



DIABETIC INVESTOR

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PolyMedica

“Make the Connection” David Kliff, Publisher

August has certainly been one of the more interesting months for the people at PolyMedica (NASDAQ:PLMD). Back on August 7th, 2001 PolyMedica acknowledged that it was the subject of a criminal investigation by the Department of Justice. The news was released after the market closed, with

from the previous day, a drop of nearly 26%.

It took until April 8th, 2002 for the company to get some good news. On that day, the company was able to announce that the Securities and Exchange Commission (SEC) had ended their investigation

was fear that the government would lower reimbursement for glucose test strips, Liberty Medical Supply’s bread and butter business. Although this was just speculation and no action was taken by the government, the mere threat that reimbursement would be cut sent many shareholders to the

As always with PolyMedica, the situation today is really no different since the DOJ investigation became public-business is great, but nobody cares.

shares of PLMD at \$18.58. The next day PLMD closed down \$2.28 at \$15.30, a drop of over 17%.

Nearly two weeks after the announcement, the FBI conducted a search of seven different Liberty Medical Supply offices and two personal residences of people employed by Liberty. On heavy volume of 5,034,600 shares, PLMD closed at \$11.25, down \$3.93

into PLMD and there would be no action taken. Once again, on heavy trading of 5,333,700 shares, PLMD surged to close at \$38.90, up nearly \$13.38 from its previous close, a gain of over 50%.

Shares seemed to be headed higher until June 13th, 2002, when shares closed down \$4.53 to \$25.45. The reason this time

exits.

Stability appeared to return to the stock for a few months, and it was generally headed higher. Then on August 5th, 2002, Chairman and co-founder of PolyMedica Steven Lee suddenly announced his retirement. As is customary with the stock, shares sold off losing \$5.29 on the day, a drop of nearly 18%. The speculation was that Mr. Lee’s departure

was due to the continuing DOJ investigation and he would soon face some type of criminal charges. Adding fuel to the fire was the nature of the announcement. Not only did this come out of left field, it was totally unexpected. The press release making the announcement stated, "PolyMedica Corporation today announced that Steven J.

tion see the August 6th, 2002 e-mail in the archives section of Investors Edge Online at www.diabeticinvestor.com)

So here we are barely a year from the company acknowledging that they are the subject of a criminal investigation. The stock is trading in the mid 20's and the DOJ investigation is

that, in spite of all this, business continues to grow. The new business units started by the company appear to be off to strong starts. While there may be some changes in reimbursement by the government, this is by no means a certainty. As always with PolyMedica, the situation today is really no different since the DOJ investiga-

August has not been a good month for the folks at PolyMedica.

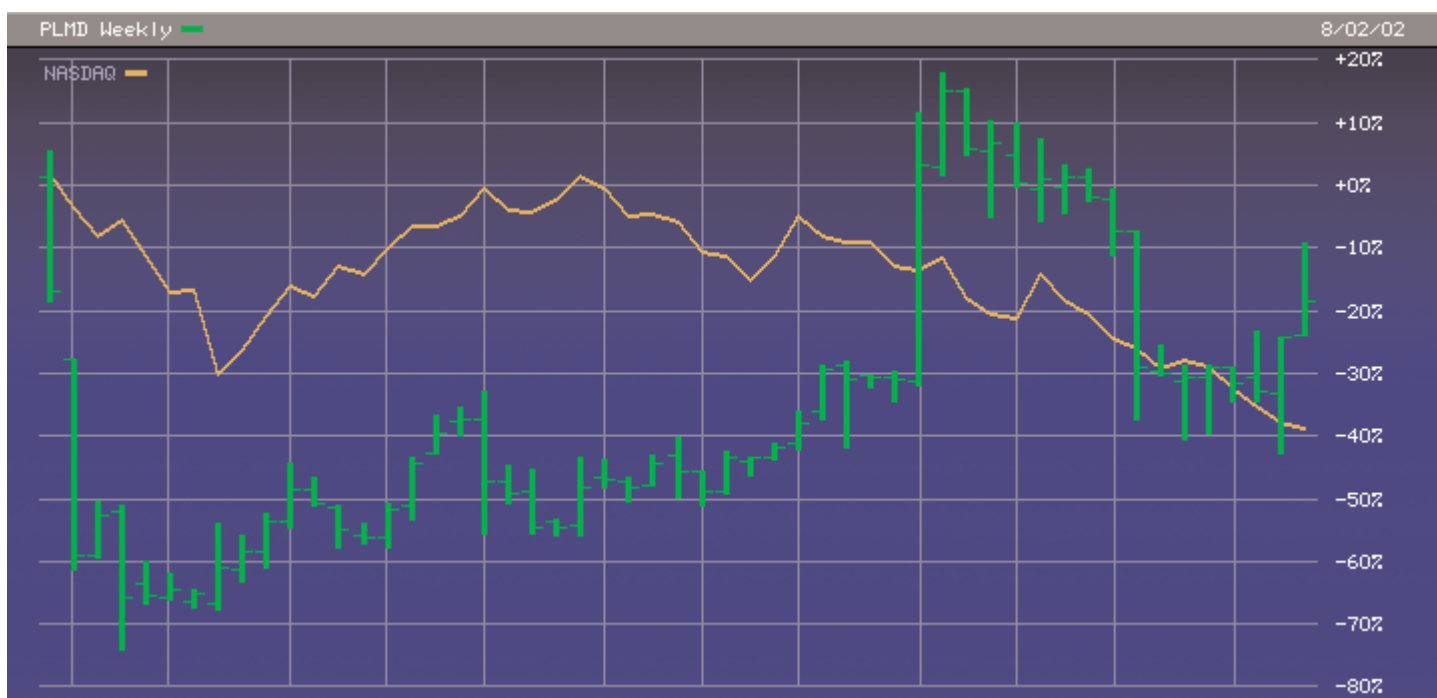


Chart time frame August 1st,2001 to August 1st, 2002 PLMD vs. NASDAQ Index

Lee, Chairman, Chief Executive Officer and co-founder, has informed the PolyMedica's Board of Directors of his intention to retire as CEO, effective immediately." The key words here being, effective immediately.

Diabetic Investor has learned that Mr. Lee's retirement was anything but voluntary. Simply put, Mr. Lee was forced into retirement. (For more informa-

tion see the August 6th, 2002 e-mail in the archives section of Investors Edge Online at www.diabeticinvestor.com) still unresolved. The question now becomes- what next? Who will PolyMedica select to replace Mr. Lee? And just when and how will the investigation by the DOJ end? Will the company settle, as Diabetic Investor has been saying since this whole thing started? Or will the DOJ throw the book at PolyMedica?

Seemingly lost in all these questions and continuing speculation regarding the company is

tion became public- business is great, but nobody cares. Diabetic Investor still has every reason to believe that, as we predicted long ago, the company will eventually settle with the DOJ. In fact, we now believe this more than we did before. Everyone knows that PolyMedica is in the right business at the right time. While they have some competitors,

none are even close to PolyMedica in terms of number of customers. PolyMedica uses their considerable size advantage as leverage with suppliers to get the best prices on products, which in turn, allows them a healthy profit margin. PolyMedica also has invested heavily in technology which further enhances their margins. Finally, through the use of national television advertising and celebrity spokespeople, such as Wilfred Brimley and Paul Harvey, PolyMedica's Liberty Medical Supply unit is widely recognized as the primary supplier of diabetes supplies to their core customers, senior citizens. The bottom line here is that PolyMedica, free from any investigations, is a prime candidate to be taken over.

Just who might buy PolyMedica? It just might be a Pharmacy Benefit Manager, like a Merck-Medco, or perhaps a current supplier like Abbott Labs. While many speculated that Mr. Lee's retirement had to do with the ongoing DOJ investigation, Diabetic Investor believes it had more to do with

the future direction of the company. While Mr. Lee provided solid leadership over the years, he was not held in high regard by many on Wall Street. Privately, analysts questioned if the company could ever reach its full value with Mr. Lee at the helm. To the company's board, Mr. Lee had become a liability and had to go.

It will be interesting to see just who replaces Mr. Lee. Diabetic Investor has learned the company has already compiled a list of possible successors, although we do not know who is on the list. Quite frankly, about the only thing that really matters, is that whoever is selected comes with a squeaky clean reputation. In today's environment, when they are taking away CEOs in handcuffs, the last thing PolyMedica needs is another controversy. The reason we see the selection as almost a non-event is that Diabetic Investor believes that shortly after the company settles with the DOJ, the company will be sold.

The wild card in this whole scenario is what will happen if the

DOJ won't settle. Keep in mind that this investigation has gone on for a few years. The FBI and DOJ have spent a considerable amount of time and money on this case. It's hard to imagine, in today's current climate, the DOJ not wanting to come away with something. With the President preaching corporate responsibility, CEOs under heavy scrutiny, and corporate scandals almost a daily occurrence, Diabetic Investor sees a less than 10% chance that the company will be exonerated. However, we continue to see the settlement as a win-win for the DOJ and the company. Both can claim victory.

The Diabetic Investor Model Portfolio

Stock	Current Value	% Change LFT	% Change YTD	% Change Month
JNJ	\$ 55.97	54.40%	6.55%	7.10%
LLY	\$ 57.83	-16.86%	-37.86%	2.54%
NVO	\$ 28.90	-34.32%	-17.69%	-12.16%
ABT	\$ 40.30	-18.21%	-16.80%	7.04%
PLMD	\$ 27.21	-27.48%	63.92%	6.54%