

**PolyMedica Corporation
Board Guidelines on
Significant Corporate Governance Issues**

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TABLE OF CONTENTS

A.	Director Responsibilities.....	1
1.	Board Role	1
2.	Care, Candor and Avoidance of Conflicts	1
B.	Composition of and Qualifications for the Board.....	2
1.	Size of the Board.....	2
2.	Definition of Independence.....	2
3.	Mix of Independent and Non-Independent Directors	2
4.	Membership on Other Boards	3
5.	Changes in Directors' Job Responsibilities or Circumstances	3
6.	Selection of New Director Candidates.....	3
7.	Extending an Invitation to Join the Board	3
8.	Term Limits	3
9.	Retirement of Board Members.....	3
10.	Former CEO Board Membership.....	4
C.	Chairman, CEO and Lead Director.....	4
1.	Selection of Chairman, CEO and Lead Director	4
2.	Formal Evaluation of the CEO	4
D.	Board Procedure.....	4
1.	Frequency of Board Meetings; Executive Sessions.....	4
2.	Selection of Agenda Items for Board Meetings.....	5
3.	Board Materials Distributed In Advance	5
4.	Board Attendance.....	5
E.	Committees of the Board and Committee Procedure	5
1.	Number of Committees.....	5
2.	Frequency and Length of Committee Meetings.....	6
3.	Committee Chairs; Annual Review; Rotation	6
F.	Relationship with Senior Management.....	6
1.	Effect of Board Membership	6
2.	Regular Attendance of Senior Managers at Board and Committee Meetings	6
3.	Board Access to Senior Management	6
4.	Management Development and Succession Planning	7
G.	Miscellaneous	7
1.	Board Interaction with Stockholders, Institutional Investors, the Press, Customers, etc.....	7
2.	Director Orientation and Continuing Education	7
3.	Director Stock Ownership.....	8
4.	Conflicts of Interest.....	8
5.	Related Party Transactions	8
6.	Charitable Donations	8
7.	Annual Board and Committee Performance Evaluations.....	8

The Board of Directors (the “Board”) has ultimate responsibility for the management of the business and affairs of PolyMedica Corporation and its subsidiaries (together, “PolyMedica” or the “Company”) in accordance with the PolyMedica Articles of Organization (the “Articles”), the PolyMedica By-Laws (the “By-Laws”) and applicable provisions of Massachusetts law. These Board Guidelines on Significant Corporate Governance Issues (the “Guidelines”) are not intended to be a summary of the legal duties of the Board, but rather cover a number of governance matters in a manner intended to assist the Board in carrying out its responsibilities.

A. Director Responsibilities

The role of the Board is to direct the affairs of the Company, in the interests of the shareholders, including their interest in optimizing financial returns and the value of the Company over the long term.

1. Board Role

The Board fulfills its role (directly or by delegating certain responsibilities to its committees) by:

- a. providing advice and counsel to the Chief Executive Officer and principal senior executives;
- b. selecting, regularly evaluating, fixing the compensation of, and, where appropriate, replacing the Chief Executive Officer;
- c. overseeing the conduct of the Company’s business and strategic plans to evaluate whether the business is being properly managed;
- d. reviewing and approving the Company’s financial objectives and major corporate plans and actions;
- e. reviewing and approving major changes in the appropriate auditing and accounting principles and practices;
- f. providing oversight of internal and external audit processes and financial reporting;
- g. providing oversight of risk assessment and protection processes and processes designed to promote legal compliance; and
- h. performing such other functions as the Board believes appropriate or necessary, or as otherwise prescribed by rules or regulations.

2. Care, Candor and Avoidance of Conflicts

The Company’s directors recognize their obligation individually and collectively as the Board to pay careful attention and be properly informed. This requires regular attendance at board meetings and preparation for board meetings, including the

advance review of circulated materials. The directors also recognize that candor and the avoidance of conflicts in fact and in perception are hallmarks of the accountability owed to the shareholders. Directors have a personal obligation to disclose a potential conflict of interest to the Chairman of the Board prior to any Board decision related to the matter and, if the Chairman in consultation with legal counsel determines a conflict exists or the perception of a conflict is likely to be significant, to recuse themselves from any discussion or vote related to the matter.

B. Composition of and Qualifications for the Board

1. Size of the Board

The Board should consider the appropriate size of the Board and fix the number of directors pursuant to a resolution adopted by a majority of the Board and in a manner consistent with the bylaws of the Company. The Board believes that given the current operations of the Company, the needs of the various committees of the Board, and a need for diversity of views, the size of the Board should be in the range of 7 to 13 directors.

2. Definition of Independence

In order to be an “independent director,” a director must meet the definition of “independent” established by the National Association of Securities Dealers (the “NASD”), a current version of which is attached to these Guidelines as Exhibit A, but which may be amended from time to time.

In addition, a director will not be deemed independent if the Nominating and Corporate Governance Committee (the “Governance Committee”) determines that he or she has a material direct or indirect relationship with the Company or with the management of the Company.

To the extent that additional provisions of federal law (in particular, the Sarbanes-Oxley Act of 2002), or rules of the Securities and Exchange Commission (the “Commission”), the NASD or The Nasdaq National Market (the “Nasdaq”) that relate to the determination of the independence of directors in particular circumstances are applicable to the Company, the Board and these Guidelines shall adopt those additional rules or provisions for the circumstances at issue.

The Governance Committee shall determine whether a director meets all applicable definitions of independence.

3. Mix of Independent and Non-Independent Directors

A majority of directors must be independent.

The Board believes that, as a general rule, non-management members of the Board should meet the definition of independence contained in these Guidelines. If non-management members do not meet this definition, they should immediately disclose that fact to the Chairman of the Board (the “Chairman”), the Chief Executive Officer (the “CEO”) and the Chairman of the Nominating and Corporate Governance Committee. All directors should immediately disclose any transactions which create a material direct or indirect relationship

with the Company or with the management of the Company or which are defined as “related party transactions” by the NASD or Nasdaq.

4. Membership on Other Boards

It is the Board’s policy that a director shall limit his or her service on the boards of other public companies so that such service does not interfere with the performance of his or her duties to the Company. The CEO must obtain the Board’s approval prior to accepting a position on an outside Board.

5. Changes in Directors’ Job Responsibilities or Circumstances

It is the sense of the Board that, if individual non-management directors become directors or employees of a business that competes with the Company or if their employment circumstances change materially and thus potentially alter their effectiveness as directors, they should volunteer to resign from the Board.

It is not the sense of the Board that directors who retire or change from the position they held when they came on the Board should necessarily leave the Board. There should, however, be an opportunity for the Board (with the advice of the Governance Committee) to review the continued appropriateness of Board membership under these circumstances.

6. Selection of New Director Candidates

The Board is responsible for nominating candidates for election by the shareholders or by the Board as provided by the By-Laws. The Board delegates the screening process for candidates to the Governance Committee, which shall apply the nominating criteria set forth in Exhibit B, hereto. The Governance Charter details the selection process.

7. Extending an Invitation to Join the Board

The invitation to join the Board should be extended by the Chairman and the CEO.

8. Term Limits

The Board does not believe it should establish term limits. While term limits may help insure that there are fresh ideas and viewpoints available to the Board, their enactment risks losing the contribution of directors who have developed insight into the Company and its operations over time and, who therefore make an increased contribution to the Board directly as a result of their tenure.

As an alternative to term limits, the Governance Committee reviews a director’s continued Board membership at the expiration of each director’s term. This review also allows each director the opportunity to confirm his or her desire to remain a director.

9. Retirement of Board Members

The policy of the Board is that it will not nominate any individual for election as a director by the stockholders or appoint any individual as a director if such person is 72 years of age or older.

10. Former CEO Board Membership

The Board believes this is a matter to be decided in each individual instance. When the CEO resigns from that position, he or she should offer his or her resignation from the Board at the same time. Whether the individual continues to serve on the Board is a matter for discussion at that time with the new CEO, the Board and the Governance Committee.

C. Chairman, CEO and Lead Director

1. Selection of Chairman, CEO and Lead Director

The Board may determine the CEO in any manner that it deems to be in the best interests of the Company. The Board may determine the Chairman in any manner that it deems to be in the best interests of the Company; however, it is the responsibility of the Governance Committee to recommend a director for the position of Chairman.

The Board does not have a policy on whether the offices of CEO and Chairman should be held separately. If the office of CEO is held separately from that of Chairman, the Board does not have a policy on whether the Chairman should be an independent, non-management or management director.

If the same director holds both the office of CEO and that of Chairman, or if the Chairman is a member of management or is not independent for other reasons, the Board believes that it is appropriate that the non-management members of the Board appoint an independent director as “Lead Director.” The Board may determine the Lead Director in any manner that it deems to be in the best interests of the Company; however, it is the responsibility of the Governance Committee to recommend a director for the position of Lead Director.

It is the policy of the Board that the CEO should serve as a director.

2. Formal Evaluation of the CEO

The non-management directors, in conjunction with the Compensation Committee, will evaluate the CEO annually. The Chairman of the Compensation Committee will communicate the content of the evaluation to the CEO and the non-management directors.

The evaluation will be based on objective criteria including performance of the Company, compliance of the Company with all applicable regulations, accomplishment of long-term strategic objectives and development of management. These criteria will include both corporate and personal objectives.

D. Board Procedure

1. Frequency of Board Meetings; Executive Sessions

The Board contemplates that it will meet at least four times annually. At least three of those sessions will have significant time set aside for the non-management members of the Board to hold an executive session; the Chairman (if not a member of management) or the Lead Director will preside over any such session and establish its agenda.

2. Selection of Agenda Items for Board Meetings

The Chairman and the CEO (if not the same person) or the Lead Director and the CEO (if the CEO is also Chairman), will establish the agenda for each Board meeting.

Each Board member is free to propose the inclusion of items on the agenda.

The Board expects that the CEO will keep the Board informed of all developments of which it needs to be aware to carry out its responsibilities.

It is the sense of the Board that some Board and/or committee meetings can and should be done telephonically. This is not intended to diminish in any way the contact between the Board and the management of the Company.

3. Board Materials Distributed In Advance

It is the sense of the Board that information, data, and presentations which deal with significant issues that are important to the Board's understanding of the business be distributed in writing to the Board before it meets. Material of a sensitive or of a confidential nature may be distributed at the meeting.

4. Board Attendance

All Board members are encouraged, but not required, to attend the Annual Meeting of Stockholders. It is expected that all Board members shall attend all meetings of the Board and all meetings of the committees of the Board on which they serve, unless prevented from doing so by illness or other unanticipated circumstances beyond their control. Board member attendance will be reported to the stockholders in the Company's Annual Meeting proxy statement.

E. Committees of the Board and Committee Procedure

1. Number of Committees

The Board currently has five committees. These committees are:

- Executive Committee
- Audit Committee
- Compensation Committee
- Nominating and Corporate Governance Committee
- Compliance Committee

Membership on Audit, Compensation, and Nominating and Corporate Governance Committees is limited to independent directors. The Board retains discretion to form new committees or disband current committees depending upon the circumstances.

The Governance Committee recommends, after consultation with the Chairman of the Board and Chief Executive Officer, and with consideration of the desires of individual directors, the appointment of directors to various committees and the appointment of committee chairmen, for Board approval.

The Board conducts an annual self-evaluation of its performance and the performance of its committees. The Governance Committee recommends to the Board and its committees the methodology for such evaluations and oversees its execution.

2. Frequency and Length of Committee Meetings

The Chair of each committee, in consultation with committee members, will determine the frequency and length of the meetings of each committee. To the extent feasible and necessary, committee meetings shall be coordinated with Board meetings so as to avoid excess travel.

The Chair of each committee, in consultation with the appropriate members of management and staff, will develop the committee's agenda and appoint a secretary to maintain minutes of each meeting and distribute them to the Board.

3. Committee Chairs; Annual Review; Rotation

No Director shall chair more than one committee. Each committee shall review its own performance at least annually. The Board shall periodically consider the matter of committee membership rotation.

F. Relationship with Senior Management

1. Effect of Board Membership

It is the Board's policy that Board membership is not necessary or a prerequisite to any higher management positions in the Company; the Board believes that management should make senior managers who are not directors aware of this policy.

2. Regular Attendance of Senior Managers at Board and Committee Meetings

The Board is comfortable with the regular attendance at Board meetings of non-Board members who are members of the senior management of the Company. The Board will ordinarily schedule an executive session at the beginning (or end) of each meeting from which non-Board members will be excused.

The Board is generally comfortable with the regular attendance at committee meetings of non-committee members or non-Board members who are members of the senior management of the Company, to the extent that the agenda before the committee is appropriate for such attendance.

3. Board Access to Senior Management

Board members have complete access to the Company's senior management and to the Board's advisors. The CEO should, if appropriate, be informed of the purpose of any such contacts. It is assumed that Board members will use judgment to assure that this contact

is not distracting to the business operation of the Company and that such contact, if in writing, be copied to the Chairman and CEO. Board members should identify their role in these cases as either individual directors or as a representative of the Board as a whole, and/or as a Committee member.

Furthermore, the Board encourages the senior management, from time to time, to bring managers into Board meetings who can provide additional insight into the items being discussed or are managers with future potential that the senior management believes should be given exposure to the Board.

4. Management Development and Succession Planning

The Governance Committee, in conjunction with the CEO, shall at least annually report to the Board on the Company's program for management development and succession planning. In addition, the Board shall periodically discuss the Governance Committee's and CEO's recommendation as to a successful succession in the event of sudden resignation, retirement, or disability of the CEO.

G. Miscellaneous

1. Board Interaction with Stockholders, Institutional Investors, the Press, Customers, Etc.

The Board believes that the Chief Executive Officer and his or her designees speak for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is, however, expected that Board members would do so with the knowledge of and, absent unusual circumstances or as contemplated by the committee charters, only at the request of the Company's senior executives.

The Board will give appropriate attention to written communications that are submitted by stockholders and other interested parties, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by the committee charters, the Chairman of the Board (if an independent director), or the Lead Director (if one is appointed), or otherwise the Chairman of the Governance Committee shall, subject to advice and assistance from the General Counsel, (1) be primarily responsible for monitoring communications from shareholders and other interested parties, and (2) provide copies or summaries of such communications to the other directors as he or she considers appropriate.

Stockholders are invited to communicate with the Board or its committees through the Company's investor relations function

2. Director Orientation and Continuing Education

The Board has delegated to the Governance Committee the task of designing, with Company management, an appropriate orientation program for new directors that includes background material, meetings with senior management and visits to Company facilities. The Committee also explores, makes available and designs and provides continuing education opportunities for directors, from time to time.

3. Director Stock Ownership

The Board believes that each director should acquire and hold shares of Company stock in an amount that is meaningful and appropriate for such directors. All directors will comply with the Company's Equity Interest Policy, as approved by the Board of Directors on January 17, 2003 and as amended on July 11, 2003.

4. Conflicts of Interest

A director's business or family relationships may occasionally give rise to that director's material personal interest on a particular issue. Each director is responsible for disclosing situations that he or she reasonably believes gives rise to a potential conflict of interest to the Governance Committee. In addition, the Governance Committee shall ask directors about potential conflicts of interest at least annually. The Board, upon recommendation of the Governance Committee and after consultation with the Company's outside counsel, shall determine on a case-by-case basis whether a conflict of interest exists. The Board shall take appropriate steps to identify potential conflicts of interest and assure that all directors who vote on an issue do not have a conflict of interest with respect to such issue.

5. Related Party Transactions

The full Board must approve any consulting or similar agreement between the Company and a director. Such Board approval is in addition to any committee approval required by a committee charter, Nasdaq rules, or applicable law.

6. Charitable Donations

The full Board must approve any Company donations to a charity of which a director or executive officer of the Company, or an immediate family member of a director or executive officer of the Company, is an officer or board member. Such Board approval is in addition to any committee approval required by a committee charter, Nasdaq rules, or applicable law.

7. Annual Board and Committee Performance Evaluations

The Board conducts an annual self-evaluation of its performance and the performance of its committees. The Governance Committee recommends to the Board and its committees the methodology for such evaluations and oversees its execution.

Exhibit A

NASD Definition of Independence

"Independent director" is one who (a) is not an officer or employee of the company or its subsidiaries and (b) has no relationship which, in the Board's opinion, would interfere with the exercise of independent judgement in carrying out the responsibilities of a director.

In addition, the following persons can not be considered independent:

(A) a director who is, or at any time during the past three years was, employed by the company or by any parent or subsidiary of the company;

(B) a director who accepted or who has a Family Member (as defined in (C) below) who accepted any compensation from the company or any parent or subsidiary of the company in excess of \$100,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:

(i) compensation for board or board committee service;

(ii) Payments arising solely from investments in the company's securities;

(iii) compensation paid to a Family Member who is a non-executive employee of the company or a parent or subsidiary of the company;

(iv) benefits under a tax-qualified retirement plan, or non-discretionary compensation; or

(v) loans permitted under Section 13(k) of the Act.

Provided however, that in addition to the requirements contained in this paragraph (B), audit committee members are also subject to additional, more stringent requirements under Rule 4350(d).

(C) a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the company or by any parent or subsidiary of the company as an executive officer. Family Members includes a person's spouse, parents, children, siblings, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, and anyone who resides in such person's home;

(D) a director who is, or has a Family Member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the company made, or from which the company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following

(i) payments arising solely from investments in the company's securities; or

(ii) payments under non-discretionary charitable contribution matching programs.

(E) a director of the listed company who is, or has a Family Member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the listed company serve on the compensation committee of such other entity; or

(F) a director who is, or has a Family Member who is, a current partner of the company's outside auditor, or was a partner or employee of the company's outside auditor who worked on the company's audit at any time during any of the past three years.

(G) in the case of an investment company, in lieu of paragraphs (A)-(F), a director who is an "interested person" of the company as defined in Section 2(a)(19) of the Investment Company Act of 1940, other than in his or her capacity as a member of the board of directors or any board committee.

Exhibit B

POLYMEDICA CORPORATION

CRITERIA FOR NOMINATION AS A DIRECTOR

General Criteria

1. Nominees should have a reputation for integrity, honesty and adherence to high ethical standards.
2. Nominees should have demonstrated business acumen, experience and ability to exercise sound judgments in matters that relate to the current and long-term objectives of the Company and should be willing and able to contribute positively to the decision-making process of the Company.
3. Nominees should have a commitment to understand the Company and its industry and to regularly attend and participate in meetings of the Board and its committees.
4. Nominees should have the interest and ability to understand the sometimes conflicting interests of the various constituencies of the Company, which include stockholders, employees, customers, governmental units, creditors and the general public, and to act in the interests of all stockholders.
5. Nominees should not have, nor appear to have, a conflict of interest that would impair the nominee's ability to represent the interests of all the Company's stockholders and to fulfill the responsibilities of a director.
6. Nominees shall not be discriminated against on any basis proscribed by law. The value of diversity on the Board should be considered.
7. Nominees should normally be able to serve for their full term.

Application of Criteria to Existing Directors

The renomination of existing directors should not be viewed as automatic, but should be based on continuing qualification under the criteria set forth above. In addition, the Nominating and Corporate Governance Committee shall consider the existing directors' performance on the Board and any committee, which shall include consideration of the extent to which the directors undertook continuing director education and attendance.

Criteria for Composition of the Board

The backgrounds and qualifications of the directors considered as a group should provide a significant breadth of experience, knowledge and abilities that shall assist the Board in fulfilling its responsibilities.