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PolyMedica's reported earnings raise serious legitimacy concerns.

We believe that a reasonable analysis of PolyMedica Corporation's (NASDAQ: PLMD, Price: $37.10) financial reporting should take into account the materiality of its existing criminal liability along with the quality of its reported earnings and its management. It is Asensio & Company, Inc.'s opinion that PolyMedica's reported criminal conduct has grossly inflated its stated earnings and created liabilities that far exceed its highest-estimated asset value. Exclusive of this evaluation, we believe PolyMedica's accounting policies have overstated its assets and sales, and understated its expenses. We also have a strong negative opinion about its management.

PolyMedica's leaders include individuals who have engaged in highly irregular financial and Medicare transactions. Investors may not have direct, reliable reports of the nature and gravity of PolyMedica's alleged criminal activity. However, last year's federal court order, PolyMedica's insistent but erroneous denial of the existence of a criminal investigation and its questionable management necessitate serious scrutiny of its financial representations.

PolyMedica's fiscal 2002 results were affected by $4.9 million in expenses related to ongoing criminal and civil investigations, a $5.8 million charge due to past Medicare over-billing and the benefit of approximately $6.8 million in Cost of Living Adjustments ("COLA") and supplemental COLA. Excluding these items, we estimate PolyMedica's normalized fourth quarter income before taxes was $13.2 million versus $14.0 million in the first quarter. (**Click here to see the calculation of normalized income before taxes.**) Yet revenues were $63.0 million in the first quarter versus $75.1 million in fourth quarter. Clearly PolyMedica's 2002 results were materially below the claimed results of any year since its August 1996 acquisition of Liberty Medical Supply. Perhaps this is indicative of growing pressure to comply with applicable law.

PolyMedica's Property, Plant and Equipment, net of depreciation ("PP&E") has risen from $6.8 million just three years ago to over $34.6 million. PolyMedica's PP&E is grossly out-of-line in comparison to other telemarketers and distributors such as PC Connection, Inc. (NASDAQ: PCCC, Price: $9.90), Owens and Minor, Inc. (NYSE: OMI, Price: $19.60) and PSS World Medical, Inc. (NASDAQ: PSSI, Price: $9.45). For example, PCCC has PP&E of $27.5 million with sales of $1.2 billion in approximately 100,000 products. OMI has PP&E of $25.3 million with sales of $3.8 billion in approximately 120,000 products. PSSI with 99 service centers distributing medical products has $76.2 million in PP&E and $1.8 billion in sales. PolyMedica's total assets also appear out-of-line. The three comparables above have an average total asset turnover of 3.5 times. PolyMedica turned its assets just 1.2 times.

PolyMedica's sales growth guidance for the first quarter of fiscal 2003 is between 3.2% to 4.5%. A telemarketer with increasing sales should show an increase, not a decrease, in PP&E and total asset turnover ratios. We view this strong negative trend very cautiously, particularly given the questionable history of PolyMedica's Senior Vice President and the highly aggressive asset accounting and expense capitalization policies described below.

In the fourth quarter, accounts receivable grew over twice the amount sales grew. Accounts receivable increased by $5.3 million while sales increased by only $2.4 million. As a result, days of sales in accounts receivable increased from 48.1 days to 52.8 days. This equals an increase of approximately $4.0 million in accounts receivable that is not accounted for by increased sales.

During the last five years PolyMedica has incurred over $52 million of advertising expense that its auditors questionably-allowed PolyMedica to avoid writing-off. During this period PolyMedica has reported a total of $144.7 million in income before taxes. As a result, at least 36% of PolyMedica's cumulative reported income before taxes over the last five years came from this highly questionable expense accounting. PolyMedica's "unexpensed" expenses equal at least 30% of PolyMedica's entire shareholders' equity. These are material amounts. In our opinion PolyMedica's cumulative pre-tax earnings are in-fact 36% overstated as a result of PolyMedica's decision not to expense $52.1 million of advertising expenses.

Asensio & Company, Inc. believes PolyMedica's results are not sustainable and that its stock is grossly overvalued. Furthermore, there exists sufficient evidence of PolyMedica's serious failure to comply with Medicare regulations to warrant a Federal investigation.

Asensio & Company, Inc.
PolyMedica Corporation
Calculation of normalized income before taxes in fiscal 2002
(amounts in millions, except per share data)

	Year End Fiscal 2002	Q4 3/31/2002	Q3 12/31/2001	Q2 9/30/2001	Q1 6/30/2001
Income before taxes	48.9	13.4	13.8	7.6	14.0
C.O.L.A.[1,2,3]	(6.8)	(1.5)	(2.7)	(2.6)	-
Billing adjustments[4]	5.8	-	-	5.8	-
Unusual legal expenses[4]	4.9	1.3	1.4	2.2	-
Normalized income before taxes	52.8	13.2	12.6	13.0	14.0

1. Estimated Cost of Living Adjustment based on approximately 70% of Chronic Care revenues.
2. Fourth quarter estimate assumes the termination of the supplemental COLA benefit of 3.28% and the continuation of the 3.7% COLA benefit.
3. During the fourth quarter conference call on May 16, 2002, management stated that if the supplemental COLA of 3.28% that was in effect in the third quarter of 2002 had remained in effect in the fourth quarter fully diluted EPS in the fourth quarter would have increased approximately 7 cents per share from the reported amount.
4. Added back to eliminate charge.

Prepared by: Asensio & Company, Inc.
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