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H Y D R O M E R, Inc.

Corporate Policies Concerning Business Conduct

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I. CORPORATE POLICY IN GENERAL

Here are the principles of business conduct to which each employee is expected to adhere in order to assure that Hydromer and its subsidiaries (if in existence), from now on referred to as "Hydromer" or the "Company", conducts itself in a manner consistent with its obligations to its stockholders and to society:

1. LOYALTY TO Hydromer

No employee should be subject, or even seem to be subject, to influences, interests or relationships which conflict with the best interests of the Company. This means avoiding any activity which might compromise or seem to compromise the Company or the employee. This requirement is explained in more detail in Section II.

2. COMPLIANCE WITH APPLICABLE LAWS

While we must compete vigorously to maximize profits, we must at the same time do so in strict compliance with all laws and regulations applicable to our activities. No employee should at any time take any action on behalf of the Company which she or he knows or reasonably should know violates any applicable law or regulation. Sections III-VIII outline basic requirements of the laws relating to antitrust, inside information, the trading of securities, political contributions, equal employment and certain other matters. These laws are explained because of their particular importance to our business activities. It should be understood, however, that this policy is not limited to them, but extends to all applicable laws and regulations.

3. OBSERVANCE OF MORAL AND ETHICAL STANDARDS

In addition to the above requirements of loyalty to the Company and compliance with law, each employee must adhere to and comply with the moral and ethical standards of our society in the conduct of business. The Company's interests never can be served by individual corner cutting in the interests of a seeming quick profit or temporary advantage.

II. CONFLICT OF INTEREST

A conflict of interest exists when an employee's duty to give undivided commercial loyalty to Hydromer can be prejudiced by actual or potential personal benefit from another source.

Each employee is expected to avoid any investment, interest or association which interferes, might interfere or might be thought to interfere with the independent exercise of judgment in the Company's best interest.

Disclosures of personal interest or other circumstances which might constitute conflicts of interest are to be reported promptly by the employee to the General Counsel. He will arrange for resolution in a manner best suited to the interests of the Company and the individual. It is essential to keep in mind that when an employee confronts a possible conflict of interest, prompt and full disclosure is the correct first step towards solving the problem.

1. Common Sources of Conflicts

Conflicts of interest generally arise in these and similar situations:

A. When an employee, a member of the household or a trust in which the employee is involved, has a significant direct or indirect financial interest in, or obligation to, an actual potential competitor, supplier or customer of the Company;

B. When an employee conducts business on behalf of the Company with a supplier or customer of which a relative by blood or marriage is a principal, officer or representative;

C. When an employee, a member of the household, a trust in which the employee is involved, or any other person or entity designated by the employee, accepts gifts of more than token or nominal value from an actual or potential competitor, supplier or customer; and

D. When an employee misuses information obtained in the course of employment to his own benefit at the expense or lost opportunity to the company.

This is not an exclusive listing.

2. Definitions

For these purposes, suppliers include those providing not only goods but also services-such as consultants, transportation companies, financial institutions, equipment lessors, realtors and licensors of technology. Customers include not only

those who buy our regular products such as our distributor and end users or license our technology, but also those who buy scrap materials or who can exercise major influence on our customers.

An interest amounting to one percent (1%) or less of any class of securities listed on any of the national securities exchanges or regularly traded over-the-counter will not be regarded as a "significant" financial interest in a competitor, supplier or customer in the absence of other complicating factors which should cause the employee to recognize that a conflict is present.

Similarly, existence of an interest-bearing loan, at normal rates prevailing at the time of the actual borrowing, from a recognized financial institution will not be regarded as "significant. " Any interest in the stock of a competitor, supplier or customer which is not publicly traded must be treated as "significant" and subject to our review procedure.

3. Specific Policy Applications

It is not feasible to describe every situation which would conflict with these policies. However, it is useful to consider a few examples in which clear conflicts of interest are present and ground rules can be indicated;

A. An employee, who owns, directly or beneficially, a significant financial interest in actual or potential supplier or customer may not, without full disclosure and specific written clearance by the General Counsel, be assigned to a position in which the employee can influence decisions with respect to business with such supplier or customer.

Clearly included are employees who draw specifications for suppliers' products or services; recommend, evaluate, test or approve such things; or participate in selection of, or arrangements with suppliers.

B. Accepting gifts of other than token or nominal value or excessive entertainment from an actual or potential competitor, supplier or customer is prohibited. Items classified as advertising novelties which have wide circulation both within and without the Company (calendars, paperweights, etc.) do not violate the policy against receiving gifts. Permitting a supplier's representative to pick up the check at a meal is not offensive so

long as business was discussed at arm's length and there are absolutely no implications that an unusual event has been staged with the intention of subverting loyalty to the slightest degree.

C. *No information obtained as the result of employment may be used for personal profit or as the basis for a "tip" to others unless such information has been made generally available to the public by the Company. This is true whether or not direct injury to Hydromer appears to be involved. This requirement, as it relates to transactions with respect to stock and other securities, is described in Section IV. The requirement, however, is not limited to transactions relating to securities and embraces any situation in which undisclosed information may be used as the basis for inequitable bargaining with an outsider.*

III. ANTITRUST COMPLIANCE

At the heart of the antitrust laws is the conviction that the economy and the public will benefit most if businesses compete vigorously, free from unreasonable restraints. We wholeheartedly support the antitrust laws. Without them, it is doubtful that Hydromer could have survived and prospered. Compliance with the antitrust laws is the policy of the Company and the responsibility of each employee.

Failure to comply could result in serious consequences for Hydromer and offending employees. Violations of many antitrust laws are crimes, subjecting the Company and individuals to heavy fines, and individuals to possible imprisonment as well. In addition, the Company may be required to pay triple damages and be ordered to refrain from engaging in the activity. Frequently such orders will extend across the entire product line of a company, although the violations relates only to a single product. And, of course, Hydromer may be damaged in its reputation even in those cases in which it prevails in a legal action.

1. Relations with Competitors

The chief antitrust statute, the Sherman Act, prohibits conspiracies and understandings that unreasonably restrain trade. It flatly prohibits any understanding whatsoever, between competitors with respect to price, or any element of price (discounts, credit terms), including arrangements between competitors which tend only to stabilize prices. Thus agreements by competitors to

buy up distress goods in order to prevent a decline in market price, or adhere to a specific formula for determining price, are clearly just as unlawful as an agreement to the price itself.

Also flatly prohibited are understandings between competitors with respect to:

A. The amount of their production;

B. The division or allocation of markets, territories, or customers; and

C. The boycotting of third parties.

All such arrangements are per se unlawful. That means they cannot be defended or justified in any way, no matter how good the competitors may have thought their intentions to be.

Do not be misled to think that the prohibited conspiracies and understandings relate only to formal documents signed by the parties. A conspiracy or understanding also will be found to exist where it is shown that there was any kind of mutual understanding which gave the parties a basis for expecting that a business practice or decision adopted by one would be followed, or at least not opposed, by the other.

Exchanges of business information between competitors and trade association activities may sometimes present problems under the Sherman Act. Consultation with the General Counsel is encouraged before anything is exchanged.

2. Relations with Customers

The Company's relationships with its customers are subject to a number of antitrust statutes, each of which is keyed to particular types of transactions.

A. PRICE DISCRIMINATION

The Robinson-Patman Act has its basic purpose the equitable treatment by a company of customers who compete with one another in the use or resale of the company's product (i. e. our distributors, and to the extent we sell "direct" we are in competition with our distributors). The Act prohibits reasonably contemporaneous sales of products of like grade and quality to competing customers at different prices

where the effect will probably be to injure competition. To determine whether a Robinson-Patman problem is present, ask whether the Company has made sales;

a. at different prices;

b. within a reasonably contemporaneous time period (this time period may vary depending upon the competitive market, but six months is a good rule of thumb);

c. of products of like grade, quality and quantity (that is, of products which have no significant physical difference from a commercial standpoint); and

d. to customers who are using or reselling the product in substantially the same competitive product or geographic markets in the United States, where injury to competition at the seller, customer or sub customer level will probably result.

If any of the above is absent, no Robinson-Patman problem should be present. Special attention should be directed to the issue of competitive injury. In many cases it can be shown that a price difference will not probably result in competitive injury at the customer or sub-customer level because the favored and non-favored customers use the purchased product for entirely different applications which in no way compete with each other.

In the event it should be found that a Robinson-Patman problem is present under the above criteria, the price difference may nevertheless be defended if

(i) the lower price was given in good faith to meet (but not beat) a price offered by a competitor; or

(ii) the difference between the prices charged to the favored and non-favored customer may be "cost-justified" on the basis of cost savings realized by Hydromer in its sales and delivery expenses in dealing with the favored and non-favored customer; or
(iii) the variation in price is the result of quantity discounts which are available to all competitors in our goods (i. e. our distributors).

B. PROMOTIONAL PAYMENTS

Other provisions of the Robinson-Patman Act seek to afford equitable

treatment to competing customers by requiring that a promotional payment, service or facility (such as advertising displays) extended by a company to a distributor or dealer be made available by the company on proportionally equal terms to all of the company's other distributors or dealers for the product who are competing with the recipient of the promotional assistance. Here also the right to meet competition in individual situations exists, and it is possible to defend a grant of promotional assistance to a particular customer by showing that it was made in good faith to meet an offer of such assistance by a competitor.

C. RESALE RESTRICTIONS

We turn again to the Sherman Act which prohibits understandings that unreasonably restrain trade. The law proceeds from the basic premise that someone who has purchased a product should have the right to do with it as it chooses without restriction by the seller. Thus, an agreement, or understanding by the seller and customer with respect to the price at which the customer will resell the product probably violates the law. Recent case law indicates the Federal Courts may view this under the rule of reason, state laws can be stricter. No restrictions of any sort of resale should ever be made without prior legal review. In general any restriction must not have as its purpose an anti-competitive purpose.

D. REFUSALS TO DEAL

A company that does not have a monopoly in a product still has the right to select the customers with whom it chooses to do business. This is a right which must be exercised by the company alone without consultation with any other party (i.e. another company or an employee of another company). The right may never be relied upon as the basis for required adherence by a customer to resale restrictions (e. g. , fixing the customer's resale price) which would otherwise violate the antitrust laws. Threats to distributors and dealers that they will be cut off if they do not comply with the resale policy pose serious problems and should never be made. Consult the Office of the General Counsel promptly of there are <u>any</u> questions on this subject.

E. REQUIREMENT CONTRACTS

A contract that requires a buyer to purchase all or substantially all of its requirements of a product from the seller may violate the law if that contract, together with other similar full requirements contracts the seller may have for the product, will foreclose to other sellers a significant portion of the market for the product. No "full requirements" sales contracts should be executed at any time without prior legal

review.

F. TYING ARRANGEMENTS

Any arrangement under which a seller forces or induces a customer to take a product it might not otherwise wish to buy from the seller as a condition of a license, loan or sale of a different product the buyer does wish to obtain is unlawful if the seller is dominate or has economic leverage with respect to the tying license, loan or product, or if a substantial amount of sales of the tied product are made. The U.S. Supreme Court has said that it can hardly conceive of anything that could justify a tying arrangement.

3. Relations with Distributors

With respect to the information learned because of third party shipments on behalf of distributors/resellers, it is important not to use this information to get around the distributor/reseller to make a direct deal. Of course if a distributor is selling other then Hydromer products to an account a typical competitive situation is present and a Hydromer salesperson can take any commercially reasonable steps to "meet the competition" and close a sale. Clients are not "owned" by anyone but it is important to note that you should not do anything to induce a party from breaking his agreement with a competitor. You can attempt a normal sale in the course of business. ie "buy my product" is the keynote, NOT "don't buy theirs"!!!!

4. Relations with Suppliers

The Sherman Act prohibits the use of trade relations and reciprocity, whether used as a club or only by way of mutual patronage. ("You scratch my back and I'll scratch yours"), where it is shown that a buyer with substantial purchasing power has purchased a product from another on condition that the other party make purchases from it in substantial amounts. The law does not prohibit our purchasing products from companies who purchase from us. It does prohibit any understanding or agreement to the effect that purchases by each party are conditioned upon purchases by the other where the above described conditions are present. Hydromer does not engage in trade relations or reciprocity and it is against the policy of the Company for any employee to engage in such practice.

5. In General

It is not possible within this booklet to cover all areas with which antitrust is concerned. In all of your dealings on behalf of Hydromer, be guided by the

following rule:Whenever involved in a transaction in which a competitive restraint to any form may be present, consult with the General Counsel at the earliest possible moment.

IV. THE USE OF MATERIAL INSIDE INFORMATION AND TRADING IN SECURITIES

1. In General

Until released to the public, material information concerning Hydromer plans, successes or failures is considered "inside" information and, therefore, confidential. Such data does not belong to the individual directors, officers or other employees who may handle it or otherwise come to know of it. It is as much an asset of the Company as the Branchburg Plant, a coating solution or a unique manufacturing process or other trade secret. For any person to use such information for personal benefit or to disclose it to others outside the Company violates the Company's interest. More particularly, in connection with trading in Hydromer securities, it is a fraud not only against the Company, but also against members of the investing public, who suffer by trading in the same market as the insider without the benefit of the confidential information he possesses.

Several rigidly enforced complex laws and regulations are intended to prevent misuse of corporate information by regulating the manner in which securities may be bought or sold. Particularly important are the "truth-in-disclosure" and "anti-fraud" rules of the Securities and Exchange Commission, which are designed to protect primarily the investing public.

Under the "truth-in-disclosure" and "anti-fraud" rules,anyone who is in possession of material inside information is an "insider". This includes not only knowledgeable directors and officers but also non management employees and persons outside the company (spouses, friends, brokers, etc.) who may have acquired the information directly or indirectly through tips. These rules prohibit insiders from trading in or recommending the Company's securities while such material inside information remains undisclosed to the general public. Note that the rules apply only to material inside information. ***The inside information you possess is "material" if it is important enough to affect your or anyone else's decision to buy, sell or hold the Company's securities.*** *With the internet connecting most of us together it would be a violation of the securities laws to post material inside information on a message base such as "www.ragingbull.com" or "www.yahoo.com". In addition using such information to "hype" the stock would be not only a serious criminal violation but the individual would be subject to immediate*

dismissal from employment. As to competitors of the Company, it would also be a violation to post material inside information (or dis-information) on message bases pertaining to competitors.

The insider is allowed to get back into the market or to recommend the Company's securities only after the inside information has been publicly disclosed, and then only after a reasonable time has been allowed for the information to be absorbed by the general public (1 day or more is always reasonable as the Company's SEC filings are electronically published on the SEC's EDGAR site).

A breach of the "truth-in-disclosure" or "anti-fraud" rules could expose the insider to the following penalties, which are not exclusive of one another:

a. Criminal fines and imprisonment (in certain cases);

b. Judgment in favor of a damaged investor ordering the insider to pay over the profits made on the transaction,and possibly damages;

c. Judgment in favor of the Company ordering the insider to pay over the profits he made on the transaction and possible damages; and

d. An S. E. C. injunction.

2. Guidelines

The following guidelines are established to help you comply with Hydromer's business conduct policy and avoid the penalties for breach of the federal securities laws, as well as the resulting criticism and embarrassment to you and the Company:

A. You must not disclose material inside information to anyone, except to person within the Company whose positions require them to know it, until it has been publicly released by the Company;

B. You should not place a purchase or sale order in the Company's securities when you have knowledge of material inside the information concerning the Company which has not been disclosed to the public. You should wait until the information has been publicly released and the public has had sufficient time to absorb it; and

C. You should not place a purchase or sale order in the securities of another corporation, the value of which is likely to be affected by actions of the

Company of which you are aware and which have not been publicly disclosed by the Company. For example, it would be a violation of the "anti-fraud" rule if you learned through Company sources of an action-pending or completed-with another company and then bought stock in the other company because of the likely increase in value.

V. POLITICAL CONTRIBUTION

Political contributions by corporations, whether by direct or indirect use of corporate funds, are unlawful. While individual participation in the political process and in campaign contributions is proper and is encouraged by Hydromer, an employee's contribution must not be made, or ever appear to be made, with the Company's funds, or be reimbursed for the Company's funds; nor should the selection of a candidate of a party be, or seem to be, coerced by the Company. Fines and jail sentences may be imposed on officers and directors who violate the political contribution laws, and the Company may be fined.

VI. EQUAL OPPORTUNITY

The law forbids discrimination in employment on the basis of race, color, sex, age, religion, national origin or handicapped status.

Each of the Company's facilities are committed to an affirmative action program to assure fair employment, including equal treatment in hiring, promotion, training, compensation, termination and disciplinary action. If you are not aware of the terms of the affirmative action program, you should contact the Personnel Manager.

Unlawful discrimination can expose the Company to substantial damages and unfavorable publicity. Moreover, EEO law which is relatively new, is developing rapidly and is administered by a number of different federal and state agencies.

VII. ENVIRONMENTAL HEALTH

Federal, state and local environmental laws regulate the emission into the atmosphere and the discharge into surface and underground waters of a wide variety of substances. The Occupational Safety and Health Act regulates both physical safety and exposure to conditions in the work place which could harm employees. More recently the Toxic Substances Control Act has regulated all chemical substances or mixtures which may present a risk of injury to health or the

environment. These laws, and applicable regulations, are detailed and complex. Should you be faced with an environmental health issue, you should contact the Personnel Manager.

VIII. COMPLIANCE WITH OTHER LAWS

1. Bribery, or the giving of money or anything else of value in an attempt to influence the action of a public official, is unlawful. No employee is authorized to pay any bribe or make any illegal payment on behalf of the Company, no matter how small the amount. This prohibition extends to payments to consultants, agents or other intermediaries when the employee has reason to believe that some part of the payment or "fee" will be used for a bribe or otherwise to influence government action.

2. Payment (other than for purchase of a product) or giving of a gift of other than token or nominal value to suppliers or customers or their agents, employees or fiduciaries may constitute a commercial bribe, which may also be a violation of law. Commercial bribery is also against the policy of the Company; and no employee may engage in such bribery on behalf of the Company.

3. It is the policy of the Company to obey domestic tax laws. No employee should on behalf of the Company enter into any transaction which the employee knows or reasonable should know would violate such laws.

4. Neither the Company nor its employees should assist any third party in violating the laws of any country. This policy applies whether or not the Company's assistance itself violates the laws of any country.

5. Cooperation with foreign country boycotts that discriminate against U.S. firms or citizens on the basis of race, color, religion, sex or national origin, and conduct or information implementing the boycott of a nation friendly to the U.S., violates U.S. law. Criminal penalties and the loss of certain U.S. tax benefits may result. It is the Company's policy to reject all such request.

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