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PolyMedica now faces revenue reductions on top of its criminal investigation.

Yesterday the Chairman of the Senate Committee that funds Medicare released a U.S. Department of Health and Human Services' Office of Inspector General ("OIG") report that found Medicare overpays for home monitor blood glucose test strips ("strips"). In fact, the OIG reported that Medicare is paying over 49% more than even the Department of Veteran Affairs ("VA"). The VA pays \$19.50 for a box of 50 strips. Medicare pays \$38.32 for the same item. The OIG reported that Medicare spent \$496.3 million in 2000, and suffered unnecessary overpayments of \$244 million. In 2001, Medicare paid \$612 million for strips. Using the OIG's calculation this cost Medicare an additional \$300 million. The OIG's report found that Medicare's largest overpayments are on strips. The OIG concluded that Medicare pays higher than market prices for the strips and detailed the required steps to reduce Medicare payments to suppliers.

In fiscal 2001, PolyMedica Corporation (NASDAQ: PLMD) (Price: \$25.45) generated approximately 75% of its net revenues from strips. It reported gross margins of 65%. This amount includes the 49% overpayment found and reported by the OIG. Even before the sought-after reductions PolyMedica's net income margin was 10.9% in fiscal 2002. This margin was inflated by PolyMedica's irregular and questionable expense capitalization policy.

The Department of Justice ("DOJ") is currently conducting a criminal investigation of PolyMedica's Medicare billings. The investigation commenced on or about June 24, 1999. It became a Federal criminal investigation in 2000. On August 21 and 22, 2001, pursuant to a Federal court order, the FBI conducted a search of PolyMedica's facilities and the homes of two of its officers. This required that a U.S. Magistrate judge find probable cause of the existence of PolyMedica criminal conduct. It is normal for a DOJ criminal Medicare investigation to take two to three years before an indictment is issued.

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.

Asensio & Company, Inc. believes PolyMedica's stock is grossly overvalued. As a result, we have a short position in PolyMedica and have advised our clients to sell PolyMedica shares short. Our reports on PolyMedica are available at www.asensio.com.