

Market Data*

Ticker	LUVU
Recent Price	\$0.18
52 Week High	\$0.17
52 Week Low	\$0.11
Shares	91,947,047
Outstanding	
LUVU Chart:	



Float	19.8 million
Market Cap	\$16.6 million
Ave. 3-Mo. Volume	1,972
Target Price	\$1.00

*Sourced from Company reports, YahooFinance, Analyst Estimates



Properly Positioned – the Liberator Brand and the Sexual Wellness Market

Liberator, Inc. is the nationally recognized designer and specialty branding company engaged in creating and manufacturing LIBERATOR®, the luxury and lovestyle brand that celebrates intimacy by inspiring romantic imagination. Established with the conviction that sensual pleasure and fulfillment are essential to a well-lived life, LIBERATOR Bedroom Adventure Gear® empowers exploration, fantasy and the communication of desire, for persons of all shapes, sizes and abilities. Products include LIBERATOR shapes and positioning systems, pleasure objects, and sensual accessories. Liberator, Inc. is currently housed in a 140,000-square-foot vertically integrated manufacturing facility outside Atlanta. Liberator, Inc. has over 100 employees, with products being sold directly to consumers and through 1,500+ domestic resellers, on-line affiliates and six international licensees.

Reflecting the progress the franchise has made in becoming a mainstream brand, Liberator has sold \$60 million in products and spent nearly \$9 million in print advertising including appearances in numerous mainstream publications. Additionally, Liberator has been featured in both television programs and movies, including memorable scenes featured in two movies, *Meet the Fockers* and *Burn After Reading*, which had a combined gross¹ of approximately \$680 million globally. Just as leading sexual wellness products such as Trojan condoms and K-Y Brand Jelly have progressed from exceptionally limited retail visibility to prominently displayed products in a range of mainstream retail settings, Liberator products are now available through amazon.com, Walgreens.com, CVS.com, soap.com, Overstock.com and many others, and the company is developing products and packaging that it expects will facilitate broader brick and mortar distribution.

Goldgaber Research is initiating coverage of LUVU with a target price of \$1.00 based on an expectation of a price / revenue multiple expansion reflected in the valuation illustration presented later in the report.

¹ <http://www.imdb.com/title/tt0290002/>; <http://www.imdb.com/title/tt0290002/>

Overview of Liberator Operations

LUVU is a vertically integrated manufacturer that designs, develops and markets products and accessories that enhance intimacy. Liberator is also a nationally recognized brand trademark, brand category and a patented line of products commonly referred to as sexual positioning shapes and sex furniture. The Company is an integrated multi-channel, multi-brand direct-to-consumer retailer, distributor and wholesaler that also operates the Liberator brand website. Manufacturing, distribution and all administrative functions are conducted from a 140,000-square-foot facility in Atlanta. As of September 25, 2011, LUVU employed 119 people. Liberator shipped its first product in 2002.

LUVU Websites*	Products	LUVU Brands
www.liberator.com www.studiooneup.com	<ul style="list-style-type: none"> - Sexual wellness - Tenga, Booty Parlor Products and Accessories (14% of 2011 revenue) - Jaxx beanbag seating (9.3% of 2011 revenue) 	<ul style="list-style-type: none"> - Liberator - OneUp Innovations (exclusive resale distributor of Tenga and Booty Parlor brands) - Jaxx

**The edenfantasy.com site was sold as part of the Web Merchants sale, effective October 1, 2011*

The Company believes the Liberator customer base consists primarily of affluent, college-educated couples that buy Liberator to enhance bedroom play and/or to improve sexual performance which may be inhibited by age and/or physical limitations. The Company conducts direct to consumer business through its owned and managed website URL, www.liberator.com, and the Liberator exhibition and concept store within the Company’s factory.



Through the wholly-owned subsidiary, OneUp Innovations Inc. (“OneUp”), LUVU conducts all wholesale business for Liberator products through five primary channels:

- 1) adult and female friendly retailers and specialty boutiques,
- 2) e-tailers who sell LUVU products through adult, mass market, drug and other sites offering sexual wellness products,
- 3) adult “toy” home party businesses,
- 4) mail order catalogers, and
- 5) distributors of adult/sexual wellness products.

These wholesale accounts have approximately 1,500 retail locations and/or websites in the United States and Canada, including such heavily trafficked sites as amazon.com, drugstore.com, Walgreens.com, cvs.com, playboystore.com, soap.com, overstock.com, vitaminshoppe.com, etc. LUVU also works with a growing number of retailers who are also adding a dedicated Liberator exhibition concept to their merchandising space. The Company also sells internationally under exclusive license and manufacturing agreements.

Under OneUp, LUVU functions as an exclusive resale distributor of Tenga and Booty Parlor brands sold through the same wholesale and direct-to-consumer channels as branded Liberator products. For the year ended June 30, 2011, these product lines represented approximately 14% of LUVU consolidated net sales.

In addition, for environmental reasons and because it generates a small amount of revenue for the Company, Liberator sells a line of contemporary beanbag seating under the Jaxx brand. Jaxx is an offshoot from Liberator manufacturing as it provides additional revenue from repurposing the Company’s polyurethane foam trim into shredded beanbag fill. The Jaxx product line and accessory products are sold through the following four wholesale channels:

- 1) beanbag e-tailers,
- 2) mass market and drug,
- 3) mail order catalogers, and
- 4) retail furniture stores.

The Company also owns and manages a website under the URL www.studiooneup.com for direct-to-consumer sales. For the year ended June 30, 2011, this product line represented approximately 10% of LUVU consolidated net sales.

Under OneUp Innovations, Liberator is a growing consumer brand that enhances intimacy by inspiring romantic imagination. Established with this conviction, Liberator Bedroom Adventure Gear® empowers exploration, fantasy and the communication of desire, regardless of a person's shape, size and orientation. Liberator may also be assistive to individuals who might have intimacy limitations due to age, weight, back problems and a myriad of other physical disorders. Products include the original Liberator shapes, sex furniture and accessory products. The Company is also a wholesaler and distributor of other sexual wellness products manufactured by other companies including vibrators, pleasure objects and related products.



Since inception, the Company has spent nearly \$9 million dollars building awareness of the brand, primarily through magazine advertisements. LUVU now plans to broaden the marketing reach by expanding advertising to radio, internet and TV.



The Liberator "Esse"

The Company currently occupies 140,000 square feet in a vertically integrated manufacturing facility on eight acres in a suburb of Atlanta. Products are sold directly to consumers and through approximately one thousand domestic resellers and six international resellers, 400 internet marketing affiliates, and several dozen independent sales consultants within the United States. Other than the six international resellers, none of LUVU's customers are subject to a written agreement or are required to purchase or sell a specific amount of Company products. Marketing affiliates are companies that operate their own websites that market LUVU products. These marketing affiliates direct visitor traffic to LUVU websites by using Company technology to place banners or links on their websites to a LUVU website.

Liberator Manufacturing / Distribution / R&D / Licensing / Marketing / Competition and Market Opportunity

Manufacturing: To improve business results, LUVU constantly looks for ways to reduce the impact of rising raw material costs by improving the productivity of the manufacturing processes. With 140,000 square feet of manufacturing space and with room for approximately 140 workers, Liberator's annual production capacity is approximately \$60 million.



Wholesale Operations: The Company's goal is to increase direct-to-consumer demand through advertising and public relations while the wholesale operations expands the product offering to distributors, retailers and e-tailers across every channel of adult, mass market drug and specialty accounts. For wholesalers thinking about adding sexual wellness products to their retail or online store, Liberator is typically one of the first "safer" products presented as it can be promoted as an assistive aid to sexual positioning. As the mainstream demand for sexual wellness products grows, the LUVU sales staff has been training and educating new resellers on how to get started in this space. For retail display, the Company offers mainstream packaging in a variety of sizes and price points to meet their customers' particular demographic. For e-tailers, LUVU maintains brand continuity by providing rich product content, photography and instructional videos for use on their websites. LUVU also provides fulfillment services and can drop-ship orders directly to a customer, typically the same day the order is received. The distribution of other brands like Tenga and Booty Parlor further extends the reach of Liberator products beyond the core channels.

Product Development: In 2011, LUVU strategically expanded the Liberator offering by introducing several product line extensions, including Liberator Décor Series (shapes that coordinate with bedding), Liberator Contemporary Chaise and Massage Bench, Liberator Sex Toy Mounts and the Liberator Collection featuring exclusive, limited-edition accessories with artisan level details. The Company also introduced the Liberator "Jaz series," an offering of smaller-sized shapes designed for easier retail display at lower price points.

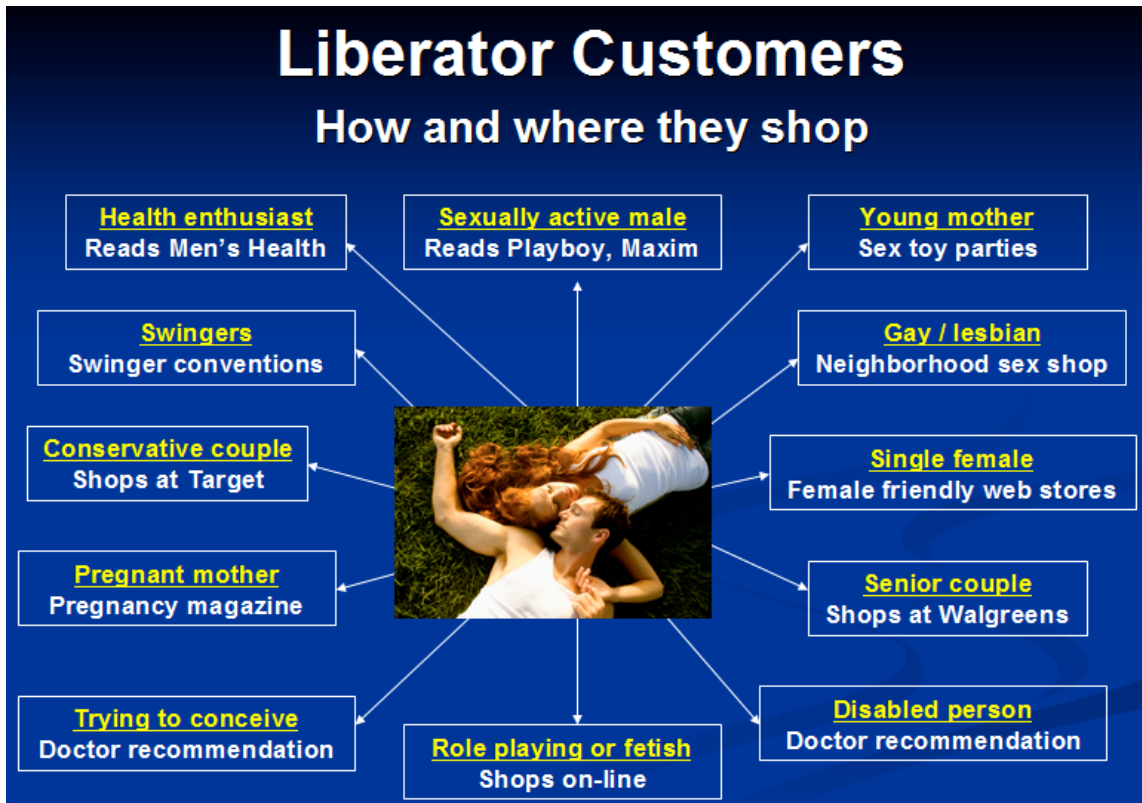


The Liberator "Wedge" Cushion



The Liberator Decor Whirl XT in Espresso Velvish

LUVU designs products for both form and function, crafting them with quality materials that define a new class of products that the Company calls "Erotic Luxury." LUVU has developed a product growth strategy to capitalize on the Company's strengths and core competencies of manufacturing and marketing. As a vertically integrated company, LUVU plans to continue developing new products in-house. This results in lower development costs and quicker sales execution to established adult and sexual wellness channels, where the Liberator brand is often requested by name. The Company is also confident that the Liberator brand name can be extended to a variety of other products including vibrators, pleasure objects and consumables like massage oils and lubricants.



Liberator Concept Store: The Company's 2,500 square-foot Liberator exhibition store is the retail extension of the Liberator.com website. Located at the Atlanta factory, it is a gallery-like setting for sensual and erotic discovery, offering a presentation of products that celebrate intimacy and romantic imagination. The concept store is a destination where customers can learn about, touch and purchase the Liberator products they have only been able to see online. In addition to Liberator branded shapes, furniture and accessories, the store features a range of better brands from around the globe including: designer sex toys, lounge-wear and lingerie collections, masks, cuffs and intimate accessories, erotic décor home wares, and bath and body essentials. Also included are limited addition hand-made items in glass, leather, latex and a collection of romantic gifts.

The store also serves as a laboratory where company representatives can listen and observe consumer reaction to new products and evaluate price points and merchandising techniques. The concept store has demonstrated the power of the Liberator brand as customers, both singles and couples come to touch and experience LUVU products and, although the factory and store are located in an industrial park, many customers have been willing to travel to the store, return repeatedly and refer friends. The Company believes that a Liberator branded retail concept is ready to be expanded beyond the single location to large metropolitan areas, providing an upscale experience in-sync with the overall mainstreaming of sexual wellness.



Jaxx Cocoon
3 in 1 Comfort
\$269.00 - \$329.00

The Jaxx Brand and Contract Manufacturing: The Jaxx beanbag product line was originally started in 2007 with the idea that LUVU could create higher value from using the Company's polyurethane foam trim as beanbag fill versus recycling this material as carpet pad regrind. Since then, the Jaxx product line has developed into a wide variety of styles, sizes and fabric choices including those designed for children. The Company's wholesale and mass market distribution channels are established mostly as drop-ship accounts and are seasonally busy during November and December. Further growth is projected to come from Jaxx as the Company expands sales into retail stores. LUVU also expects to develop higher priced modern design seating and private labeled products, and offer contract production services around the Company's core competency in manufacturing. The beanbag retail business is highly competitive, but LUVU believes the Company can compete effectively on the basis of product quality, design, customer service and price. LUVU is also confident that its primary competitive advantages are consumer recognition of the Jaxx brand, as well as offering the product in multiple sale channels that customers prefer to buy in.

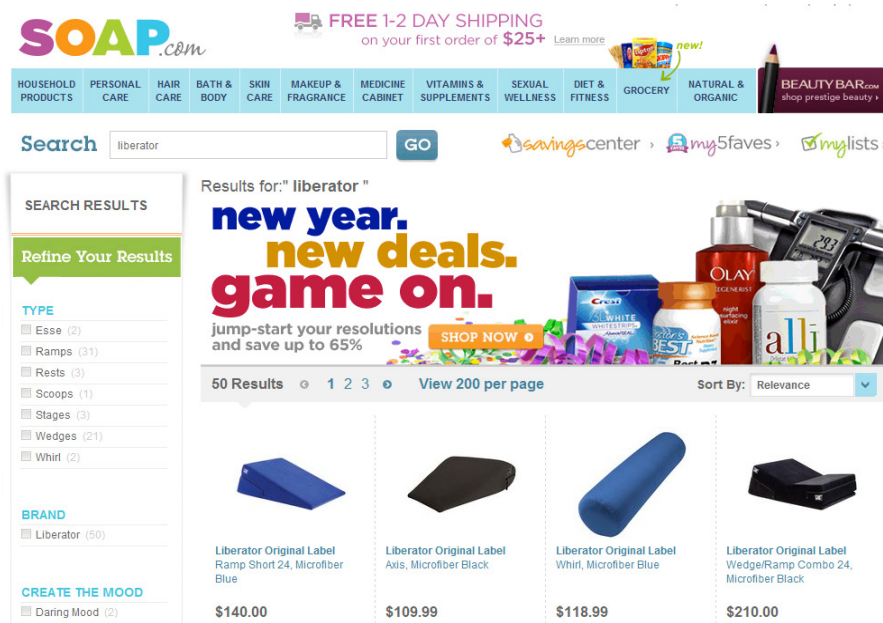
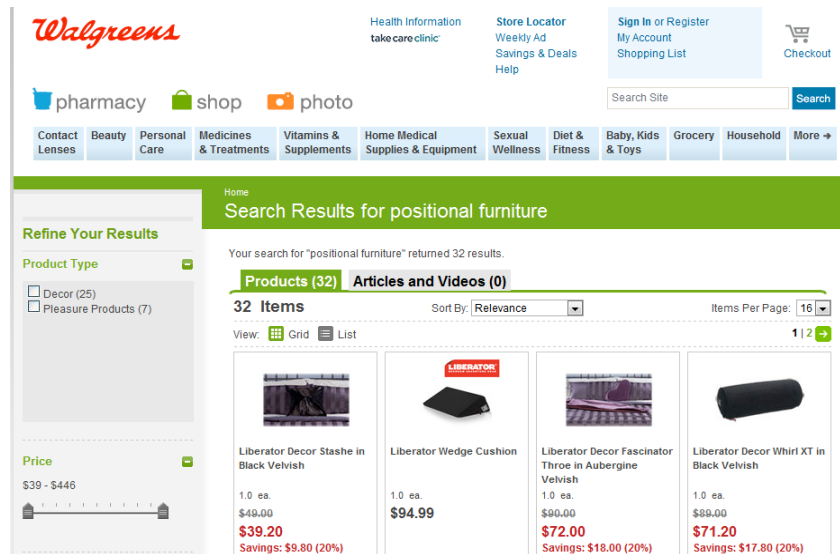


Liberator Intellectual Property: The Liberator trademark is registered with the U.S. Patent and Trademark Office, and with the registries of many foreign countries. In addition, the Company was issued approximately 20 other product name trademarks and trade names including: "Bedroom Adventure Gear," "Explore More," Ramp, Wedge, Stage, Esse, Zeppelin, Hipster, Wing, Equus, and Bonbon. In August 2005, the Company was issued utility patent number U.S. 6,925,669² "Support Cushion and System of Cushions." Additionally, for Jaxx, a U.S. trademark was issued in 2009. LUVU believes its trademarks and patent have significant value and the Company intends to continue to vigorously protect them against infringement.

Liberator Marketing: The Company's marketing strategy is designed to increase brand awareness and drive highly targeted new and repeat customers to Company websites, e-merchants websites and retail customers' stores. LUVU uses a multi-channel approach which includes search engine marketing, print advertising, email campaigns, and affiliate programs to acquire and retain the customers.

² <http://patft.uspto.gov/netacgi/nph-Parser?Sect1=PTO2&Sect2=HITOFF&p=1&u=%2Fnetacgi/nph-PTO%2Fsearch-bool.html&r=4&f=G&l=50&col=AND&d=PTXT&s1=6.925.669&OS=6.925.669&RS=6.925.669>

- Online Marketing—LUVU promotes websites via keywords and shopping feeds on internet search engines including but not limited to Google, Bing and Yahoo. Banner advertisements on display networks are also used to drive traffic to the websites. The Company also operates affiliate programs aimed at creating brand awareness through websites who promote LUVU products.



- Email Campaigns—The Company’s weekly email marketing campaigns distribute information on new products, promotional discounts and product information to registered e-commerce customers.

- Print Advertising—For Liberator and Studio OneUp products, LUVU places advertisements in a broad range of national magazines. In those ads, consumers are directed to one of the Company's primary e-commerce websites to learn more about the products and to place their orders. LUVU intends to expand its advertising efforts beyond magazines to reach broader segments of the population and increase the consumer base. These initiatives may include television and radio advertising.

Eight years – \$9 Million in Print Ads

The collage displays five distinct print advertisements for Liberator products. Each ad features a woman in lingerie using a Liberator product in a stylized, artistic manner. The text in the ads includes:

- Top Left:** "be a Love Artist Never Stop Exploring" with a "visit us liberator.com 1.866.542.7283" call to action.
- Top Middle:** "be a Love Artist holiday gift list" featuring "Wedge/Ramp Combo" and "Equus love lounge".
- Top Right:** "be a Love Artist" featuring "Liberator lingerie" and "wedge/ramp".
- Middle Right:** "be a Love Artist" featuring "Liberator Wedge and Ramp" with text: "Liberator® Wedge and Ramp nest together to form an angled pedestal upon which to make extraordinary love. Sessions last longer, orgasms have incredible intensity! A means to more foreplay, hotter positions and unlimited creativity. Explore new angles on oral sex too." It also promotes the "Now Playing Kama Sutra film festival" and includes "liberator.com 866.542.7283".
- Bottom Right:** "SEX RX" featuring "LIBERATOR WEDGE/RAMP" and "CASANOVA". It includes a barcode, "www.liberator.com", "Phone 1-866-542-7283", and "NEW ANGLES, NEW POSITIONS, NEW SENSE OF SEXUAL WELL-BEING".

Manufacturing and Technology: The Company's manufacturing operation has computer-aided design ("CAD") controlled fabric cutting and foam contouring equipment and two state-of-the-art conveyor unit production sewing systems. Websites are supported by a technology infrastructure that is designed to provide a superior customer experience, including speed, ease of use and security. LUVU follows rigorous industry standards to protect internal operations and the personal information collected from customers. LUVU continues to maintain and upgrade the technology framework that can support high levels of security while meeting the compliance requirements of Payment Card Industry ("PCI") security standards.



Licenses and the Company's International Strategy: In mid-2008, LUVU launched an international expansion program through a licensing program. Through a co-manufacturing arrangement whereby the foam is contoured in the local country, the Company has created a way for local partners to launch the brand quickly and aggressively. Each licensee has the full capability to sell directly to consumers and traditional resellers, and has made significant financial commitments to marketing the Liberator brand through country specific advertising channels which include print, television, and radio. These licensees are also empowered to interpret the brand so as to be culturally sensitive to their respective territories. Since September 2008, the Company has issued six license agreements that cover 11 countries including the UK, Germany, Netherlands, Belgium, France, Italy, Australia, New Zealand, Singapore, Indonesia and Malaysia (with a combined population greater than 250 million residents). All territories will have, if not already, a fully functional consumer website, and in some cases, the partners intend to develop Liberator Lovestyle retail stores. International websites are now offering Liberator products in Singapore, the United Kingdom, the Netherlands, Germany, Belgium, France, Australia and New Zealand.

These international licensees are expected to eventually become distribution pipelines that will market the Liberator branded products, ranging from consumables and toys to shapes and furniture. Under the licensing agreements, the licensees are encouraged to open all sales channels within their territories including big-box retailers, drugstores, and other retail channels. Sales to licensees consist of an initial license fee plus recurring product sales. Product sales and license fees from international licensees were less than 3% of total net sales in fiscal 2009 and less than 1% of total net sales during fiscal years 2010 and 2011.

Competition: Competition among retailers of traditional adult products and web-based marketers is high. The Company competes with retail, catalog, and internet businesses and now mass and drug retailers that sell sexual wellness products including vibrators, pleasure objects, accessories and similar merchandise. LUVU believes it is able to compete favorably as the Liberator products are unique, are couple-centric and are assistive devices for couples with sexual limitations. LUVU believe its primary competitive advantage is consumer recognition of the Liberator brand. For the Liberator e-commerce website, other competitive factors include the effectiveness of the Company's customer mailing lists, maintaining natural search listing, advertising response rates, website design and functionality. The broad range of designs, color choice, fabrics and essential accessories offered helps to differentiate Liberator and allows the Company to compete favorably against many other adult or sexual wellness websites. Liberator.com also competes against numerous mainstream websites, many of which have a greater volume of web traffic, greater financial strength and marketing resources. Other companies active in the sexual wellness market include widely recognized brand names such as K-Y®, the personal lubricant manufactured by Johnson & Johnson; Trojan Condoms®, a Church & Dwight product; and Durex Condoms, a division of UK-based Reckitt Benckiser.

Liberator—Corporate Timeline:

2001—Created websites, 6,000-square-foot facility

2002—Expanded into 12,000-square-foot facility and ran first print ads

2004—Moved into 26,000-square-foot facility – expanded offering

2006—Expanded into 140,000-square-foot building, automated production and imported pleasure objects

2007—Added lingerie, Zeppelin, launched Studio OneUp

2011—For the year ended June 30, revenue exceeded \$17 million

2011—Began trading on OTCQB—symbol is LUVU

GAIA and LULU Provide a Roadmap for Liberator


Companies like Gaiam (NASDAQ: GAIA) and Lululemon Athletica (NASDAQ: LULU) provide examples of how to commercialize opportunities created by a broader market trends and evolving consumer tastes. For these companies, the growth of yoga and the heightened focus on general health & wellness have helped to create sizeable, market leading franchises.

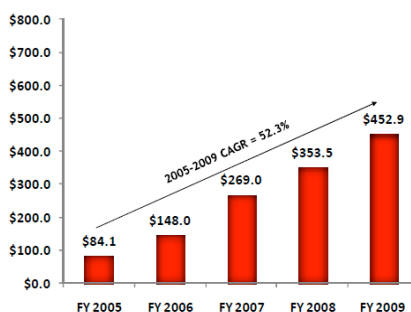
Gaiam, Inc. is a leading producer and marketer of lifestyle media and fitness accessories. With a wide distribution network that consists of 67,000 doors, over 12,000 stores within stores, a digital distribution platform and more than eight million direct customers, Gaiam is dedicated to providing solutions for the many facets of healthy and eco-conscious living. Founded in 1988, GAIA reported over \$260 million in revenue for the 12-months ended September 30, 2011. At a recent market cap of \$72 million, GAIA is trading at 0.28x trailing twelve months revenue on a net loss of \$2.2 million. GAIA's 2009 revenue increased 8.3% over 2008, but fell slightly in 2010 to \$274 million and appears to have lost a little of its revenue momentum, which helps to explain its lower price/revenue multiple.

Founded in 1998, LULU is a yoga-inspired athletic apparel company that creates components for people to live long, healthy and fun lives. By producing products that help keep people active and stress free, LULU believes that the world will be a better place. Setting the bar in technical fabrics and functional designs, LULU works with yogis and athletes in local communities for continuous research and product feedback.


For the 12-month period ended October 31, 2011, LULU reported \$875 million in revenue with \$165 million in net income.

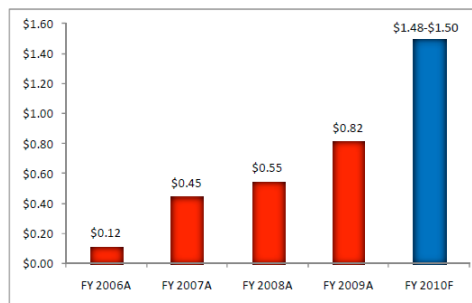
At a recent market cap of \$7.53 billion, LULU trades at 8.6x trailing twelve months revenue approximately 46x earnings. From fiscal year 2005 to fiscal year 2009³, LULU's revenue increased 52% annually, from \$84 million to \$453 million. Fiscal 2011 revenue increased 57% over fiscal 2010 to \$712 million and fiscal 2012 (ending January 31, 2012) appears to be on pace for over 20% growth. For fiscal 2010, LULU's store count was 138, with same-store sales growth in the high 20%'s and direct-to-consumer sales at approximately 8%. The following graphics show the tremendous growth of LULU's revenue and earnings per share (EPS).

 **Net Revenue Growth**





 **Earnings Per Share**





³ http://files.shareholder.com/downloads/LULU/1607986329x0x436094/28c816b4-7b21-49ee-a49e-bdeb51797153/ICR_Jan11_Final.pdf




The Sexual Wellness / Enhancement / Lovestyle Market

Increased Product Acceptance: Products such as K-Y Lubricants⁴, manufactured by a division of Johnson & Johnson (NYSE: JNJ), and Trojan Condoms⁵, a Church & Dwight (NYSE: CHD) brand, were originally found in adult specialty stores or behind the counter in the mainstream retail shelves. However, led by these two brands in particular, these products now are readily found in most every grocery store, drugstore, and the big box retailers. Additionally, serving as an indicator for the broader market opportunity, Church & Dwight has launched the Trojan Vibrations brand⁶ of personal massagers. As noted in the press release⁷ announcing the product launch for the 2011 International Consumer Electronics Show:

"...For the first time ever at the Consumer Electronics Show (CES), they (The makers of Trojan® Brand Condoms and Vibrations) will provide an inside look at what goes into their personal technology product innovations and how they plan to revolutionize the pleasure industry.

"This is about innovations and making quality, safe pleasure enhancing products," said Jim Daniels, Vice President of Marketing for the brand Trojan®. "We have over 90 years of experience developing quality, trusted products that help to increase pleasure and improve our nation's sexual health." Daniels, along with chief scientist and condom developer Dr. Michael Harrison, will be on site throughout the show, showcasing new Trojan® Vibrations and condom innovations.

"Innovation in this category is critical," said Harrison. "At the show you'll see ultra thin TV's, tiny solid state hard drives and thousands of other innovations designed to improve the consumer experience. It's a show dedicated to inventiveness, and that's exactly why we're here. We'll be announcing a collection of new products in early January that we believe are every bit as innovative as some of the bigger consumer electronics announcements, and certainly as important."

 <p>Twister™ Intimate Massager Twister™ Intimate Massager twists in 4 directions. Plus free Vibrating Ring and free standard shipping.</p> <p>\$59.99 <input type="button" value="Add to Cart"/></p>	 <p>Tri-Phoria® Intimate Massager There's so much the Tri-Phoria® Intimate Massager can do...and that gives you a multitude of options!</p> <p>\$39.99 <input type="button" value="Add to Cart"/></p>	 <p>Pulse Intimate Massager Direct the pleasure right where you want it most.</p> <p>\$29.99 <input type="button" value="Add to Cart"/></p>
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⁴ <http://www.k-y.com/>

⁵ <http://www.trojancondoms.com/>

⁶ <http://www.trojanvibrations.com/>

⁷ <http://www.trojancondoms.com/ArticleDetails.aspx?ArticleId=23>

Industry and Liberator Advertising Goes Mainstream: Advertisements by Trojan and KY now are common in all manner of mainstream advertising media. *Men'sHealth*, *Cosmopolitan*, *Maxim*, *Playboy*, *Yoga*, *Men's Fitness*, *Rolling Stone*, *Glamour*, and the ad below ran in the December 19, 2011 issue of *Forbes* magazine:



Adult Industry Publicly Traded Stocks: While performance results for leading products such as Trojan and KY are difficult to glean from the reporting of very large companies such as Church & Dwight and Johnson & Johnson, there are a few adult entertainment oriented companies that are or have been publicly traded on stock exchanges such as Rick's Cabaret (NASDAQ: RICK), Million Dollar Saloon (MLDS.PK), Scores Holdings (SCRH.PK), and Playboy Enterprises. However, the operations of these companies generally are not very comparable to those of Liberator, and their filings also do not contain substantive adult industry data.

General Trends for Sexual Wellness: Although there is no single metric that can capture how attitudes towards sexuality are changing, one does not need to look further than the internet to see that things most certainly have changed. Playboy's 2011 Sex Survey⁸, conducted with the help of Harris Interactive, found that 78% of people reported watching an adult movie compared to 40% from the 1983 survey. Playboy's survey of its own readers⁹, which of course may or may not reflect the general population, found that the percentage of men who have used a vibrator increased from 32% in 1983 to 49% in 2011, while for women the increase was 80% to 94% during the same period.

The Durex Sexual Wellbeing Global Survey 07/08¹⁰, conducted by Harris Interactive, featured 26,000+ respondents in 26 countries, and found that only 44% of respondents are fully satisfied with their sexual sex lives, with excitement and being fully comfortable cited as key drivers of sexual satisfaction.

⁸ <http://www.playboy.com/magazine/sex-survey-results-2011>

⁹ <http://www.playboy.com/magazine/reader-sex-survey-results-2011>

¹⁰ <http://www.durex.com/en-SG/SexualWellbeingSurvey/Documents/SWGSpptv2.pdf>

Liberator, Inc. Financial Results for the Quarter Ended September 30, 2011Condensed Consolidated Balance Sheets (Unaudited)

	<u>9/30/11</u>	<u>6/30/11</u>
Current Assets	\$3,230,507	\$3,421,891
Total Assets	\$6,640,774	\$6,889,405
Current Liabilities	\$4,959,006	\$4,452,845
Total Liabilities	\$5,441,787	\$5,522,886
Working Capital Deficit	(\$1,728,499)	(\$1,030,954)
Stockholders' Equity	\$1,198,987	\$1,366,518
Accumulated Deficit	(\$7,149,727)	(\$6,976,783)
Shares Outstanding	91,947,047	91,947,047

Condensed Consolidated Statement of Operations (Unaudited) for Fiscal Q1 2012

	<u>3 Months Ended</u> <u>9/30/11</u>	<u>3 Months Ended</u> <u>9/30/10</u>
Net Sales	\$5,580,748	\$2,624,098
Costs of Goods Sold	\$3,826,940	\$1,704,242
Gross Profit	\$1,753,808	\$919,856
Gross Profit Margin	31.4%	35.1%
Total Operating Expenses	\$1,832,194	\$1,094,514
Loss From Operations	(\$78,386)	(\$174,658)
Interest Exp / Financing Costs	(\$82,425)	(\$55,668)
Net Loss	(\$172,944)	(\$242,559)
Net Loss / Share	(\$0.002)	(\$0.004)
Adjusted EBITDA	(\$5,000)	(\$116,000)

Notes:

- As reported in the Company's press release regarding the third quarter of fiscal year 2011 results, the Web Merchants Inc. division was determined to be unaligned with the long-term strategy and was sold for \$700,000 in net proceeds and the return of 25.4 million shares of LUVU common stock. The 25.4 million LUVU common shares will be held in escrow until loans guaranteed by the Web Merchants President Fyodor Petrenko are retired or Mr. Petrenko has been released from liability as a guarantor.
- For the three-month period ended September 30, 2011, Web Merchants Inc. had net sales of \$2.6 million and a loss of \$37,000. LUVU management reported that the Company's strategy going forward is to grow the existing lines of branded products with an on-going focus on growing domestic sales and through additional international licensing agreements. The transaction did not qualify as a discontinued operation until after 9/30/11, so it is included in the quarterly results for the first quarter of fiscal 2012.
- Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) is defined by LUVU as net loss before interest income and expense, depreciation, amortization, amortization of debt issuance costs, and stock-based compensation expense.
- As of November 11, 2011 there were 91,947,047 shares outstanding. As of September 30, 2011, there were 14,950,859 shares of common stock reserved for issuance for non-qualified stock options, outstanding warrants, the 2009 Stock Option Plan, the conversion of Preferred Stock and the conversion of Convertible Notes.

- Financing activities in the first quarter of fiscal year 2012 included \$100,000 in proceeds from the issuance of debt.
- Cash and equivalents as of September 30, 2011 was \$440,094 compared to \$514,048 as of June 30, 2011.
- LUVU expects that its plans to grow the existing lines of business and focus on growth of domestic sales will require approximately \$2 million in funding, which the Company expects to obtain through a combination of operating cash flows, debt and equity financing.

The company operates three reportable segments:

- Direct: Product sales via three e-commerce sites and the Atlanta factory store.
- Wholesale: includes Liberator branded products sold to distributors and retailers, non-Liberator products sold to retailers, and private label items sold to other resellers. The wholesale category also includes contract manufacturing services, which consists of specialty items that are manufactured in small quantities for certain customers, and which, to date, have not been a material part of the Company's business.
- Other: consists principally of shipping and handling fees and costs derived from the direct business and fulfillment service fees.

The following tables shows LUVU segment results for the quarters ended 9/30/11 and 9/30/10, as well as for fiscal years 2010 and 2011.

	Fiscal Q1		Fiscal Q1	
	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Net Sales				
Direct	\$3,717,705	67%	\$1,200,727	46%
Wholesale	\$1,607,684	29%	\$1,175,183	45%
Other	<u>\$255,359</u>	<u>5%</u>	<u>\$248,188</u>	9%
Total Net Sales	\$5,580,748	100%	\$2,624,098	100%

	Fiscal Q1		Fiscal Q1	
	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Gross Margin				
Direct	\$1,805,042	49%	\$576,132	48%
Wholesale	\$310,729	19%	\$284,938	24%
Other	<u>(\$361,963)</u>	n/a	<u>\$58,786</u>	24%
Total Net Sales	\$1,753,808		\$919,856	

	Fiscal		Fiscal	
	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
Net Sales	\$17,323,689		\$11,079,760	
Cost of Goods Sold	\$11,614,967		\$7,399,361	
Gross Profit	\$5,708,722	33%	\$3,680,399	33%
Operating Expenses	\$6,013,040		\$4,304,657	
Net Loss	(\$801,252)		(\$1,033,952)	

Liberator – Valuation Discussion

For the second quarter of fiscal 2012, (ending 12/31/11), LUVU recently announced a forecast of \$4.2 million in revenue through the Company’s OneUp Innovations subsidiary versus \$3.7 million for fiscal Q2 2011, a growth rate of approximately 14%. This proforma estimate excludes any revenue from the Web Merchants subsidiary, sold in November 2011 but effective as of October 1, 2011. Sales for fiscal 2011 for the OneUp subsidiary were approximately \$12 million. While the Web Merchants sale will reduce Liberator’s gross revenue, the Company’s core business remains the Liberator brand and product offering with the various toys and accessories provided to facilitate one-stop shopping for increased customer convenience. Although the revenue from the sale of toys and accessories will decrease, Liberator continues to provide a convenient shopping experience by offering a broad range of these products via its website.

Because LUVU has not yet reported gross margin performance, operating expenses, etc. in the 10-Q to be filed for fiscal Q2 2012, it is instructive to consider LUVU’s strategies for growth in light of the broader market opportunity. A recent Bloomberg article on sex toy designer and distributor Screaming O¹¹ cited an estimate of annual U.S. sex toy revenues of \$750 million to \$1 billion by the founder of sex toy distributor CNV.com. Reflecting the opportunity for the right mix of products and distribution, as well as the mainstream opportunity for sexual wellness products, the article also credited a licensing deal between Screaming O and Walgreen’s for getting Screaming O products into 7,000 Walgreens stores. After starting the company in 2005, Screaming O’s founder is projecting \$15 million in revenues for 2012.

As Liberator expands its product distribution more broadly online and continues expanding its bricks and mortar presence by tailoring and packaging products appropriately for retail shelves, the Company has an opportunity to create a brand and franchise as mainstream as Trojan and K-Y.



The contrast in valuation multiples for GAIA (0.28x trailing 12-month revenue) and LULU (8.6x trailing twelve months revenue) described previously illustrates the market’s enthusiasm for growth businesses. At a recent market cap of \$12.9 million (\$0.14/share), Liberator is trading at approximately 1.1 trailing 12-months revenue. Assuming Liberator meets the requirements to have the 25.4 million shares associated with the Web Merchants sales removed from escrow, there will be 66.6 million common shares outstanding, plus another 14.9 in potential shares from options, etc. for a total of approximately 81.5 million shares. As Liberator continues executing its online and bricks and mortar distribution expansion strategy, the Company has the opportunity to demonstrate the revenue growth for which the market may justify a higher price/revenue multiple valuation. The potential impact of this valuation multiple expansion is illustrated in the following table. Because of the seasonality of the results for the quarter ended December 31, 2011, a growth rate of 14% is applied to fiscal 2011 results.

Revenue Assumption	\$13,700,000	\$13,700,000	\$13,700,000	\$13,700,000	\$13,700,000
Potential Price / Revenue Multiple	0.25	1.00	3.00	6.00	8.00
Implied Market Cap	\$3,425,000	\$13,700,000	\$41,100,000	\$82,200,000	\$109,600,000
Estimated Shares	81,500,000	81,500,000	81,500,000	81,500,000	81,500,000
Implied Share Price	\$0.04	\$0.17	\$0.50	\$1.01	\$1.34

¹¹ <http://www.bloomberg.com/news/2011-12-23/sex-toy-designer-screaming-o-pushes-past-novelty-shops-into-walgreens-aisles.html>

Liberator, Inc. Management

Name	Age	Position
Louis S. Friedman	59	Chief Executive Officer, President, Director
Ronald P. Scott	56	Chief Financial Officer, Secretary, Director
Leslie Vogelman	59	Treasurer

Louis S. Friedman, President, Chief Executive Officer and Director.

Mr. Friedman founded the company in 2000 and now serves as President, Chief Executive Officer, and Director. Before starting Liberator, Mr. Friedman ran his family office investing in hedge funds, venture capital and private equity for start-up companies from 1990 to 2000. Earlier in his career, Mr. Friedman was Executive Vice President of Chemtronics, Inc., until its sale to Morgan Crucible in 1990.

Ronald Scott, Chief Financial Officer, Secretary and Director.

Mr. Scott joined the company as a part-time consultant in July, 2006 and as a full-time consultant in October, 2007, serving as its Chief Financial Officer. From 2004 to 2009, Mr. Scott was president of Impact Business Solutions, LLC, a consulting business that provides financial management services. From 1990 to 2003, Mr. Scott was Executive Vice President, CFO and a member of the Board of Directors for Cyanotech Corporation, a NASDAQ-listed natural products company. Mr. Scott holds a B.S. in Finance and Management from San Jose State University, and an M.B.A. with a concentration in Accounting from Santa Clara University.

Leslie Vogelman, Treasurer.

Ms. Vogelman joined the Company at its inception in 2000 as Secretary and Treasurer. Ms. Vogelman holds a B.A. from the State University of New York in Binghamton and an M.B.A. from Adelphi University. Leslie Vogelman is married to Louis Friedman.

As of September 27, 2011, all executive officers and directors beneficially owned approximately 60.5% of outstanding common shares and 100% of Series A Convertible Preferred Stock.

Risks

As outlined in the Company's 10-K for the fiscal year ended June 30, 2011, LUVU operations are subject to a number of risks and uncertainties, including:

- Competition from other sexual wellness retailers and adult-oriented websites;
- The ability to extend, renew or refinance existing debt;
- The ability to generate significant sales revenue from magazine, internet and radio advertising;
- The plan to make continued investments in advertising and marketing;
- The ability to maintain brands;
- Unfavorable economic and market conditions and the impact on the Company's leveraged financial position;
- The reliance on credit cards as a form of payment;
- The ability to keep up with new technologies and remain competitive;
- The ability to continue as a going concern;
- The Company's history of operating losses and the risk of incurring additional losses in the future;
- Security breaches that may cause harm to Company systems;
- Supply interruptions from raw material vendors;
- The ability to improve manufacturing efficiency at the Company's production facility;
- Trends in raw material costs and other costs both in the industry and specific to the Company;
- The ability to enforce and protect intellectual property rights;
- LUVU may be subject to claims of violation of the intellectual property rights of others;
- The loss of the main data center or other parts of Company infrastructure;
- Systems failures and interruptions in the ability to provide access to websites and content;
- Companies providing products and services on which LUVU relies may refuse to do business with the Company;
- Changes in government laws affecting the business;
- LUVU may not be successful in integrating any acquisitions;
- The dependence on the experience and competence of executive officers and other key employees;
- Restrictions to access on the internet affecting traffic to websites;
- Risks associated with currency fluctuations;
- Anticipated worsening US deficit and a rise in inflation in coming years that would put further stress on consumer spending;
- Management's goals and plans for future operations;
- Risks associated with litigation and legal proceedings; and
- Other risks or uncertainties described elsewhere in this report and in other periodic reports previously and subsequently filed by the Company with the Securities and Exchange Commission.

SEC Section 17(b) Disclosure: Goldgaber Research has been paid \$5,000 by the Company for the publication of this report. Although the report described herein was commissioned and paid for by the Company, the company notes that the report was generated independently and statements made in the report are not attributable to the Company. Readers are advised to review the report in its entirety, including the disclosures and disclaimers noted therein.

Safe Harbor Statement: This release contains certain "forward-looking statements" relating to the business of the Company and its subsidiary companies. All statements, other than statements of historical fact included herein are "forward-looking statements" including statements regarding: the Company's business and operations; business strategy, plans and objectives of the Company and its subsidiaries; and any other statements of non-historical information. These forward-looking statements are often identified by the use of forward-looking terminology such as "believes," "expects" or similar expressions, involve known and unknown risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Investors should not place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed in the Company's periodic reports that are filed with the Securities and Exchange Commission and available on its website (<http://www.sec.gov>). All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these factors. Other than as required under the securities laws, the Company does not assume a duty to update these forward-looking statements.

Contact info: agoldgaber@aol.com