

Dear Valued Customer,

At this time of our annual renewal, the current market for polyacrylamide polymers has seen a wave of increased competition for raw materials, which has continued to drive up the cost. Some of the influences that are effecting the market are as follows:

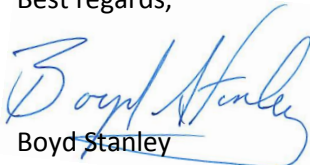
- Domestic oil production has started outpacing imported oil
- Truck driver shortages
- Increased environmental awareness
- Global emphasis on the importance of clean drinking water
- Ever stricter regulations and global awareness for properly treating wastewater
- Upcoming industrial countries' rising standards of living is creating demands for luxuries like disposable diapers and automobiles
- Developments in improving agriculture through use of polyacrylamides to feed an ever growing global population.

While these outside influences may not seem relevant, they have created an ever increasing demand for the raw materials used to manufacture polyacrylamide polymers. Polydyne Inc. has witnessed significant increases of 50% to 80% in key raw material components as well as a 9.9% increase in manufacturing costs. While other polymer manufacturers are receding from the Municipal market by eliminating field technical positions and pursuing more profitable avenues, Polydyne Inc. continues to maintain strong field support personnel and competitive pricing.

Regarding the Municipal bid market, there are areas which have traditionally attracted polymer manufacturers due to their large volumes. However, due to demand in other market areas, such as Oil and Gas, municipal customers are seeing less and less competition. For example, Polydyne Inc. was recently the only bidder for high-volume locations in Atlanta, Georgia, Los Angeles County, California and Clean Water Services in Oregon. This lack of participation can also be witnessed at many other smaller locations, where the competition either enters no bids or submits an exorbitant price.

While Polydyne Inc. is committed to being the lowest cost polymer supplier to the U.S. municipal market, we are no longer able to continue to absorb these cost increases and must make adjustments to our selling prices as a result. We deeply regret the circumstances necessitating this action and greatly appreciate your understanding.

Best regards,



Boyd Stanley
Vice-President

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