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PLMD stirs up expectations for no-problem resolution.

During its earnings call last week, PolyMedica Corporation (NASDAQ: PLMD, \$25.75) estimated that it had wrongfully billed Medicare for \$17.7 million of supplies without the required doctors' orders. PolyMedica's estimate was created using a sample of transactions it selected. PolyMedica offered no basis whatsoever to support its sample size, selection process, or an analysis of the types and dates of the samples used to create its estimate. PolyMedica used this estimate to claim that its illegal billing totaled "just over half of a percent" of its Medicare billings. However, its 0.5% figure only included \$5.7 million of the wrongful billings and did not include an additional admitted \$12 million, which the company claimed it expects back "as part of an overall resolution." We question PolyMedica's judgment in admitting on its own to \$12 million of over billing publicly and then claiming that it would hold back repayment and use it in some claimed negotiations. We have no reason to believe negotiations exist or if they do exist we have no reason to believe PolyMedica's representations about their outcome. In June of 2000 the Department of Health and Human Services' ("HHS") Office of Inspector General ("OIG") estimated that 35.9% of test strips (PolyMedica's primary product) were inappropriately billed.

Simultaneously with making its unsupported estimate statement, PolyMedica proclaimed that it had not found evidence of a systemic plan to over bill Medicare and that it was unaware of any information that would lead to fines and penalties that "would substantially impair" the company. Management has made these types of denials before and they have been shown to be wrong. We believe that the evidence shows that PolyMedica is systemically engaged in billing Medicare illegally and that PolyMedica has incurred liabilities far in excess of its ability to pay.

We base our opinion on several facts. First, the case against PolyMedica is not based solely on billing Medicare in excess of doctor's orders. Medicare imposed "span dating" on PolyMedica specifically to protect Medicare from this form of abuse. Court filings and other reports show that the PolyMedica case also involves failure to collect legally required co-payments, continued shipments to customers who failed to make co-payments, failure to credit Medicare for returns, improper re-shipping of returns, destroying evidence and obstruction of justice. Second, this would not be the first time that PolyMedica issued a false denial. Third, while PolyMedica claims it has not found evidence of systemic fraud, the U. S. Department of Justice, the HHS' OIG and the Federal Bureau of Investigations has found sufficient evidence to launch a major criminal investigation against PolyMedica and to continue to prosecute the investigation throughout the last 4 years and 7 months. Throughout all this time, and despite PolyMedica's constant claims that a favorable resolution is imminent, the government's case has proceeded normally.

In our view, PolyMedica's disclosure and explanation merely revealed the extent of its highly questionable sales practices, its involvement in procuring doctors' orders and its unsavory effort to create a cover up by calling doctors long after the fact. From our perspective, these latest disclosures merely serve to provide further details of how PolyMedica converts a normally low-growth and low-margin mail order business into a ridiculously fast growing and exorbitantly profitable system that can not comply with Medicare laws.

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. Our reports on PolyMedica are available at www.asensio.com.

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