See Appendix A-I for Analyst Certification and Important Disclosures.

We believe that this may act as a short-term headwind in the absence of other positive news. Given the recent strength in the share price the dilutive effect of raising \$10 million through stock issuance will be reduced to roughly 1.25 million shares on a share base of 17.6 million or approximately 7%.

Based on recent conference call we expect financial performance to continue to improve into the back half of the financial year. Under the assumption that **capital raising activity is achieved and expecting revenue in 2006, positive cash flow from operations to be generated in FY 2006** as more progress is made to bring additional products to its customer base and **grow its market in Puerto Rico**, we are of the opinion that MLTO stock has major upside potential. Given management comments at the latest conference call and our own independent forecasts, we **are of the opinion that revenue potential of \$15 million is achievable for FY 2006. Using our gross margin and operating cost assumptions we calculate a net pre-tax profit of \$5.15 million for FY 2006. Assuming \$2.5 million tax credits are used in full and applying a 35% US statutory corporate tax rate to our calculation, we arrive at a net income figure for FY 2006 of \$4.22 million for MLTO. Using a weighted average share count of 13 million, we estimate a FY 2006 EPS of 32c. For FY 2007 we are expecting EPS to come in at least at 58c.**

In order to make a valuation call on the security, we have looked at medical supply peer comparatives such as 1-800-Contacts (CTAC), Henry Schein, Inc. (HSIC), PSS World Medical (PSSI) and Medical Action Industries (MDCI) among others. The MLTO business model is a close fit to that of PolyMedica Corporation (PLMD) on the NASDAQ that has an impressive track record and proven success - growing its revenues from only \$24 million in 1996 to over \$419 million in 2004. A high percentage of revenue of PLMD also flows directly from sales of diabetic supplies, whilst the model generated gross margins of +60%. The major distinction is that PLMD has a solid footing in the over 65 Anglo market, compared with MLTO, having its visor on the Hispanic/Latino same age demographic.

Using our FY 2006 and FY 2007 EPS forecasts and applying a forward 6 and 18 month PE multiples of 30x and 25x respectively, (PE ratios chosen based on peer comparatives and as a function of growth rate – PEG methodology), we arrive at future share values of 960c and 1450c going out 6 and 18 months. Our view is that the shares are already starting to discount growth beyond FY 2006 into FY 2007. We have chosen a discount rate of 20% and calculated a present value of these two future values and determining the average between these two present values using the discount rate (SEE TABLE BELOW). This process yields a result of 1084c. Given these calculations we set a 12 month target price for the security of \$11. All factors considered, we anticipate a stake in MLTO still has compelling upside potential in the coming 12 months.

		Forward PE multiple	Forward Price	Discount Rate	Present Value
FY 2006 EPS	0.32	30	9.60	NA	9.600
FY 2007 EPS	0.58	25	14.50	20%	12.083
Average					10.84

We HIGHLIGHT to the reader that this forecast is made under the assumption that the company can attain our FY2006 revenue expectation of \$15 million and a minimum of \$4 million after tax income. Moreover, we believe that the present market for MLTO shares is far from efficient, **does not fully reflect the leverage possible from its current regular customer base.** We regard the present market capitalization as **modest in light of the fact that there is no direct competitor.** We are also of the opinion that the company is positioned as a niche player and that it **may become an attractive takeover candidate** in the next 18 to 24 months for a **larger competitor looking for acquisition based growth.** Once the company can achieve a **listing on the NASDAQ exchange and investor awareness and visibility of MLTO increases the rating on the stock may be raised further and potentially result in our target price proving to be conservative in hindsight.** This will also be true if our notion that the company may be acquired through a stock for stock or stock for cash offering by a larger competitor in the medium term prove correct.

Under these assumptions we initiate coverage on MLTO with a SPECULATIVE positive rating. *Risk to our recommendation include amongst other, failure of new marketing campaign to increase sales for new patient shipments, a slowdown in revenue growth that will lead to a contraction in forward PE multiple assumptions, billings and recurring repeat orders, changes in favorable terms with suppliers, new competition, a change to Medicare reimbursement procedures/policy changes or unforeseen regulatory changes impacting adversely on the medical supplies direct-to-consumer market focusing on Hispanics. Also, any inability to obtain necessary financing from capital markets when needed, to continue its business projects and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt or paid for services, are some additional factors that will counteract price appreciation potential or cause shares to decline in value. We would caution that given the size of the company and risks involved, overall we advise positions be limited below 5% of the client's total portfolio size.*

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ANALYST CERTIFICATIONS

APPENDIX-A1

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report. Based on the facts that were provided, the industry trends present and sources of information used to produce this report, it is my best opinion and reflection of what the company's rating and share appreciation potential could be once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision. Information, opinions or recommendations contained in this report or research note are submitted solely for advisory and information purposes and we also do not accept any obligation to provide updates to this report in future.

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