ASENSIO & COMPANY INC.

Equity Research

747 Third Avenue
New York, NY 10017
212 702 8800

August 07, 1997

Diana filing reveals negative impact of recent financings.

Diana's misleading announcements concerning its recent financings and transactions, along with its failure to file required financial disclosures, have caused investors to grossly overestimate the Company's value. The facts detailed below show that Diana obtained the financing based on an $8.5 million or $0.95 per share valuation. Neither the valuation nor the amount of cash raised remotely justifies Diana's stock rise or its current valuation. Even assuming the sale of Valley Communications, Inc., valuing Diana's Concentric Network Corporation holding at $20 per share, assuming the exercise of all warrants and the conversion of the "lesser of Reg S" convertible at favorable prices, Diana would have much less than $2 per share in value. However, this much less than $2 per share value is before operating losses, litigation costs, and other liabilities incurred during the last 215 days. The Company has announced much lower than expected sales. This indicates Diana will soon report a larger than expected loss, which will be funded from the financings proceeds.

Diana reported the private placement on July 16, 1997. This announcement failed to disclose the extremely poor terms under which Diana had obtained the $3.5 million. Acting even more fraudulently, Diana also failed to disclose that it had simultaneously sold a $2.5 million "lesser of" Reg S. Instead, on July 24, 1997 Diana falsely announced that it had "raised an additional $2.5 million in financing." Last week Diana filed a Form 8K and Mr. Haydon filed a Schedule 13D showing that both the private placement and the "lesser of" Reg S closed on July 17, 1997.

The terms of the private placement are indicative of Diana's lack of value. Diana sold 1.85 million shares, equal to 34.9% of the Company, for approximately $3.5 million. However, even at an offering price of $2 per share, equal to a $10.6 million pre-deal valuation, Diana granted the buyers a five (5) year warrant to buy the same number of additional shares at $3 per share. Diana received no compensation for issuing the 1.85 million $3 per share warrants. In other words, Diana had to give a free option for an additional 25.7% of the Company at $3 per share to find buyers for its stock at $2 per share. The "grant" of free long-term options gives the Company an implied post-deal value of merely $8.5 million.

The terms of Diana's "additional" deal are even more damaging to its shareholders. Diana raised approximately $2,235,000 through the sale of so-called "lesser of" Convertible Notes. Under the terms of Diana's offering the holders can simply sell as many unregistered shares in the open market as necessary to get their money back and earn a return. In addition, Diana's Reg S offering gives an incentive to the holders to short Diana's stock. All of this will occur with no further SEC filings or notice to shareholders. Diana will issue the unregistered shares privately and the Reg S holders will simply cover their short positions or sell their unregistered stock in the open market.

The "lesser of" Reg S notes were sold through First Bermuda Securities Limited ("First Bermuda"). First Bermuda is not a U.S. registered investment advisor or securities dealer. We believe that First Bermuda has acted as an intermediary in at least 12 other Reg S offerings. Of these 12 offerings 8 are currently trading at $1 or less per share and one is no longer trading. These companies include Pinnacle Micro, Inc., Unicomp, Inc., Videolan Technologies, Inc., Wiz Technology, Inc., Norris Communications, Inc., Citadel Computer Systems, Inc., Chadmore Wireless Group, Logic Devices, Inc., American Entertainment Group, Palomar Medical Technologies, Inc., Lotto World, Inc. and MTR

Gaming Group.

Diana's absurd stock rise may have been embarked on May 5, 1997 when Richard L. Haydon bought 13,000 shares of Diana at an average price of $2.26 per share for Strategic Restructuring Partnership L.P. ("SRP") in the open market. For 40 consecutive trading days after Mr. Haydon's purchase Diana traded below $3 per share. Then on July 1, 1997 Diana's stock began its 10 day climb. During this time Diana made no public announcements nor were there any subsequent events that could explain the steep rise. However, by early July reports of Mr. Haydon's purchase and the financings were being used to promote the stock. Then on July 16, 1997 Diana announced that it had raised $3.5 million in a private placement, which included $1.25 million from SRP.

This event is the only attributable cause of Diana's stock rise. However, raising $3.5 million by selling stock at less than an $8.5 million valuation does not justify a $61.3 million increase in market value. This is practically true in Diana's case, which has already been shown to be a company with no earnings potential and fraudulent management. The explanation for Diana's stock rise does not lie in the financings but in management's fraudulent stock promotion. Management's fraudulent activities are clearly described in nine (9) pending lawsuits, including reporting false sales.

The Diana Corporation (Symbol: DNAK) (Price: $7.6875)

Short selling involves a risk not associated with the purchase of stock including, but not only limited to, unlimited loss and stock borrowing risks. Additional information is available upon request.