

**UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS**

IN RE POLYMEDICA CORP.
SECURITIES LITIGATION

Civil Action No. 00-12426-WGY
AND ALL RELATED ACTIONS

STIPULATION AND AGREEMENT OF SETTLEMENT

This Stipulation and Agreement of Settlement (the “Stipulation”) is submitted pursuant to Rule 23 of the Federal Rules of Civil Procedure. Subject to the approval of the Court, this Stipulation is entered into among Lead Plaintiff and Class Representative Thomas Thuma on behalf of himself (hereinafter the “Class Representative”), all actions consolidated herewith, the Lead Plaintiffs (as hereinafter defined) and the Class (as hereinafter defined) and Defendants PolyMedica Corporation (“PolyMedica”), Liberty Medical Supply, Inc. (“Liberty”), Steven J. Lee, Warren K. Trowbridge, and Eric G. Walters (collectively, the “Defendants”), by and through their respective counsel. The Stipulation is intended to fully, finally, and forever discharge and settle the Action and the Settled Class Claims (as defined herein).

WHEREAS:

A. Beginning on or about November 27, 2000, two class actions alleging violations of federal securities laws – Richard Bowe SEP-IRA v. PolyMedica Corp. and Steven J. Lee, Civil Action No. 00-12426-REK and Trust Advisors Equity Plus LLC v. PolyMedica Corp. and Steven J. Lee, Civil Action No. 00-12586-REK – were filed in this Court and were subsequently consolidated under the above-caption, and are hereinafter collectively referred to as the “Action”;

B. By Order dated July 30, 2001, the Court appointed Richard Bowe SEP-IRA, John B. Muha, Richard Roa, Thomas C. Thuma, and Trust Advisors Equity Plus LLC as lead

plaintiffs (collectively, “Lead Plaintiffs”). The Court also approved the law firms of Shapiro Haber & Urmy LLP (“Shapiro Haber”) and Schatz & Nobel, P.C., a predecessor to Schatz Nobel Izzard P.C., (“Schatz Nobel”) as Co-Lead Counsel for the Class;

C. The Lead Plaintiffs filed a Consolidated Complaint (the “Complaint”) on October 9, 2001. The Complaint generally alleges, among other things, that the Defendants issued materially false and misleading statements regarding PolyMedica and Liberty’s then current financial condition, revenue, earnings growth, and compliance with Medicare regulations during the Class Period (as defined below) in a scheme to artificially inflate the value of PolyMedica’s securities;

D. The Complaint further alleges that the Lead Plaintiffs and other Class Members purchased PolyMedica’s common stock during the Class Period at prices artificially inflated as a result of the Defendants’ scheme to falsify and materially overstate revenue, accounts receivable and earnings in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder and were damaged as a result thereof;

E. On December 10, 2001, the Defendants moved to dismiss the Complaint pursuant to Rules 9(b) and 12(b)(6) of the Federal Rules of Civil Procedure. On February 11, 2002, the Lead Plaintiffs filed a memorandum of law in opposition to the Defendants’ motion to dismiss. The Defendants filed a reply memorandum in support of their motion on March 11, 2002;

F. The Court denied the Defendants’ motion to dismiss by Order dated May 10, 2002. On June 20, 2002, the Defendants served their Answers to the Complaint in which they denied all substantive allegations of wrongdoing and asserted a number of affirmative defenses;

G. On September 7, 2004, the Court certified a class for the period October 26, 1998 through August 21, 2001 and certified Plaintiff Thomas Thuma as the Class Representative. The

Court excluded from the class persons who engaged in any short-sale transactions of PolyMedica common stock during the class period;

H. On appeal before the First Circuit Court of Appeals, on December 13, 2005, the First Circuit vacated the Court's order certifying the class for the period January 1, 2001 through August 21, 2001 and remanded the matter for further proceedings;

I. On September 28, 2006, the Court denied Plaintiffs' motion to re-certify the class for the period January 1, 2001 through August 21, 2001;

J. The Defendants have denied and continue to deny any wrongdoing whatsoever and this Stipulation shall in no event be construed or deemed to be evidence of or an admission or concession on the part of any Defendant with respect to any claim or of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that the Defendants have asserted. The parties to this Stipulation recognize, however, that the Action has been filed by Lead Plaintiffs and defended by the Defendants in good faith and with adequate basis in fact under Rule 11 of the Federal Rules of Civil Procedure, that the Action is being voluntarily settled after advice of counsel, and that the terms of the settlement are fair, reasonable, and adequate. This Stipulation shall not be construed or deemed to be a concession by any Lead Plaintiff of any infirmity in the claims asserted in the Action;

K. Lead Counsel has conducted an investigation relating to the claims and the underlying events and transactions alleged in the Complaint. Lead Counsel has analyzed the evidence adduced from discovery, including reviewing hundreds of thousands of pages of documents and electronic data and conducting numerous depositions, and has researched the applicable law with respect to the claims of Lead Plaintiffs and the Class against the Defendants and the potential defenses thereto;

L. The Class Representative, by his counsel, has conducted discussions and arm's length negotiations with counsel for the Defendants with respect to a compromise and settlement of the Action with a view to settling the issues in dispute and achieving the best relief possible consistent with the interests of the Class;

M. Based upon their investigation and discovery as set forth above, Lead Counsel has concluded that the terms and conditions of this Stipulation are fair, reasonable and adequate to the Class Representative and the Class, and in their best interests, and has agreed to settle the claims raised in the Action pursuant to the terms and provisions of this Stipulation, after considering (a) the substantial benefits that the Class Representative and the members of the Class will receive from settlement of the Action, (b) the attendant risks of litigation, and (c) the desirability of permitting the Settlement to be consummated as provided by the terms of this Stipulation;

N. The Defendants believe that the Action is without merit and is unsupported by the evidence, but the Defendants recognize the risks, expense and length of continued proceedings necessary to defend the Action through trial and any appeals, and the Defendants' desire to avoid continued litigation, and therefore the Defendants believe it is desirable that the Action and any future potential actions that relate in any way to the allegations raised by the Plaintiffs be settled upon the terms and conditions set forth herein in order to avoid the further expense and burden of protracted litigation; and

O. The parties have reached this Settlement to resolve the Action, the Settled Class Claims, , and the Settled Defendants' Class Claims;

NOW THEREFORE, without any admission or concession on the part of the Lead Plaintiffs of any lack of merit of the Action whatsoever, and without any admission or

concession of any liability or wrongdoing or lack of merit in the defenses whatsoever by the Defendants, it is hereby STIPULATED AND AGREED, by and among the parties to this Stipulation, through their respective attorneys, subject to approval of the Court pursuant to Rule 23(e) of the Federal Rules of Civil Procedure, in consideration of the benefits flowing to the parties hereto from the Settlement, that the Action and all Settled Class Claims (as defined herein), and all Settled Defendants' Class Claims (as defined herein) shall be compromised, settled, released and dismissed with prejudice, upon and subject to the following terms and conditions:

CERTAIN DEFINITIONS

1. As used in this Stipulation, the following terms shall have the following meanings:

(a) "Authorized Claimant" means a Class Member who submits a timely and valid Proof of Claim form to the Claims Administrator.

(b) "Claims Administrator" means the firm of FRG Information Systems Corp. designated by Lead Counsel to administer the Settlement.

(c) "Class" and "Class Member(s)" means all Persons (as defined herein) who purchased or otherwise acquired the common stock of PolyMedica between October 26, 1998 and December 31, 2000, inclusive. Excluded from the Class are the Defendants, the officers and directors of PolyMedica and/or Liberty during the Class Period, members of their immediate families and their heirs, successors or assigns, any entity in which an excluded person has or had a controlling interest at any time during the Class Period, and persons who engaged in any short-sale transaction of PolyMedica common stock during the Class Period. Also excluded from the Class are any putative Class Members who exclude themselves by filing a request for exclusion

in accordance with the requirements set forth in the Notice. “Class Member(s)” means a member of the Class.

(d) “Class Period” means the period of time between October 26, 1998 and December 31, 2000, inclusive.

(e) “Defendants” means PolyMedica, Liberty, and the Individual Defendants.

(f) “Defendants’ Counsel” means the law firm of Wilmer Cutler Pickering Hale and Dorr LLP and counsel for the Individual Defendants.

(g) “Effective Date” means the date upon which the Settlement contemplated by this Stipulation shall become effective, as set forth in paragraph 22 below.

(h) “Escrow Account” means the escrow account referred to in paragraphs 4 and 5 hereof.

(i) “Escrow Agent” means Shapiro Haber & Urmey LLP.

(j) “Gross Settlement Fund” means the Settlement Amount plus any interest earned thereon, if any.

(k) “Individual Defendants” means Steven J. Lee, Warren K. Trowbridge, and Eric G. Walters.

(l) “Insurers” means Federal Insurance Company and National Union Fire Insurance Company of Pittsburgh, Pa. and their past or present subsidiaries, parents, affiliates, successors and predecessors, re-insurers, officers, directors, agents, employees, attorneys, legal representatives, successors in interest or assigns.

(m) “Lead Counsel” means Co-Lead Counsel Shapiro Haber and Schatz Nobel.

(n) “Lead Plaintiffs” means Richard Bowe SEP-IRA, John B. Muha, Richard Roa, Thomas C. Thuma, and Trust Advisors Equity Plus LLC and their heirs, agents, executors, administrators, predecessors, successors or assigns, and their personal representatives, all in their capacities as such.

(o) “Net Settlement Fund” has the meaning defined in paragraph 5 hereof.

(p) “Notice” means the Notice of Proposed Settlement, Motion for Attorneys’ Fees and Settlement Fairness Hearing, which, subject to the approval of the Court, is to be sent to members of the Class substantially in the form attached hereto as Exhibit 1 to Exhibit A.

(q) “Order and Final Judgment” means the proposed order to be entered approving the Settlement substantially in the form attached hereto as Exhibit B.

(r) “Order for Notice and Hearing” means the proposed order preliminarily approving the Settlement and directing notice thereof to the Class substantially in the form attached hereto as Exhibit A.

(s) “Person” or “Persons” shall mean any individual, corporation, partnership, limited partnership, association, joint stock company, estate, legal representative, trust, unincorporated organization or other type of legal entity, and their heirs, agents, executors, administrators, predecessors, successors or assigns, and their personal representatives, all in their capacities as such.

(t) “Plaintiffs’ Counsel” means Lead Counsel and all other counsel representing plaintiffs in the Action.

(u) “Publication Notice” means the Summary Notice of Proposed Settlement and Hearing substantially in the form attached as Exhibit 3 to Exhibit A.

(v) “Released Parties” means any and all of the Defendants, their past, present or future subsidiaries, parents, affiliates, predecessors, successors, assigns, acquirers, divisions, representatives, heirs, officers, directors, shareholders, agents, employees, attorneys, auditors, accountants, underwriters, advisers, Insurers, and any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with any of the Defendants, and the legal representatives, heirs, predecessors, successors in interest or assigns of the Defendants and/or any members of the immediate family of any Defendant.

(w) “Settled Class Claims” means any and all direct, individual and/or class claims (including Unknown Class Claims, as defined herein), debts, demands, rights and/or causes of action and/or liabilities whatsoever (including, but not limited to, any claims for compensatory damages, punitive damages, interest, attorneys’ fees, expert and/or consulting fees, and/or any other costs, expenses, liability and/or relief, monetary, injunctive, or otherwise), whether based on federal, state, local, statutory and/or common law and/or any other law, rule or regulation, whether fixed and/or contingent, accrued and/or un-acrued, liquidated and/or un-liquidated, at law and/or in equity, matured and/or un-matured, whether class and/or individual in nature, including both known claims and/or unknown, pleaded and/or unpleaded, suspected and/or unsuspected claims, (i) that have been asserted in this Action by the Lead Plaintiffs, Class Members or any of them against any of the Released Parties and/or that relate to the purchase, sale and/or acquisition of shares of the common stock of PolyMedica by the Lead Plaintiffs, Class Members or any of them during the Class Period, (ii) that could have been, and/or could in the future be, asserted in any forum by the Lead Plaintiffs, Class Members or any of them against any of the Released Parties which arise out of and/or are based upon and/or relate in anyway to

the allegations, transactions, facts, matters and/or occurrences, representations and/or omissions involved, set forth, and/or referred to in the Complaint and/or that relate to the purchase, sale and/or acquisition of shares of the common stock of PolyMedica by the Lead Plaintiffs, Class Members or any of them during the Class Period, and/or (iii) that arise out of and/or relate in any way to the defense and/or settlement of this Action (except for claims to enforce this Settlement). Settled Class Claims do not include any claims that related to periods of time other than the Class Period.

(x) “Settled Defendants’ Class Claims” means any and all claims, rights and/or causes of action and/or liabilities whatsoever, whether based on federal, state, local, statutory and/or common law and/or any other law, rule and/or regulation, including both known claims and/or Unknown Class Claims (as defined herein), that relate to the Class Period and/or that have been and/or could have been asserted in the Action and/or any forum by the Defendants or any of them and/or the successors and/or assigns of any of them against the Lead Plaintiffs, Class Members and/or their attorneys, which arise out of and/or relate in any way to the institution, prosecution, and/or settlement of the Action (except for claims to enforce the Settlement). Settled Defendants’ Class Claims do not include any claims that related to periods of time other than the Class Period.

(y) “Settlement” means the settlement contemplated by this Stipulation.

(z) “Settlement Amount” means the amount specified in paragraph 4 hereof.

(aa) “Taxes” means all (i) taxes on the income of the Gross Settlement Fund and (ii) expenses and costs incurred in connection with the taxation of the Gross Settlement Fund (including, without limitation, expenses of tax attorneys and accountants).

(bb) “Unknown Class Claims” means any and all Settled Class Claims which the Lead Plaintiffs, Class Representative, the Class, or any Class Member does not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties, and any Settled Defendants’ Class Claims which any Defendant does not know or suspect to exist in his, her or its favor, which if known by him, her or it might have affected his, her or its decision(s) with respect to the Settlement. With respect to any and all Settled Class Claims and Settled Defendants’ Class Claims, the parties stipulate and agree that upon the Effective Date, the Class Representative and the Defendants shall expressly, and each Class Member and each of the Released Parties shall be deemed to expressly, by operation of the Order and Final Judgment, waive any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

SCOPE AND EFFECT OF SETTLEMENT

2. The obligations incurred pursuant to this Stipulation shall be in full and final disposition of the Action and any and all Settled Class Claims and -, Settled Defendants’ Class Claims.

3. (a) Upon the Effective Date of this Settlement, the Lead Plaintiffs, Class Representative and Class Members, on behalf of themselves, their heirs, agents, executors, administrators, predecessors, successors and assigns, and their personal representatives, shall release and forever discharge the Settled Class Claims, and shall forever be enjoined from

prosecuting the Settled Class Claims. By entering into this Stipulation, the Class Representative represents and warrants that he has not assigned, hypothecated, transferred, or otherwise granted any interest in the Settled Class Claims, or any of them, to any other Person.

(b) (c) Upon the Effective Date of this Settlement, each of the Defendants, on behalf of themselves and the Released Parties, shall release and forever discharge the Settled Defendants' Class Claims, and shall forever be enjoined from prosecuting the Settled Defendants' Class Claims against the Lead Plaintiffs, all Class Members and their counsel.

(c) Upon the Effective Date of this Settlement, each of the Defendants, on behalf of themselves and the Released Parties, shall release and forever discharge Lead Plaintiffs Howard Hoffman and Jianwei Xu from any and all claims.

(d) Within five (5) days of the Effective Date of this Settlement, the Class Representative and Lead Counsel shall stipulate to and request a dismissal with prejudice of the appeal filed in the United States Court of Appeals for the First Circuit captioned: *In Re PolyMedica Corp. Securities Litigation*; No. 06-8034.

THE SETTLEMENT CONSIDERATION

4. Within five (5) business days from the date of the Court's entry of an Order and Final Judgment, the Defendants shall pay or cause to be paid \$5,500,000 (the "Settlement Amount"), less the amount advanced pursuant to Paragraph 7, into escrow for the benefit of Plaintiffs and the Class. The Settlement Amount and any interest earned thereon shall be the "Gross Settlement Fund."

5. (a) The Gross Settlement Fund, net of any Taxes (as defined herein) on the income thereof, shall be used to pay (i) the Notice and Administration Costs referred to in paragraph 7 hereof, (ii) the attorneys' fees and expenses award referred to in paragraph 8 hereof,

and (iii) the remaining administration expenses referred to in paragraph 9 hereof. The balance of the Gross Settlement Fund after the above payments shall be the "Net Settlement Fund." The Net Settlement Fund shall be distributed to the Authorized Claimants as provided in paragraphs 10-12 hereof. Any sums required to be held in escrow hereunder prior to the Effective Date shall be held by the Escrow Agent for the Gross Settlement Fund. All funds held by the Escrow Agent shall be deemed to be in the custody of the Court and shall remain subject to the jurisdiction of the Court until such time as the funds shall be distributed or returned to the persons paying the same pursuant to this Stipulation and/or further order of the Court. Prior to the Effective Date, except for payments permitted by paragraphs 5(b), 7 or 8 hereof, no payment shall be made from the Gross Settlement Fund to anyone other than the Insurers without permission of the Court granted after notice to counsel for the Insurers and Defendants' Counsel. The Escrow Agent shall invest any funds in excess of \$100,000 in short term United States Agency or Treasury Securities (or a mutual fund invested solely in such instruments), and shall collect and reinvest all interest accrued thereon. Any funds held in escrow in an amount of less than \$100,000 may be held in a bank account insured by the FDIC. The parties hereto agree that the Gross Settlement Fund is intended to be a Qualified Settlement Fund within the meaning of Treasury Regulation § 1.468B-1 and that the Escrow Agent, as administrator of the Gross Settlement Fund within the meaning of Treasury Regulation § 1.468B-2(k)(3), shall be responsible for filing tax returns for the Gross Settlement Fund and paying from the Gross Settlement Fund any Taxes owed with respect to the Gross Settlement Fund. The parties hereto agree that the Gross Settlement Fund shall be treated as a Qualified Settlement Fund from the earliest date possible, and agree to any relation-back election required to treat the Gross Settlement Fund as a Qualified Settlement Fund from the earliest date possible. Defendants'

Counsel agree to provide promptly to the Escrow Agent the statement described in Treasury Regulation § 1.468B-3(e).

(b) All Taxes shall be paid out of the Gross Settlement Fund, shall be considered to be a cost of administration of the Settlement and shall be timely paid by the Escrow Agent without prior Order of the Court.

ADMINISTRATION

6. The Claims Administrator shall administer the Settlement subject to the jurisdiction of the Court. Except as stated in paragraph 14 hereof, the Defendants shall have no responsibility for the administration of the Settlement and shall have no liability to the Class in connection with such administration. Defendants' Counsel shall cooperate in the administration of the Settlement to the extent reasonably necessary to effectuate its terms, including providing without charge all information from PolyMedica's transfer records concerning the identity of Class Members and their transactions.

7. Following the Court's preliminary approval of the Settlement, Lead Counsel shall receive an advance in the amount of \$50,000 from the Settlement Amount to cover the reasonable costs and expenses associated with identifying Class Members and effecting mail Notice and Publication Notice to the Class, and the administration of the Settlement, including without limitation, the actual costs of publication, printing and mailing the Notice, reimbursements to nominee owners for forwarding notice to their beneficial owners, and the administrative expenses incurred and fees charged by the Claims Administrator in connection with providing notice and processing the submitted claims. Except as provided in paragraph 24, in no event shall the Released Parties bear any responsibility or liability for such fees, costs and expenses.

ATTORNEYS' FEES AND EXPENSES

8. Lead Counsel will apply to the Court for an award from the Gross Settlement Fund of attorneys' fees and reimbursement of expenses, including awards to the Lead Plaintiffs. Such amounts as are awarded by the Court shall be payable from the Gross Settlement Fund to Lead Counsel upon the Effective Date, as set forth in Paragraph 22 below, except that an appeal of the Order and Final Judgment (or Alternative Judgment) that in no way relates to the attorneys' fees award shall not be deemed to delay payment of amounts awarded by the Court. The payment of amounts awarded shall be subject to Lead Counsel's obligation to make appropriate refunds or payments to the Gross Settlement Fund plus accrued interest at the same net rate as is earned by the Gross Settlement Fund, if and when, as a result of any appeal and/or further proceeding on remand, or successful collateral attack, the fee or cost award is reduced or reversed. The Defendants and the Insurers shall not be responsible for the payment (or return) of any attorneys' fees or expenses.

ADMINISTRATION EXPENSES

9. Plaintiffs' Counsel will apply to the Court, on notice to Defendants' Counsel, for an order (the "Class Distribution Order") approving the Claims Administrator's administrative determinations concerning the acceptance and rejection of the claims submitted herein and approving any fees and expenses not previously applied for, including the fees and expenses of the Claims Administrator, and, if the Effective Date has occurred, directing payment of the Net Settlement Fund to Authorized Claimants.

DISTRIBUTION TO AUTHORIZED CLAIMANTS

10. The Claims Administrator shall determine each Authorized Claimant's pro rata share of the Net Settlement Fund based upon each Authorized Claimant's Recognized Claim (as

defined in the Plan of Allocation described in the Notice annexed hereto as Exhibit 1 to Exhibit A, or in such other Plan of Allocation as the Court approves). No distribution to Authorized Claimants shall be made prior to the Effective Date.

11. The Plan of Allocation proposed in the Notice is not a necessary term of this Stipulation and it is not a condition of this Stipulation that any particular Plan of Allocation be approved. Persons who engaged in any short-sale transaction of PolyMedica common stock from October 26, 1998 through December 31, 2000 shall be excluded from any Plan of Allocation.

12. Each Authorized Claimant shall be allocated a pro rata share of the Net Settlement Fund based on his or her Recognized Claim compared to the total Recognized Claims of all accepted claimants. This is not a claims-made settlement. The Defendants shall not be entitled to get back any of the settlement monies once the Settlement becomes final. The Defendants shall have no involvement in reviewing or challenging claims.

ADMINISTRATION OF THE SETTLEMENT

13. Any member of the Class who does not submit a valid Proof of Claim will not be entitled to receive any of the proceeds from the Net Settlement Amount but will otherwise be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgment to be entered in the Action and the releases provided for herein, and will be barred from bringing any action concerning the Settled Class Claims.

14. The Claims Administrator shall process the Proofs of Claim and, after entry of the Class Distribution Order, distribute the Net Settlement Fund to the Authorized Claimants. Except for their obligation to pay the Settlement Amount, and to cooperate in the production of information with respect to the identification of Class Members from PolyMedica's shareholder

transfer records, as provided in Paragraph 6, the Defendants and the Insurers shall have no liability, obligation or responsibility for the administration of the Settlement or disbursement of the Net Settlement Fund. Lead Counsel shall have the right, but not the obligation, to advise the Claims Administrator to waive what Lead Counsel deem to be formal or technical defects in any Proofs of Claim submitted in the interests of achieving substantial justice.

15. For purposes of determining the extent, if any, to which a Class Member shall be entitled to be treated as an Authorized Claimant, the following conditions shall apply:

(a) Each Class Member shall be required to submit a Proof of Claim and Release (see attached Exhibit 2 to Exhibit A) (“Proof of Claim”), supported by such documents as are designated therein, including proof of the transactions claimed and the losses incurred thereon, or such other documents or proof as the Claims Administrator, in its discretion may deem acceptable;

(b) All Proofs of Claim must be submitted by the date specified in the Notice unless such period is extended by Order of the Court. Any Class Member who fails to submit a timely Proof of Claim shall be forever barred from receiving any payment pursuant to this Stipulation (unless, by Order of the Court, a later submitted Proof of Claim by such Class Member is approved), but shall in all other respects be bound by all of the terms of this Stipulation and the Settlement including the terms of the Order and Judgment to be entered in the Action and the releases provided for herein, and will be barred from bringing any action concerning the Settled Class Claims;

(c) Each Proof of Claim shall be submitted to and reviewed by the Claims Administrator, who shall determine in accordance with this Stipulation and the approved Plan of

Allocation the extent, if any, to which each claim shall be allowed, subject to review by the Court pursuant to subparagraph (e) below;

(d) Proofs of Claim that do not meet the submission requirements may be rejected. Prior to rejection of a Proof of Claim, the Claims Administrator shall communicate with the Claimant in order to attempt to remedy the curable deficiencies in the Proofs of Claim submitted. The Claims Administrator shall notify, in a timely fashion and in writing, all Claimants whose Proofs of Claim they propose to reject in whole or in part, setting forth the reasons therefore, and shall indicate in such notice that the Claimant whose claim is to be rejected has the right to a review by the Court if the Claimant so desires and complies with the requirements of subparagraph (e) below;

(e) If any Claimant whose claim has been rejected in whole or in part desires to contest such rejection, the Claimant must, within twenty (20) days after the date of mailing of the notice required in subparagraph (d) above, serve upon the Claims Administrator a notice and statement of reasons indicating the Claimant's grounds for contesting the rejection along with any supporting documentation, and requesting a review thereof by the Court. If a dispute concerning a claim cannot be otherwise resolved, Lead Counsel shall thereafter present the request for review to the Court; and

(f) The administrative determinations of the Claims Administrator accepting and rejecting claims shall be presented to the Court, on notice to Defendants' Counsel, for approval by the Court in the Class Distribution Order.

16. Each Claimant shall be deemed to have submitted to the jurisdiction of the Court with respect to the Claimant's claim, and the claim will be subject to investigation and discovery under the Federal Rules of Civil Procedure, provided that such investigation and discovery shall

be limited to that Claimant's status as a Class Member and the validity and amount of the Claimant's claim. No discovery shall be allowed on the merits of the Action or Settlement in connection with processing of the Proofs of Claim.

17. Payment pursuant to this Stipulation shall be deemed final and conclusive against all Class Members. All Class Members whose claims are not approved by the Court shall be barred from participating in distributions from the Net Settlement Fund, but otherwise shall be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Order and Judgment to be entered in the Action and the releases provided for herein, and will be barred from bringing any action concerning the Settled Class Claims.

18. All proceedings with respect to the administration, processing and determination of claims described by paragraph 15 of this Stipulation and the determination of all controversies relating thereto, including disputed questions of law and fact with respect to the validity of claims, shall be subject to the jurisdiction of the Court. The Net Settlement Fund shall be distributed to Authorized Claimants by the Claims Administrator only after the Effective Date and pursuant to a Class Distribution Order entered by the Court.

TERMS OF ORDER FOR NOTICE AND HEARING

19. Concurrently with their application for preliminary Court approval of the Settlement contemplated by this Stipulation, Plaintiffs' Counsel and Defendants' Counsel jointly shall apply to the Court for entry of an Order for Notice and Hearing, substantially in the form annexed hereto as Exhibit A.

TERMS OF ORDER AND FINAL JUDGMENT

20. If the Settlement contemplated by this Stipulation is approved by the Court, counsel for the parties shall request that the Court enter an Order and Final Judgment substantially in the form annexed hereto as Exhibit B.

SUPPLEMENTAL AGREEMENT

21. Simultaneously herewith, Plaintiffs' Counsel and Defendants' Counsel are executing a "Supplemental Agreement" setting forth certain conditions under which this Settlement may be terminated by the Defendants if potential Class Members who purchased in excess of a certain number of shares of PolyMedica common stock traded during the Class Period exclude themselves from the Class. The Supplemental Agreement shall not be filed prior to the deadline for submitting requests for exclusion unless a dispute arises as to its terms. In the event of a termination of this Settlement pursuant to the Supplemental Agreement, this Stipulation shall become null and void and of no further force and effect and the provisions of paragraph 24 shall apply. Notwithstanding the foregoing, the Stipulation shall not become null and void as a result of the election by the Defendants to exercise their option to withdraw from the Stipulation pursuant to the Supplemental Agreement until the conditions set forth in the Supplemental Agreement have been satisfied.

EFFECTIVE DATE OF SETTLEMENT, WAIVER OR TERMINATION

22. The Effective Date of Settlement shall be the date when all the following shall have occurred:

(a) entry of the Order for Notice and Hearing substantially in the form of Exhibit A hereto;

(b) approval by the Court of the Settlement, following notice to the Class and a hearing, as prescribed by Rule 23 of the Federal Rules of Civil Procedure; and

(c) entry by the Court of an Order and Final Judgment, substantially in the form set forth in Exhibit B annexed hereto, and the expiration of the 30 day period to file any appeal of such Order and Final Judgment, or, if any appeal is filed and not dismissed, after such Order and Final Judgment is upheld on appeal in all material respects and is no longer subject to review upon appeal or review by writ of certiorari, or, in the event that the Court enters an order and final judgment in a form other than that provided above (“Alternative Judgment”) and none of the parties hereto elect to terminate this Settlement, the date that such Alternative Judgment becomes final and no longer subject to appeal or review by any court.

23. A Defendant or Lead Counsel shall have the right to terminate the Settlement and this Stipulation by providing written notice of their election to do so (“Termination Notice”) to counsel for all other parties hereto within thirty (30) days written notice given to the Defendants and Lead Counsel of : (a) the Court’s refusal to enter the Order for Notice and Hearing in substantially the form of Exhibit A; (b) the Court’s refusal to approve this Stipulation or any material part of it; (c) the Court’s refusal to enter the Order and Final Judgment in any material respect; (d) the date upon which the Order and Final Judgment is modified or reversed in any material respect by any appellate court; or (e) the date upon which an Alternative Judgment is entered, or if any Alternative Judgment is accepted by the parties, the date upon which an Alternative Judgment is modified or reversed in any material respect. In the event any Termination Notice is validly given, this Stipulation shall be withdrawn and terminated and deemed null and void, and the provisions of paragraph 24 of this Stipulation shall apply.

24. Except as otherwise provided herein, in the event the Settlement is terminated, then the parties to this Stipulation shall be deemed to have reverted to their respective status in the Action as of the date and time immediately prior to the execution of this Stipulation and, the parties shall proceed in all respects as if this Stipulation and any related orders had not been entered, and any portion of the Settlement Amount previously paid or caused to be paid by the Defendants, together with any interest earned thereon, less any taxes due with respect to such income, and less costs of administration and notice actually incurred and paid or payable from the Settlement Amount shall be returned to the Insurers.

NO ADMISSION OF WRONGDOING

25. This Stipulation, whether or not consummated, and any proceedings taken pursuant to it:

(a) shall not be offered or received against the Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of the Defendants with respect to the truth of any fact alleged by any of the plaintiffs or the validity of any claim that has been or could have been asserted in the Action or in any other litigation or proceeding, or the deficiency of any defense that has been or could have been asserted in the Action or in any other litigation or proceeding, or of any liability, negligence, fault, or wrongdoing of the Defendants;

(b) shall not be offered or received against the Defendants as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant;

(c) shall not be offered or received against the Defendants as evidence of a presumption, concession or admission of any liability, negligence, fault or wrongdoing, or in any

way referred to for any other reason as against any of the Defendants, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of this Stipulation; provided, however, that if this Stipulation is approved by the Court, the Defendants may refer to it to effectuate the liability protection granted them hereunder;

(d) shall not be construed against the Defendants as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial; and

(e) shall not be construed as or received in evidence as an admission, concession or presumption against the Class Representative or any of the Class Members that any of their claims are without merit, or that any defenses asserted by the Defendants have any merit, or that damages recoverable under the Complaint would not have exceeded the Gross Settlement Fund.

MISCELLANEOUS PROVISIONS

26. All of the exhibits attached hereto are hereby incorporated by reference as though fully set forth herein.

27. Each Defendant contributing to the Settlement Amount warrants as to himself, herself or itself that, as to the payments made by or on behalf of him, her or it, at the time of such payment that the Defendant made or caused to be made pursuant to paragraph 4 above, he, she or it was not insolvent nor did nor will the payment required to be made by or on behalf of him, her or it render such Defendant insolvent within the meaning of and/or for the purposes of the United States Bankruptcy Code, including §§ 101 and 547 thereof. This warranty is made by each such Defendant and not by such Defendant's Counsel.

28. If a case is commenced in respect of any Defendant contributing to the Settlement Amount (or any Insurer contributing funds to the Settlement Amount on behalf of any Defendant) under Title 11 of the United States Code (Bankruptcy), or a trustee, receiver or conservator is appointed under any similar law, and in the event of the entry of a final order of a court of competent jurisdiction determining the transfer of money to the Gross Settlement Fund or any portion thereof by or on behalf of such Defendant to be a preference, voidable transfer, fraudulent transfer or similar transaction and any portion thereof is required to be returned, and such amount is not promptly deposited to the Gross Settlement Fund by others, then, at the election of Lead Counsel, the parties shall jointly move the Court to vacate and set aside the releases given and Judgment entered in favor of the Defendants pursuant to this Stipulation, which releases and Judgment shall be null and void, and the parties shall be restored to their respective positions in the litigation as of the date a day prior to the date of this Stipulation and any cash amounts in the Gross Settlement Fund shall be returned as provided in paragraph 24 above.

29. The parties to this Stipulation intend the Settlement to be a final and complete resolution of all disputes asserted or which could be asserted by the Class Members with respect to the Settled Class Claims and all disputes asserted or which could be asserted by Lead Plaintiffs with respect to the Settled Uncertified Claims. Accordingly, the Lead Plaintiffs and the Defendants agree not to assert in any forum that the litigation was brought by the Plaintiffs or defended by the Defendants in bad faith or without a reasonable basis. The parties hereto shall assert no claims of any violation of Rule 11 of the Federal Rules of Civil Procedure relating to the prosecution, defense, or settlement of the Action. The parties agree that the amount paid and the other terms of the Settlement were negotiated at arm's length in good faith by the parties, and

reflect a settlement that was reached voluntarily after consultation with experienced legal counsel.

30. This Stipulation may not be modified or amended, nor may any of its provisions be waived except by a writing signed by all parties hereto or their successors-in-interest.

31. The headings herein are used for the purpose of convenience only and are not meant to have legal effect.

32. The administration and consummation of the Settlement as embodied in this Stipulation shall be under the authority of the Court and the Court shall retain jurisdiction for the purpose of entering orders providing for awards of attorneys' fees and expenses to Plaintiffs' Counsel and enforcing the terms of this Stipulation.

33. The waiver by one party of any breach of this Stipulation by any other party shall not be deemed a waiver of any other prior or subsequent breach of this Stipulation.

34. This Stipulation, its exhibits and the Supplemental Agreement contemplated by paragraph 21, constitute the entire agreement among the parties hereto concerning the Settlement of the Action, and no representations, warranties, or inducements have been made by any party hereto concerning this Stipulation and its exhibits other than those contained and memorialized in such documents.

35. This Stipulation may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument provided that counsel for the parties to this Stipulation shall exchange among themselves original and signed counterparts.

36. This Stipulation shall be binding upon, and inure to the benefit of, the successors and assigns of the parties hereto.

37. The construction, interpretation, operation, effect and validity of this Stipulation, and all documents necessary to effectuate it, shall be governed by the laws of the Commonwealth of Massachusetts without regard to conflicts of laws, except to the extent that federal law requires that federal law governs.

38. This Stipulation shall not be construed more strictly against one party than another merely by virtue of the fact that it, or any part of it, may have been prepared by counsel for one of the parties, it being recognized that it is the result of arm's-length negotiations between the parties and all parties have contributed substantially and materially to the preparation of this Stipulation.

39. All counsel and any other person executing this Stipulation and any of the exhibits hereto, or any related settlement documents, warrant and represent that they have the full authority to do so and that they have the authority to take appropriate action required or permitted to be taken pursuant to the Stipulation to effectuate its terms.

40. Lead Counsel and Defendants' Counsel agree to cooperate fully with one another in seeking Court approval of the Order for Notice and Hearing, the Stipulation and the Settlement, the Order and Final Judgment and to agree promptly upon and execute all such other documentation as may be reasonably required to obtain final approval by the District Court of the Settlement.

DATED: May 9, 2007

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