

April 23, 2002

PolyMedica's SEC claim is doubtful and immaterial.

PolyMedica Corporation (NASDAQ: PLMD) (Price: \$41.95) recently issued a statement representing that it had received a "notice" from the Securities and Exchange Commission ("SEC") stating that the SEC's staff had terminated its PolyMedica inquiry. PolyMedica's stock rose as much as 68% after the announcement. PolyMedica did not release copies of the alleged "notice." However, there is absolutely no reason to believe that the SEC is not continuing in its investigation. In any case, the SEC investigation is not the major risk facing PolyMedica. Apparently, investors not only believed PolyMedica's SEC claim but also conjectured that the Department of Justice investigation would be resolved favorably.

In addition to the SEC investigation, PolyMedica is also the target of an FBI Medicare fraud criminal investigation. (During the last twelve months over 72% of PolyMedica's sales were reimbursable by Medicare.) In June 1999 the Department of Health and Human Services' Office of the Inspector General ("OIG") referred complaints about PolyMedica's Medicare practices to the FBI. The OIG requested that the FBI investigate reports that PolyMedica had billed Medicare for supplies that were never ordered, overstocked beneficiaries and re-shipped and billed Medicare for returned supplies. In June 2000 the OIG published a report concerning fraudulent and abusive practices in the glucose test strip market. These include shipping excessive or unrequested test strips and unsupported payments to suppliers. The report questioned whether some of the products that Medicare had paid-for were even delivered. On August 21, 2001 the FBI conducted a search of PolyMedica's office under a Federal court order.

In 2001 Medicare allowed an average of \$36.36 per box of 50 test strips, for a total of 16.8 million boxes costing Medicare approximately \$611 million. (See Accompanying Tables III and IV) PolyMedica had \$189 million of revenues billed to Medicare in its latest twelve-month period. PolyMedica's sales account for a small share of the total test strip market but a very large share of the Medicare test strip market. PolyMedica has been accused of conducting a massive shipping and billing fraud to augment the volumes and margins it gets from the government.

Medicare fraud appears to be a possible explanation for PolyMedica's historical margins. The test strip market is highly competitive at the wholesale and retail levels. Average prices for both monitors and test strips have drastically declined. Drug store chains have introduced discounted privately labeled products. These low-priced store-branded products have become the industry's best selling items. Low-cost generic "knock-off" strips that work with the best-selling monitors are being introduced. On-line discounters offer some products as low as 3% above manufacturers' wholesale list prices. Buying cooperatives purchase test strips for 30% below manufacturers' list prices. Some suppliers offer free monitors with the purchase of test strips. (See Accompanying Tables I and II)

PolyMedica is a mail order telemarketer in this highly competitive, low net operating margin market. PolyMedica processes a large number of low value orders with large advertising (See Accompanying Table V), collections, and Medicare and insurance claims handling costs. PolyMedica does not have any pricing power or cost advantage other than its questionable Medicare practices that can explain its reported margins in its dealings with the government.

The allegations against PolyMedica, contained in complaints to Medicare and the detailed accounts of former

employees, are highly specific. PolyMedica is reported to be shipping test strips to senior citizens who did not order any strips, shipping strips that were not prescribed by a medical doctor, shipping excessive amounts of strips, failing to collect the required 20% from the beneficiary or their insurance company, not crediting Medicare for shipment returns, and illegally billing Medicare for these fraudulent shipments.

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. We believe PolyMedica's stock is grossly overvalued.

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Table I: Monitor Market Survey

Maker	Model	Product	Manufacturer's per unit List Price ¹	Average Retail Price ²	Retail margin	High retail price	Low retail price	Diabetic express.com	Mail-order margin
Abbott Diagnostics	Medisense	Precision QID	39.95	49.95	25.03%	49.95	49.95	49.95	25.03%
		Precision Xtra	59.95	73.48	22.57%	76.99	69.97	64.95	8.34%
		Sof-Tac	180.00	199.98	11.10%	199.99	199.97	194.95	8.31%
		Optium ^{3,4}						46.29	
Roche Diagnostics	Accu-Chek	Advantage	55.00	65.24	18.62%	69.99	59.99	59.95	9.00%
		Complete	95.00	113.49	19.46%	119.99	104.97	97.95	3.11%
		Compact	60.00	74.49	24.14%	79.99	69.97	64.95	8.25%
		Active	15.00	19.24	28.23%	19.99	16.97	17.95	19.67%
Home Diagnostics	Prestige	LX						9.95	
		co-branded IQ		14.49		14.99	13.99		
Bayer	Glucometer	Elite XL ⁴		54.71		59.99	48.99	49.95	
		DEX		68.74		72.99	61.99	64.95	
Johnson & Johnson	Lifescan	One Touch Basic		52.49		54.99	49.99	44.95	
		One Touch Sure Step		63.99		67.99	59.99	59.95	
		One Touch Profile		106.06		109.99	102.13	97.95	
Therasense	Freestyle	Freestyle ⁴		73.28		74.99	71.57	64.95	

1. Wholesale list prices from each manufacturer.

2. Average of two to four retail prices found on Walgreens.com, CVS.com, Eckerd.com, Riteaid.com and Savon.com.

3. PolyMedica's sales agent offers the Medisense Optium and a Home Diagnostics monitor for "free."

4. Diabeticexpress.com offers the Medisense Optium, Elite XL and Therasense Freestyle for free with purchase of 100 test strips.

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Table II: Test Strip Market Survey

Maker	Model	Product ¹	Manufacturer's per unit List Price ²	Estimated Retail Price ³	Retail margin	Diabetic express.com	Mail-order margin
Abbott Diagnostics	Medisense	Precision QID	34.50	43.99	27.51%	36.46	5.68%
		Precision - 100 pack	63.50	79.99	25.97%	64.95	2.28%
Roche Diagnostics	Accu-Chek	Advantage	34.25	39.49	15.30%	35.95	4.96%
		Comfort Curve	34.75	44.99	29.47%	36.99	6.45%
		Compact - 51 pack	35.00	42.99	22.83%	37.95	8.43%
		Active	23.75	29.99	26.27%	25.95	9.26%
		Simplicity	33.50	44.99	34.30%	35.99	7.43%
		Instant	31.00	39.99	29.00%	33.99	9.65%
		Easy	33.00	38.99	18.15%	35.99	9.06%
Home Diagnostics	Prestige	CVS ⁴	8.90	24.95	64.30%		
		Prestige				27.50	
Bayer	Glucometer	Elite				35.59	
		Elite - 100 pack				61.99	
Johnson & Johnson	Lifescan	One Touch		39.49			
Therasense	Freestyle	Freestyle		39.99		35.99	
		Freestyle - 100 pack		69.99		64.99	

1. Fifty count packages, unless otherwise indicated.
2. Wholesale list prices from each respective manufacturer. Pharmaceutical Buyers, Inc. (a drug store buying group) contract price is \$24.50 or 29% less than the \$34.50 manufacturer's list price for Precision QID test strips.
3. Retail prices from Walgreens.com and CVS.com.
4. Estimate of wholesale cost to CVS.

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Table III: Medicare National Procedure Code Summary¹

Year	Monitors ²					Test Strips ³				
	Allowable Payment	Actual Payment Amount	Number of payments	Average allowable	Average payment	Allowable Payment	Actual Payment Amount	Number of payments	Average allowable	Average payment
2001 ⁴	23,171,073	17,444,823	355,621	65.16	49.05	611,570,298	465,142,685	16,820,147	36.36	27.65
2000	20,375,715	15,297,108	326,039	62.49	46.92	496,259,892	376,384,934	14,205,270	34.93	26.50
1999	21,626,083	16,199,834	370,998	58.29	43.67	408,834,855	310,500,315	12,176,811	33.57	25.50
1998	18,229,238	13,958,409	308,868	59.02	45.19	314,254,352	240,943,289	9,878,573	31.81	24.39
1997	9,369,968	7,093,931	151,970	61.66	46.68	252,063,695	192,526,475	6,772,083	37.22	28.43
1994 ⁵						102,000,000				

1. All figures are from CMS' National Healthcare Expenditures & Statistics
2. Medicare procedure c E0607: Blood glucose monitor home
E0609: Blood glucose monitor with special features
3. Medicare procedure c A4253: Blood glucose/reagent strips
4. Monitor and test strip information in 2001 is 95% complete.
5. Data from June 2000 Department of Health and Human Services' Office of Inspector General report.

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Table IV: Assigned allowances by Medicare^{1,2}

DMERC Region	Monitors		Test Strips ³	
	Ceiling	Floor	Ceiling	Floor
A	66.49	66.49	38.32	32.57
B	66.49	66.49	38.32	33.88
C	66.49	66.49	38.32	33.06
D	75.80	66.49	38.41	32.57
Country wide	75.80	66.49	38.41	32.57

1. As of April 1, 2002 Medicare rules do not allow beneficiaries to buy equipment and supplies and submit the receipt for reimbursement by Medicare. Supplier must submit the beneficiaries' claims.
2. Medicare pays 80% of allowable prices. Suppliers are required by law to bill the beneficiary for the remaining 20% co-insurance amount.
3. Per box of 50 test strips; double for a 100ct package.

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Table V: Capitalization of advertising asset analysis
(amounts in thousands)

<u>Year ended March 31</u>	<u>Capitalized advertising asset balance</u>	<u>Amortized amount</u>	<u>Increase in capitalized advertising asset during period</u>	<u>Amount amortized plus increase in asset during period¹</u>	<u>Income before Taxes</u>	<u>Percent of income before taxes from Unexpensed advertising costs</u>
Nine months ended December 31, 2001	49,538	21,979	9,598	31,577	35,474	27.06%
Fiscal 2001	39,940	19,604	11,862	31,466	47,305	25.08%
Fiscal 2000	28,078	9,036	12,400	21,436	26,670	46.49%
Fiscal 1999	15,678	5,383	4,779	10,162	12,511	38.20%
Fiscal 1998 ²	10,899	2,423	9,279	11,702	7,365	125.99%
Fiscal 1997 ³	1,620	120	1,620	1,740	1,955	82.86%
Fiscal 1996	0	0	0	0	3,130	0.00%

1. This amount is equal to the reported direct response advertising.
2. Income before taxes excludes a \$4.1 million gain on the sale of PolyMedica's wound care business in July 1997.
3. PolyMedica acquired Liberty in August 1996.