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May 16, 2005



MLTO:OTC

Industry: Healthcare

Risk Level: Speculative

Initial Report	
5/13/05 Initiation Price	\$3.15
12-Month Target Value-Low	\$5.00
12-Month Target Value-High	\$11.80
<b>12-Month Target Value Average</b>	<b>\$8.40</b>

Statistics	
5/13/05 Closing Price	\$3.15
Coverage Initiation Price	\$3.15
52 Week High	\$4.25
52 Week Low	\$2.37
Market Capitalization	\$29.818M
Enterprise Value	\$30.508M
Shares Outstanding	
-Primary (5/13/05)	9.025M
-Fully Diluted (5/13/05)	9.466M
-Float (approximate)	1.186M
-10 Day Average Volume	85,894
Balance Sheet Data (12/31/04)	
-Current Assets	\$34,011
-Current Liabilities	\$914,533
-Total Assets	\$150,186
-Total Liabilities	\$914,533
Forward Fiscal 2006 P/E	15.75x
Price to Sales	N/A
Price to Book	N/A



Source: BigCharts.com

*Fiscal Year-end June (\$ in 1,000s)	Estimated 2005	Estimated 2006	Estimated 2007	Estimated 2008
Revenue	\$696	\$10,501	\$26,945	\$38,344
Net Income (Loss)	(\$591)	\$2,075	\$7,390	\$11,302
EPS - basic	(.07)	\$0.21	\$0.61	\$0.91
EPS - fully diluted	N/A	\$0.20	\$0.59	\$0.87

**Investment Highlights:**

- High margin recurring revenue streams with approximately 80% coming from the U.S. government;
- Embracing a proven direct-to-consumer business model and adapting it for the underserved Hispanic/Latino marketplace;
- First to market advantage - MEDirect is the only company that is currently serving the U.S. Hispanic healthcare market as a direct-to-consumer Medicare provider on an authentically national level.
- Highly concentrated target market with limited TV viewing choices optimizing advertising efforts;
- Tested and proven marketing platform yielding over \$12.50 in revenue for each \$1.00 spent on advertising;
- The best comparable company is PolyMedica (NASDAQ NM:PLMD), which has a very similar business model and grew its business from \$24.32 million in revenue (approx. \$12 million from diabetic supplies) when it acquired Liberty Medical in 1996 to \$419.69 million in revenue (\$283 million from diabetic supplies) in 2004. These results lead to an \$869 market cap based on PLMD's closing price of \$31.33 on 5/13/05.
- Attractive agreements with the leading suppliers of diabetes management equipment in the United States, including Abbott Laboratories, Bayer, Roche, Johnson & Johnson's LifeScan and Vital Care Group.

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**Important Note:** This report contains forward-looking statements, particularly as related to pro forma financial statements, earnings estimates and business expectations, within the meaning of Section 27A of the Securities Act of 1933 and Sections 21E of the Securities Exchange Act of 1934, and are subject to the safe harbor created by these sections. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance are not statements of historical fact and may be "forward looking statements." Forward looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated.

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## I. OVERVIEW

### Introduction

Founded in 2002, MEDirect Latino, Inc. [MLTO:OTC] (“MEDirect” or the “Company”) is a uniquely positioned, federally licensed, national provider of direct-to-consumer medical products. The Company is currently focused on the distribution of diabetic supplies to Medicare eligible Hispanic and Latinos. Once its distribution pipeline is established, MEDirect intends on expanding its product lines to include medical supplies related to other Medicare reimbursable chronic diseases afflicting the Hispanic community.

MEDirect’s management team has dedicated the last two years conceptualizing, designing, developing and successfully testing its business model. These efforts led to a highly scaleable business with minimal cyclical, recurring revenue streams, minimal accounts receivable risk, significant barriers-to-entry and limited competition. With these initial objectives achieved, the Company is beginning to implement a full-scale national marketing campaign. Preparation for this launch included:

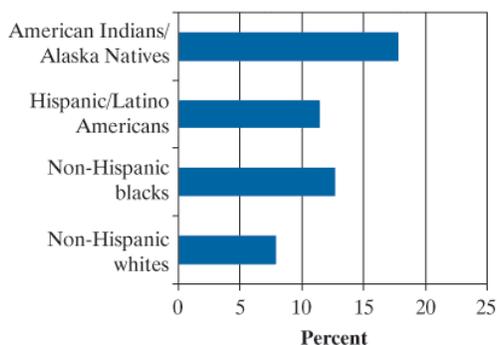
- Identifying the Company’s target consumer;
- Developing efficient methods to reach the target consumer;
- Preparing supply channels to support anticipated demand;
- Preparing distribution channels to fulfill anticipated demand;
- Establishing the IT infrastructure and human resources to manage anticipated demand;
- Preparing advertising media to drive demand; and
- Testing advertising methods and infrastructure in preparation for national marketing effort.

### Addressing a very Large Market

Hispanic/Latino Americans are 1.5 times more likely to have diabetes than non-Hispanic whites of similar age and two million or 8.2 percent of all Hispanic/Latino Americans aged 20 years or older have diabetes.

The Hispanic market for MEDirect’s products is estimated at \$650 million in the continental United States. Furthermore, the size of the opportunity is understated because only an estimated 925,000 of the over 3.1 million Hispanics in the United States over 65 eligible to receive Medicare benefits are currently collecting these benefits. It is estimated that over 1.4 million of those Medicare-eligible Hispanics have diabetes implying a potential continental U.S. market for MEDirect products in excess of \$1 billion. Puerto Rico provides additional opportunities and is estimated at \$172 million in potential recurring revenue. Furthermore, initial advertising tests in Puerto Rico have generated ten times higher call volume than expected.

**Age-adjusted total prevalence of diabetes in people aged 20 years or older, by race/ethnicity—United States, 2002**



Source: 1999–2001 National Health Interview Survey and 1999–2000 National Health and Nutrition Examination Survey estimates projected to 2002 and 2002 outpatient database of the Indian Health Service.

## Experienced Management Team

MEDirect's executive team has over 100 years of combined business development experience with corporations such as NBC-TV, South Pacific Holdings, Mercy Hospital Group, Logan Pharmaceuticals and AmeriSource. MEDirect's President, Debra Towsley, and COO, Charles Hansen, have over 60 years of combined marketing experience, as former Director of Strategic Alliance Marketing for Universal Studios and Vice-President & General Manager of Pax TV. MEDirect's General Operations Manager, Mr. William Van Aalten is a pioneer in the direct-to-home diabetes care market and brings over 40 years of experience in pharmaceutical sales in both the wholesale and retail level. MEDirect's Co-Chairman, Dr. Julio C. Pita Jr., former Head of Endocrinology at Mercy Hospital, is one of the leading specialists of diabetes care in the Hispanic community.

## Proven Business Model

The concept of Medicare focused direct-to-consumer marketing has been proven. PolyMedica (NASDAQ NM:PLMD), has successfully demonstrated the effectiveness of this model in the over 65 Anglo market. Since its acquisition of Liberty Medical in 1996, PolyMedica's Liberty Medical Division has grown revenues from \$24.32 million in 1996 to \$419.69 million in 2004, while achieving gross margins over 60%. It generated \$37.93 in net income in 2004 and is trading at an \$869 million market capital based on its 5/13/05 closing price of \$31.33. Given PolyMedica's solid position in the over 65 Anglo market, MEDirect's management team strategically focused on the overlooked and underserved Hispanic/Latino market. In addition to minimizing its competition with PolyMedica, the decision to focus on the Hispanic market was driven by favorable advertising characteristics and demographic concentration. The Anglo TV advertising market is widely dispersed leading to inefficient and expensive advertising budgets. In contrast, the aged Hispanic/Latino market revolves around three main broadcasters and highly effective TV advertising campaigns.

PolyMedica's Results	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Revenue (in millions)	\$24.32	\$29.88	\$73.82	\$104.83	\$156.92	\$220.05	\$279.66	\$356.19	\$419.69
Est. Revenue from Diabetes	\$12.00	\$20.00	\$48.72	\$69.18	\$103.56	\$166.79	\$207.22	\$244.68	\$283.28
% from Diabetes	49.3%	66.9%	66.0%	66.0%	66.0%	75.8%	74.1%	68.7%	67.5%
Net Income	\$0.274	\$2.32	\$7.61	\$7.64	\$15.11	\$22.73	\$30.41	\$25.63	\$37.93

*Note : Estimated revenues from diabetes in years 1998 thru 2000 were based on an average 66% of sales and remaining data were obtained from PolyMedica's 10-K filings with the SEC.*

## First to Market Advantage

MEDirect is the only company currently serving the U.S. Hispanic healthcare market as a direct-to-consumer Medicare provider on an authentically national level. The Company's current focus is the distribution of products for the treatment of Type I & Type II diabetes specifically because of the disproportionate impact and increasing diagnosis rate within the U.S. Hispanic population, noting an incidence of 120% higher than among non-Hispanic whites. Types I & II diabetes were targeted because of the unique status within the Medicare reimbursement regime, and because of the high degree of correlation to other chronic conditions such as high blood pressure and heart disease. These other conditions represent considerable future market potential that will allow MEDirect to efficiently scale its business model by leveraging its existing client base and infrastructure.

### Highly Profitable Advertising Metrics

Proprietary formulas were applied to traditional databases such as the Centers for Medicare & Medicaid (CMS), the Department of the Treasury, U.S. Social Security Administration and U.S. Census. The application of MEDirect's proprietary filters to these databases lead to the successful identification of key target markets and aged Hispanic population demographic regions. The Company's market analysis led to results that were significantly different and more accurate than traditional media metrics. Test marketing with actual commercials targeted at precisely defined markets has yielded \$12.50 in revenue for every \$1.00 spent on advertising in the first year. These results are understated by the fact that customers are likely to continue to purchase their diabetic supplies from MEDirect for many years into the future with no additional advertising dollars required to attract them. The initial results in Puerto Rican test markets have produced even greater results.

### Highly concentrated target audience optimizing advertising dollars.

The limited number of television and radio stations that cater to the Hispanic community creates a highly effective advertising platform. MEDirect is able to strategically cover nearly 100% of its target audience by airing advertisements on a few broadcasters including:

- Univision;
- Telefutura; and
- Telemundo.

MEDirect conducted television advertising beta tests in Tampa, Philadelphia New York and Boston. Test results exceeded management's expectations and provided evidence that the Company's proprietary demographic research was accurate.

### Significant Barriers-to-Entry

- Media Relationships – The Company has forged a number of relationships with key players in the Hispanic media that could thwart the efforts of replicating its business model. MEDirect's partnership with Univision is the most critical of these strategic relationships. Univision controls approximately 88% of the market share for the Hispanic (over 65) TV market and television is the most widely used of all media sources in the Hispanic community.
- Supplier Relationships - MEDirect has established attractive agreements with the leading suppliers of diabetes management equipment in the United States, including Abbott Laboratories, Bayer, Roche, Johnson & Johnson's LifeScan and Vital Care Group increasing profitability.
- Demographic Research – The Company's proprietary demographic research is the heart of its highly effective advertising campaign. Competitors relying on traditional media demographic data will be focused on less lucrative markets.
- Licenses – MEDirect is operating in the Health Products & Services industry under the regulation of U.S. Department of Health & Human Services (HHS), Centers for Medicare and Medicaid Services (CMS). The Company has obtained the licenses to market its products both domestically and internationally. Any future competitor would also be required to obtain these licenses.

### Exclusive supply agreement with Abbot labs and both US and international licenses

MEDirect and Liberty Home Pharmacy are the only two Medicare distributors with exclusive contracts with Abbott Laboratories (MEDirect-Spanish and Liberty-English).



### Comparisons

Values as of 5/11/05 Closing Price	Share	Market	Enterprise	Price to	Price to	Price to	Gross	
Medical Supply Comparables	Ticker	Price	Capital	Value	Earnings	Revenue	Book	Margin
1-800 Contacts	CTAC	\$19.91	264.94M	288.05M	154.34	1.21	4.56	38.71%
Henry Schein, Inc.	HSIC	\$40.56	3.52B	3.80B	27.18	0.79	3	26.94%
Medical Action Industries	MDCI	\$17.79	182.53M	188.65M	17.79	1.34	2.78	26.25%
PolyMedica	PLMD	\$31.62	877.09M	802.00M	26.26	1.95	3.06	60.38%
Priority Healthcare Corp.	PHCC	\$23.52	1.03B	1.03B	24.68	0.56	2.51	11.14%
PSS World Medical	PSSI	\$11.71	756.91M	903.39M	21.14	0.52	2.8	29.02%
<b>Average:</b>					<b>45.23</b>	<b>1.06</b>	<b>3.12</b>	<b>32.07%</b>
<b>MEDirect Latino, Inc.</b>	MTLO	\$3.15	29.818M	30.508M	N/A	N/A	N/A	N/A

Source: Reuters

### Discounted Price to Earnings Model

Year	Earnings Estimate	Price to Earnings Multiple	Future Value	Discount Rate	12-month Discounted Value
2006	\$0.20	25x	\$5.00	N/A	<b>\$5.00</b>
2007	\$0.59	25x	\$14.75	25%	<b>\$11.80</b>
<b>Average:</b>					<b>\$8.40</b>

The aforementioned projections and valuation metrics were calculated and illustrated by applying various assumptions. Based on pro forma expectations and by applying a 25 P/E multiple with a 25% discount rate, it is our opinion the shares hold an average **12-month projected value of \$8.40**. However, MEDirect' anticipates a significantly higher growth rate than the aforementioned medical supply comparables justifying a significantly higher P/E ratio than 25.

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## II. CORPORATE STRATEGY

- **Identify Target Market**
- **Testing Marketing and Advertising Methods**
- **Establish Infrastructure**
- **Optimize Profitability**
- **Add Products to Distribution Pipeline**
- **Maximize Shareholder Value**

### Identify Target Market

MEDirect's target market is the Medicare eligible Hispanic/Latinos, which represent the second largest and fastest growing ethnic or racial minority group in the Medicare population. This group's population grew by 230% from 709,000 persons in 1980 to 2,340,000 in 2001. More importantly, nearly three-fourths (73%) of elderly Hispanic/Latinos live in just four states: California (27%), Texas (20%), Florida (15%) and New York (11%). As a result of this concentration, MEDirect can reach a majority of its target market while minimizing TV advertising expenses.

The most typical customers for the Company's products are Medicare eligible diabetics who currently use products for control and treatment of Type I or II diabetes.

Definable in simple terms, MEDirect knows:

- Who its customer are? – Medicare eligible Hispanic/Latino.
- What its customers need? – Healthcare products for diabetes patients.
- When they need them? – Recurring monthly for life.
- Where to find its customers? – Medicare Eligibility Rolls and extensive demographic data.
- Why do its customers need MEDirect? – No up front costs, no paperwork, home delivery.
- Who is going to pay for its services? – 80% from the U.S. Government and 20% from the customer.

### Testing Marketing and Advertising Methods

MEDirect's marketing strategy is to effectively deliver the message that it's product lines are equal in price and quality to its competitors, but the Company offers its diabetic supplies with the convenience of home delivery and no out of pocket costs. Furthermore, MEDirect will bill Medicare directly releasing patients from the burden of filing out long complicated forms for reimbursement.

MEDirect recognizes the key to success requires extensive and targeted promotion. MEDirect's marketing model will leverage unique characteristics of the Hispanic market in order to deliver its message in a cost-effective basis. The company's ability to reach its target market is facilitated by the unique penetration quality of Hispanic media. A recent Market Segment Research & Consulting, Inc. report cites that English-Language television does not effectively reach the Hispanic audience, while Univision, the leading national Spanish-Language television network reaches 88% of the U.S. Hispanic households.

MEDirect has established a strategic alliance with the Univision television network as its marketing partner to effectively reach the Hispanic audience. To optimize its marketing efforts the Company has developed a comprehensive advertising campaign targeting network television markets serviced by #1 ranked Univision and #2 ranked Spanish-Language network Telemundo.

MEDirect's management team went through exhaustive efforts to fine-tune its marketing efforts. Beginning with a comprehensive search for accurate demographic metrics revolving around the 65 and over Hispanic community. MEDirect's management team quickly concluded that the level of accuracy they wanted was not available and created proprietary formulas and database filters to extract the information they desired. The result was an up-to-date demographic market analysis that pinpointed MEDirect's most lucrative geographic regions and sorted the rest from best to worst. The results were significantly different than available media metrics commonly used to develop broadcast advertising campaigns. Management has demonstrated through its test TV advertisements that its proprietary demographic analysis will optimize the Company's return per investment dollar.

The Company successfully completed Phase I of its test advertising in the following markets:

Market	Station	Total DMA Population	Total DMA Rank	Total DMA Hispanic Pop.	DMA Hispanic Rank
Tampa	WVEA	1,568,180	14	123,860	19
Philadelphia	WUVP	2,830,470	4	134,680	17
New York	WXTV	7,301,060	1	1,142,420	2
Boston	WUNI	2,353,500	6	10,270	22

The Company will also use radio advertising, targeted cable networks, out-reach programs and sponsor key local events to reach the Hispanic community. The Hispanic demographic, as opposed to the Anglo market is relatively easy to reach, 73% live in just four states and 93% live in urban areas. The strategic alliance developed with Univision as the Company's marketing partner gives MEDirect the number one station in total Designated Market Area "DMA" (Anglo or Hispanic) of any broadcast affiliate in many of those markets.

## Establish Infrastructure

To support the anticipated demand generated from scheduled advertising, MEDirect has established a comprehensive infrastructure including both human resources and Information Technology (IT).

### Human Resources

MEDirect recognizes that additional staff is required to properly support marketing, sales, research and support functions. Currently, the Company is composed of 23 people. An additional 31 employees will be required to meet the company's objectives over the next twelve months in the areas of customer care, product fulfillment, shipping and receiving, inventory, billing, data entry, marketing, executive assistants and administration.

### Information Technology

To optimize productivity, MEDirect uses a robust “next generation” HIPPA compliant software system to automate a significant portion of its routine functions including Medicare billing, re-orders, customer list management, accounting, and payroll.

### **Optimize Profitability**

Considering the selling price of diabetic supplies to Medicare recipients is fixed, the Company must focus on cost controls to maximize profitability. Management has negotiated very lucrative terms from its preferred suppliers positively impacting gross margins. To maximize operating profits MEDirect has established a very cost effective advertising program, minimized office expenses and implemented an efficient “next generation” HIPPA compliant software automation platform.

### **Add Products to Distribution Pipeline**

Through its initial efforts to penetrate the diabetic market, MEDirect is building valuable relationships in the Hispanic community. The Company intends on leveraging these relationships once it has saturated the diabetic market. With its distribution pipeline in place, the advertising and marketing costs associated with the launch of new products will be minimized. With a solid foothold in the diabetic market and a strategic advantage distributing new products, MEDirect will have a considerable advantage over its competitors.

### **Maximize Shareholder Value**

To maximize shareholder value management will focus on five main initiatives:

1. Adhere to the highest ethical standards through strict corporate governance;
2. Move the Company’s listing from the OTC Pink Sheets to the AMEX or NASDAQ;
3. Gain market awareness through active investor relations;
4. Grow the top line through organic growth and strategic acquisitions; and
5. Maximize profitability through controls and economies of scale.

### III. PRODUCTS and SERVICES

- **Services**
- **Co-Branded Products**
- **Diabetic Supplies**
- **Future Product Lines**

#### Services

One of the most important aspects of the Company's business model is that its target customer is Medicare qualified. As a result, the Company can advertise that if you're Medicare eligible you can call MEDirect and it will take care of everything - no upfront costs and no paperwork. MEDirect will verify the customer is Medicare qualified, contact a physician (if necessary), promptly ship the supplies directly to the customer's home, fill out all the required paperwork, bill 80% to Medicare and 20% to the customer.

#### Co-Branded Products

MEDirect is the only company with contractual agreements with leading pharmaceutical manufactures for Spanish-Language co-branding of diabetes care products in the United States.

##### Abbott Laboratories

MEDirect and Liberty Home Pharmacy are the only two Medicare distributors with exclusive contracts with Abbott Laboratories (MEDirect-Spanish and Liberty-English).



##### Bayer Pharmaceutical

MEDirect executed an Agreement with Bayer Diagnostic for Bayer to manufacture exclusive packaging for the MEDirect Latino Hispanic customer. This includes the placement of the MEDirect Latino logo on the box face. In return, MEDirect distributes Bayer's complete line of Diabetic products and has placed Bayer on its Complimentary Supplier List.

##### Vital Care

MEDirect entered into an Agreement with Vital Care to produce Lancing Devices and Lancets for the Company. The products are manufactured in China minimizing the selling price to MEDirect from Vital Care.



## Diabetic Supplies

MEDirect's inventory needs have been identified and manufacturing relationships established. The Company is receiving inventory and operates its warehouse under Just-in-Time (JIT) procedures. All manufacturers deliver products to the company's warehouse within three to five days from receipt of company purchase order (PO). The Company successfully tested its fulfillment facilities and personnel during the testing period and instituted minor protocol changes to streamline efficiency. Warehouse systems are fully operational, departmental reviews are undertaken monthly to identify areas of improvements.

MEDirect sells a wide range of diabetic products including:

- Blood Glucose Testing Monitors
- Blood Glucose Testing Strips
- Lancets
- Lancing Devices
- Control Solutions
- Insulin Pumps
- Therapeutic shoes and inserts

These products are supplied by a wide range of leading manufactures including:

- Abbot
- Bayer
- LifeScan
- Roche
- TheraSense
- Vital Care



## Future Product Lines

As a federally approved Medicare Part B provider, MEDirect will begin to distribute additional product lines, which fall within current licensure in the future. Once the Company establishes a significant number of direct customer relationships with the Hispanic/Latino community it will increase its product lines to leverage revenue growth. In addition to existing product lines, MEDirect is licensed to distribute the following product lines:

- Dialysis Equipment
- Supplies for Nursing Facilities
- Oxygen Supplier
- Orthotics Supplier
- Prosthetics Supplier
- DME Supplier with Orthotic/Prosthetic Personnel
- DME Supplier with Respiratory Therapist

## IV. INDUSTRY ANALYSIS

- **What is Diabetes?**
- **Hispanic Diabetes Statistics**
- **Hispanic Diabetes Market Size**
- **Competition**
- **Regulation**

### What is Diabetes?

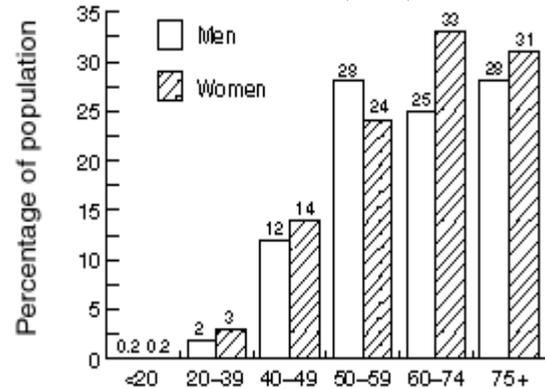
Diabetes is a group of diseases characterized by high levels of blood glucose. It results from defects in insulin secretion, insulin action, or both. Diabetes can be associated with serious complications and premature death, but people with diabetes can take measures to reduce the likelihood of such occurrences.

Most Hispanic Americans with diabetes (about 90 to 95 percent) have type II diabetes. This type of diabetes usually develops in adults and is caused by the body's resistance to the action of insulin and to impaired insulin secretion. It can be treated with diet, exercise, diabetes pills, and injected insulin. A small number of Hispanic Americans with diabetes (about 5 to 10 percent) have type I diabetes, which usually develops before age 20 and is always treated with insulin.

### Hispanic Diabetes Statistics

- Diabetes is the 6<sup>th</sup> leading cause of death among Hispanics/Latinos and the 4<sup>th</sup> leading cause of death among Hispanic women and Hispanic elderly.
- Hispanics/Latinos are at higher risk of developing and dying from diabetes; and twice as likely as other populations to experience complications such as heart disease, high blood pressure, blindness, and kidney disease, amputations and nerve damage.
- Diabetes has an earlier onset in Hispanics/Latinos than other populations. Among Puerto Ricans and Mexican Americans, the age of onset is at 30-50 years old;
- On average, Hispanics/Latinos are almost twice as likely to have diabetes as non-Hispanic whites of similar age.

**Prevalence of diagnosed and undiagnosed diabetes in Mexican Americans, U.S., 1988–94**



Source: National Diabetes Information Clearinghouse  
 Note: Diabetes includes both previously diagnosed diabetes and undiagnosed diabetes (fasting plasma glucose of 126 mg/dL or greater).<sup>1</sup>

<sup>1</sup> Flegal KM, Ezzati TM, Harris MI, Haynes SG, Juarez RZ, Knowler WC, Perez-Stable EJ, Stern MP. Prevalence of diabetes in Mexican Americans, Cubans, and Puerto Ricans from the Hispanic Health and Examination Survey (HHANES), 1982–84. *Diabetes Care*. 1991;14(Suppl. 3):628–638.

- Diabetes is two to three times more common in Mexican-American and Puerto Rican adults than non-Hispanic whites. Cuban Americans have a lower rate of diabetes than Mexican-Americans and Puerto Ricans, but higher than non-Hispanic whites.
- The rates of Type II diabetes are 110% higher among Mexican Americans and 120% higher among Puerto Ricans than non-Hispanic whites.
- More than 10% of all Mexican Americans 20 years or older have diabetes.
- Among persons aged 45-74, the prevalence rate for diabetes is:
  - 23.9% for Mexican Americans,
  - 26.1% for Puerto Ricans,
  - 15.8% for Cuban Americans,
  - 12% for non-Hispanic whites.

### Hispanic Diabetes Market Size

Hispanic Americans are the second-largest and fastest growing minority group in the United States. In 1998, there were 30 million Hispanics in the United States, representing 11 percent of the population. By the year 2050, it is estimated that Hispanics will number 97 million and constitute 25 percent of the U.S. population.<sup>2</sup>

Diabetes in Hispanic Americans is a serious health challenge because of the increased prevalence of diabetes in this population, the greater number of risk factors for diabetes in Hispanics, the greater incidence of several diabetes complications, and the growing number of people of Hispanic ethnicity in the United States. In 2000, of the 30 million Hispanic Americans, about two million had been diagnosed with diabetes with 10.2 percent or 3.1 million of all Hispanic Americans estimated have diabetes.<sup>3</sup>

The Hispanic market for MEDirect's products is estimated at \$650 million in the continental United States. Furthermore, the size of the opportunity is understated because only an estimated 925,000 of the over 3.1 million Hispanics in the United States over 65 eligible to receive Medicare benefits are currently collecting these benefits. It is estimated that over 1.4 million of those Medicare-eligible Hispanics have diabetes implying a potential continental **U.S. market for MEDirect products in excess of \$1 billion. Puerto Rico provides additional opportunities and is estimated at \$172 million in potential recurring revenue.**

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<sup>2</sup> U.S. Bureau of the Census. *Population Projections of the United States by Age, Sex, Race, and Hispanic Origin: 1995 to 2050* (Current Population Reports No. P25-1130). Washington, DC: U.S. Government Printing Office; 1996.

<sup>3</sup> National Diabetes Information Clearinghouse. National diabetes statistics. NIH publication 02-3892. 2002. Fact sheet. Available at: [www.niddk.nih.gov/health/diabetes/pubs/dmstats/dmstats.htm](http://www.niddk.nih.gov/health/diabetes/pubs/dmstats/dmstats.htm). Accessed April 4, 2002.

## Competition

There is neither national nor regional competition in the direct-to-consumer; Hispanic focused, Medicare provider in the reimbursable market. However, each region has local “corner store” pharmacies that control market share within their geographic center. However, these local competitors do not accept Assignment under Medicare Part B and require the customer to pay 100%, up front for their medications, and seek Medicare reimbursement amount (80%) on their own. MEDirect’s business model delivers its health care products without up front cost, with the medications delivered directly to their home, in three month supply and MEDirect navigates the reimbursable process under Part B assignment.

### Fixed Pricing

All Durable Medical Equipment (DME) pricing is set by the Regional Service Providers. Price competition at retail is fixed and is established under the auspices of Medicare; as such price competition does not exist. In all comparisons, MEDirect’s products are the same and provide equal features and have equal performance and benefits of its competitor’s products. Key factors that have resulted in the present competitive position in this industry are without doubt the Balanced Budget Act of 1998, whereby Medicare was provided the vehicle to reimburse for epidemic chronic care needs of those with diabetes.

## Regulation

### Government Regulation

MEDirect is operating in the Health Products & Services industry under the regulation of U.S. Department of Health & Human Services (HHS), Centers for Medicare and Medicaid Services (CMS).

The pharmaceutical industry and to a lesser extent, the Health Care & Products industry, are subject to numerous federal, foreign, state and local government regulations, including those relating to the preparation and sale of drugs across state lines, shipping, Medicare reimbursement. The Company is subject to regulation by federal, foreign, state and local environment protection agencies and to laws and regulations governing its relationship with employees, including minimum wage requirements, unemployment, overtime, workers’ compensation, working and safety conditions and citizenship requirements. All these regulations impact not only the Company’s current operations, but also the ability of the Company to expand into new markets.

### Medicare

Medicare is a federally funded program that provides health insurance coverage for people age 65 or older and for some disabled persons. Medicare provides reimbursement for many of the products that MEDirect sells. This portion of the Company’s business is therefore subject to extensive regulation. Effective July 1, 1998 testing supplies for Type II diabetics became reimbursable. In addition, effective October 1, 1998, Medicare reimbursement guidelines provided that quarterly orders of diabetes supplies to existing customers be verified before shipment and that all doctor’s orders for supplies are valid for a period of six months. In addition, the regulations require that individuals with Type I diabetes who test more frequently than three times per day and individuals with Type II diabetes who test more than once a day, visit their physician every six months and maintain a 30-day log book to verify frequency of testing.

MEDirect will accept assignment of Medicare claims, as well as claims with respect to third-party payers, on behalf of its customers. The Company will process claims, accept payments and assume the risks of delay or nonpayment. MEDirect employs the administrative personnel necessary to transmit claims for product reimbursement directly to Medicare and private health insurance carriers. Medicare reimburses at 80% of the Medicare Fee Schedule for approved diabetes testing and respiratory supplies, and will bill the remaining 20% of the Medicare Fee Schedule to either third-party payers or directly to the customers. Industry models show approximately 5-7% of the direct billable clients results in a charge off to bad debt, the Company has made allowances for this in its financial projections.

MEDirect has obtained all required federal and state permits, licenses, and bonds to operate its facilities, and has all necessary licensure in place.

### **Anticipated Medicare Legislation**

While it may take some time for the Centers for Medicare and Medicaid Services (CMS) to fully develop detailed implementation rules, the Company is well positioned to adapt to this new legislation and benefit in growing the diabetes market long-term. Continued growth in the Hispanic market should mitigate reduced reimbursement levels. Reimbursement rates for diabetes testing supplies will be frozen at 2003 rates. Beginning in 2005, reimbursement rates for diabetes test strips and lancets will be reduced by the percentage difference between median amounts paid by the Federal Employers Health benefit Plan in 2002 and the prices Medicaid paid for these items in 2002. The maximum adjustment for test strips and lancets appears to be 4.1% and 5.36% respectively, but the actual percentage decrease in payment amounts for any particular provider will depend on the geographic distribution of its customers. Based on a preliminary interpretation of the Act, MEDirect expects an overall reduction in reimbursement rates in 2005 for test strips and lancets to be approximately 3%. The Act also contains a number of provisions that should have a positive influence on the Company's diabetes business. Beginning in 2005, Medicare coverage will be provided for an initial physical examination and for regular diabetes screening tests, which should increase the incidence of diagnosis of diabetes and potentially expand the Medicare market for testing supplies and other diabetes products.

The Act also provides up to \$100 million over the next three years for chronic care improvement programs to improve clinical quality while potentially reducing the long-term cost of chronic diseases such as diabetes.

### **Pharmacy Licensing**

MEDirect does not need a pharmacy license in any state to execute its operations or distribute any products currently planned for sale in the accompanying projections. Furthermore, no products of which the Company is projected to distribute in the pro forma financials need any licenses that the Company does not currently possess. However, long-term goals include the distribution of pharmaceutical products as defined under "Controlled Substances" by the U.S. Drug Enforcement Agency. MEDirect will apply for licenses, permits and certifications as necessary to meet profitability goals.

## V. FINANCIALS

- **Notes and Assumptions**
- **Pro forma Income Statement and Financial Projections**
- **Historical Balance Sheet**
- **Historical Cash Flow Statement**
- **Comparisons and Valuation**

### Notes and Assumptions

The following projections and valuation metrics were calculated and illustrated by applying various assumptions.

**Advertising** - Test markets have generated over 600 calls per national TV broadcast.

**Closing Ratio** - Each national broadcast generates 105 initial customers (17.5%).

**Retention Ratio** - 95% of each initial customer has become a recurring customer.

**Attrition Rate** – 5% of MEDirect’s recurring customers drop out every 90-day cycle.

**Product Life Cycles** – A single three-month supply for a diabetic patient is; two-three (2-3) blood glucose test strips (100 count each), three boxes of lancets, and one lancing device. In addition, a diabetic patient needs control solution every six months and a blood-testing monitor every five years. On average an initial customer invoice is approximately \$215 and recurring patient invoices are approximately \$195 equating to a first year annual value of \$800 and recurring annual value of \$780. Both initial and recurring orders have average gross margins in excess of 60%.

#### Advertising metrics:

\$6,700 in advertising dollars generates  
\$22,575 in initial orders and  
\$61,425 in recurring orders in the 1<sup>st</sup> year

**\$84,000 in 1<sup>st</sup> year total revenue from \$6,700 in advertising dollars (12.5:1), and**

**\$81,900 in recurring annual revenue with \$0 additional advertising dollars**

*These assumptions are more conservative than the actual results that MEDirect has achieved.*

**Important Note:** This report contains forward-looking statements, particularly as related to pro forma financial statements, earnings estimates and business expectations, within the meaning of Section 27A of the Securities Act of 1933 and Sections 21E of the Securities Exchange Act of 1934, and are subject to the safe harbor created by these sections. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance are not statements of historical fact and may be "forward looking statements." Forward looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated.

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## Pro forma Income Statement

MEDirect Latino, Inc.	Actual Un-audited 6 mo. Ending 12/31/2004	Estimated 2004-5	Estimated 2005-6	Estimated 2006-7	Estimated 2007-8
<b>Revenue</b>					
Initial Order		338,625	4,469,850	5,342,750	4,515,000
Recurring Revenue		357,608	6,030,866	21,602,392	33,828,932
<b>Total Revenue</b>	146,205	696,233	10,500,716	26,945,142	38,343,932
<b>Cost of Sales</b>					
Initial Order		118,125	1,559,250	1,863,750	1,575,000
Recurring Revenue		116,921	2,412,346	8,640,957	13,531,573
<b>Total Cost of Sales</b>	32,360	235,046	3,971,596	10,504,707	15,106,573
<b>Gross Profit</b>	113,845	461,187	6,529,120	16,440,435	23,237,359
<b>Operating Expenses</b>	552,977	924,643	3,319,633	5,518,655	6,674,346
<b>EBITDA</b>	(439,132)	(463,456)	3,209,487	10,921,780	16,563,014
<b>Depreciation &amp; Amortization</b>	19,667	39,334	39,334	39,334	39,334
<b>EBIT</b>	(458,799)	(502,790)	3,170,153	10,882,446	16,523,680
<b>Other (Income) Expense</b>	44,233	88,456	26,465	(313,993)	(601,227)
<b>Pre-tax Income</b>	(503,032)	(591,246)	3,143,688	11,196,438	17,124,907
<b>Taxes</b>	0	0	1,068,854	3,806,789	5,822,468
<b>Net Income</b>	(503,032)	(591,246)	2,074,834	7,389,649	11,302,439
<b>EPS-Basic</b>	(0.06)	(0.07)	0.21	0.61	0.91
<b>EPS-Fully Diluted</b>	N/A	N/A	0.20	0.59	0.87
<b>Shares Outstanding-Basic</b>	9,025,339	9,025,339	10,065,958	12,065,958	12,427,937
<b>Shares Outstanding-Fully Diluted</b>	9,465,958	9,465,958	10,265,958	12,608,953	12,987,222

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### Historical Balance Sheet

MEDirect Latino, Inc.	Un-audited
Balance Sheet	12/31/2004
<b>ASSETS</b>	
Current assets	
Cash	10,020
Accounts receivable, net of allowances for doubtful accounts of \$40,129	10,523
Inventories	8,539
Prepaid expenses and other current assets	4,929
Total current assets	34,011
Property, plant and equipment, net	109,815
Deposits and other assets	6,360
Total assets	150,186
<b>LIABILITIES &amp; STOCKHOLDER'S DEFICIT</b>	
Current liabilities	
Accounts payable trade	108,306
Accrued expenses payable	105,180
Notes payable	701,047
Total current liabilities	914,533
Stockholders' deficit:	
Series A convertible preferred units 3,761,537 authorized, 1,200,697 issued and outstanding 12/31/04	0
Cumulative preferred stock 10,000,000 shares authorized	
Series B 426,653 issued and outstanding 12/31/04	43
Series C 426,653 issued and outstanding 12/31/04	72
Common stock 20,000,000 shares authorized, 7,928,334 issued and outstanding 12/31/04	793
Additional paid-in-capital	1,513,157
Accumulated deficit	(2,278,412)
Total stockholders' deficit	(764,347)
Total liabilities and shareholders' deficit	150,186

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## Cash Flow Statement

MEDirect Latino, Inc.	Un-audited
Cash Flow Statement (6 month period ending)	12/31/04
Cash flows from operating activities:	
Net loss	(503,032)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation and amortization	19,667
Interest	6,066
Bad debt expense	21,931
Amortization of debt issue expenses	52,585
Change in assets and liabilities	
Decrease (increase) in:	
Accounts receivable	
Inventories	(18,970)
Prepaid expenses and other current assets	11,461
Security deposits	(2,387)
	(4,240)
(Decrease) increase in:	
Checks drawn in excess of bank balance	(1,600)
Accounts payable	(798)
Accrued expenses - related parties	123,206
Accrued expenses	(42,935)
Net cash used in operating activities	(339,046)
Cash flows from investing activities:	
Purchases of plant, property and equipment	(39,060)
Net Cash used in investing activities	(39,060)
Cash flows from financing activities	
Proceeds from the sale of preferred stock	387,712
Net cash provided by financing activities	387,712
Net increase in cash or cash equivalents	9,606
Cash and cash equivalents at beginning of period	414
Cash and cash equivalents at end of period	10,020

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### Comparisons

Values as of 5/11/05 Closing Price		Share	Market	Enterprise	Price to	Price to	Price to	Gross
Medical Supply Comparables	Ticker	Price	Capital	Value	Earnings	Revenue	Book	Margin
1-800 Contacts	CTAC	\$19.91	264.94M	288.05M	154.34	1.21	4.56	38.71%
Henry Schein, Inc.	HSIC	\$40.56	3.52B	3.80B	27.18	0.79	3	26.94%
Medical Action Industries	MDCI	\$17.79	182.53M	188.65M	17.79	1.34	2.78	26.25%
Polymedica	PLMD	\$31.62	877.09M	802.00M	26.26	1.95	3.06	60.38%
Priority Healthcare Corp.	PHCC	\$23.52	1.03B	1.03B	24.68	0.56	2.51	11.14%
PSS World Medical	PSSI	\$11.71	756.91M	903.39M	21.14	0.52	2.8	29.02%
<b>Average:</b>					<b>45.23</b>	<b>1.06</b>	<b>3.12</b>	<b>32.07%</b>
<b>MEDirect Latino, Inc.</b>	MTLO	\$3.15	29.818M	30.508M	N/A	N/A	N/A	N/A

*Source: Reuters*

### Valuation Metrics

#### Discounted Price to Earnings Model

Year	Earnings Estimate	Price to Earnings Multiple	Future Value	Discount Rate	12-month Discounted Value
2006	\$0.20	25x	\$5.00	N/A	<b>\$5.00</b>
2007	\$0.59	25x	\$14.75	25%	<b>\$11.80</b>
<b>Average:</b>					<b>\$8.40</b>

The aforementioned projections and valuation metrics were calculated and illustrated by applying various assumptions. Based on pro forma expectations and by applying a 25 P/E multiple with a 25% discount rate, it is our opinion the shares hold an average **12-month projected value of \$8.40**. However, MEDirect' anticipates a significantly higher growth rate than the aforementioned medical supply comparables justifying a significantly higher P/E ratio than 25.

## VI. RISKS

- **Competition Risk**
- **Execution Risk**
- **Financial Risk**
- **Key Management Risk**
- **Micro-capital Investment Risk**
- **Non-Specific Market Risks (Liquidity, trading rules & BD restrictions)**
- **Risk Categories**

### Competition Risk

There is neither national nor regional competition in the direct-to-consumer; Hispanic focused, Medicare provider in the reimbursable market. However, each region has local “corner store” pharmacies that control market share within their geographic center. However, these local competitors do not accept Assignment under Medicare Part B and require the customer to pay 100%, up front for their medications, and seek Medicare reimbursement amount (80%) on their own. MEDirect’s business model delivers its health care products without up front cost, with the medications delivered directly to their home, in three month supply and MEDirect navigates the reimbursable process under Part B assignment.

### Execution Risk

As with any early stage company implementing an aggressive growth plan, MEDirect’s ultimate success or failure will depend on management’s ability to execute their business plan in an efficient and timely manner. The Company’s extensive demographic research and test market advertising results reduces this risk.

### Financial Risk

Although MEDirect Latino, Inc. anticipates positive cash flows from operations going forward, the Company has posted operating losses in the past few years. As a result, the Company’s ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due, to fund possible future acquisitions, and to generate profitable operations in the future. There can be no assurance that any funding would be attainable or attainable on favorable terms, thus investors should be financially capable of losing all or a portion of their investment.

### Key Management Risk

Management skill and experience is a key determinant of success. MEDirect, like most small companies, is heavily dependent on key management, the loss of any of which could seriously, adversely affect the company.

**Micro-capital Investment Risk**

Micro-capital investing involves inherent risk and investors should carefully research any company considered for investment. Micro-capital companies are usually early in their market cycle and vulnerable to significant price volatility.

**Non-Specific Market Risks (Liquidity, trading rules & BD restrictions)**

MEDirect's common stock trades on the pink sheets, which provides less liquidity and regulation than companies listed on the New York, American, or Nasdaq stock exchanges including no SEC filing or financial statement auditing requirements. These factors increase the difficulty of selling or liquidating one's investment. However, the Company expects to be fully reporting by the end of August 2005.

**Risk Categories**

WSR's investment universe revolves around undiscovered emerging growth companies that possess higher risk profiles than established "blue chip" companies. Presently WSR maintains two risk categories including aggressive growth and speculative with the later assigned to higher risk companies.

## VII. MANAGEMENT

### Officers, Directors and Key Management

<u>Name</u>	<u>Age</u>	<u>Position</u>
Debra L. Towsley	53	President and Director
Raymond J. Talarico	44	CEO & Chairman of the Board of Directors
Charles Hansen III	55	Chief Operating Officer and Director
William Van Aalten	58	General Operations Manager
Dr. Julio C. Pita	59	Co-Chairman, Corporate Spokesman & Dir.
Thomas T. Johansen	59	Director
Mr. Thomas Erban	58	Director

#### **Debra L. Towsley - President and Director**

Debra Towsley, a veteran business development executive, brings years of experience to MEDirect Latino Inc. Ms. Towsley's specialty has been in the conceptualization, program design and implementation of corporate branding efforts for such multi-nationally recognized companies as, Universal Studios and Blockbuster Video. Prior to founding MEDirect Latino Inc., Ms. Towsley was Vice-President of Business Development for Sci-Fi MegaPlex, Inc. previously; Ms. Towsley 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, the largest theme park expansion in the United States costing over \$1.5 billion dollars. Prior to Universal Studios, she was responsible for implementing a new development department providing alternative revenue streams for the Cox Radio Group in Atlanta as Executive Director of Development and produced over \$1.3 million in real non-traditional revenue to the bottom line. In addition, Ms. Towsley held the position of Director of Marketing for Blockbuster Video in the State of Florida, overseeing the grand opening programs and strategic marketing for over 200 Blockbuster Video stores managing a \$10 million budget.

#### **Raymond J. Talarico - CEO, Co-Chairman, Director**

Mr. Talarico brings to the project 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., a company founded around the genre of science fact, fiction and fantasy. The company's national expansion began with the opening of retail stores in major markets such as Orlando, Florida, Atlanta, Georgia 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, Director**

Charles W. Hansen III was formerly president and chief operating officer of eComeCom.com, a public company designed to assist small to medium brick and mortar companies capitalize on strategic and competitive advantages in the industry. Mr. Hansen's responsibilities included establishing an on-line presences and acceleration of growth through use of its proprietary online tools and enabling

technologies. In addition, Mr. Hansen's focus was assisting 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.

**William Van Aalten - General Operations Manager**

William Van Aalten began a career in pharmaceuticals in 1962 after attending Brooklyn College and taking a position as Pharmacy Manager at Gallery Drug, where he was responsible for increasing revenues over 15% and developing the company into the largest independent pharmacy in the New York Metropolitan area, filling over 600 prescriptions per day. He approached IBM to develop an early prescription computer system, which was non-existent at the time. 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 United States via a telemarketing campaign.

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

Dr. Julio C. Pita brings to MEDirect 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. In addition, 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.

**Mr. Tomas T. Johansen - Director**

As former Vice-President and General Manager of WLTV/Channel 23, Tomas Turull Johansen brings over 30 years of management experience in the Television Industry to MEDirect Latino. 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 United States. Skilled in maximizing and strengthening the teamwork of his management team, Mr. Johansen had direct supervision of 158 employees, as has been a source of accelerated growth in the areas of Sales, Promotions, and Community related projects, serving the Hispanic community. 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**

Mr. Tomas Erban - Tomas Erban's impressive career has spanned twenty-five plus years of global accomplishments in both corporate and private consulting assignments. He was most recently a Senior Partner with The Curtiss Group International, an executive development group. Before that he 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 International, the world's number three wine and spirits firm and his international subsidiary responsibilities included Brazil, Canada, Panama, Spain and Central & South America. Tomas is fluent in Spanish and English and skilled in multicultural integration strategies. Tomas 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 Boar of Directors for Community Partnership for Homeless and is an Advisor for the Florida Economic Counsel.

## **VIII. CORPORATE OFFICES & ADVISORS**

### **MEDirect Latino, Inc. Corporate Headquarters**

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(954) 321-3542 (Fax)  
Website: [www.medirectlatino.org](http://www.medirectlatino.org)

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