

## **PENWEST PHARMACEUTICALS CO.**

### Code of Business Conduct and Ethics

This Code of Business Conduct and Ethics (the “Code”) sets forth legal and ethical standards of conduct for directors, officers and employees of Penwest Pharmaceuticals Co. (the “Company”). This Code is intended to deter wrongdoing and to promote the conduct of all Company business in accordance with high standards of integrity and in compliance with all applicable laws and regulations. This Code applies to the Company and all of its subsidiaries and other business entities controlled by it worldwide.

If you have any questions regarding this Code or its application to you in any situation, you should contact your supervisor, the Chief Executive Officer or Human Resources.

If you have any concerns with regard to violations of the Company’s Code of Business Conduct and Ethics, you should either

- Contact your supervisor, the Chief Executive Officer, or Human Resources, or
- You may confidentially and anonymously submit concerns or complaints to Whistleblower hotline discussed under the heading “Reporting and Compliance Procedures”.

### **Compliance with Laws, Rules and Regulations**

The Company requires that all employees, officers and directors comply with all laws, rules and regulations applicable to the Company wherever it does business. You are expected to use good judgment and common sense in seeking to comply with all applicable laws, rules and regulations and to ask for advice when you are uncertain about them.

If you become aware of the violation of any law, rule or regulation by the Company, whether by its officers, employees, directors, or any third party doing business on behalf of the Company, it is your responsibility to promptly report the matter to your supervisor or to the Chief Executive Officer or Chief Financial Officer. While it is the Company’s desire to address matters internally, nothing in this Code should discourage you from reporting any illegal activity, including any violation of the securities laws, antitrust laws, environmental laws or any other federal, state or foreign law, rule or regulation, to the appropriate regulatory authority. Employees, officers and directors shall not discharge, demote, suspend, threaten, harass or in any other manner discriminate or retaliate against an employee because he or she reports any such violation, unless it is determined that the report was made with knowledge that it was false. This Code should not be construed to prohibit you from testifying, participating or otherwise assisting in any state or federal administrative, judicial or legislative proceeding or investigation.

### **Conflicts of Interest**

Employees, officers and directors must act in the best interests of the Company. You must refrain from engaging in any activity or having a personal interest that presents a “conflict of interest.” A conflict of interest occurs when your personal interest interferes, or appears to interfere, with the interests of the Company. A conflict of interest can arise whenever you, as an officer, director or employee, take action or have an interest that prevents you from performing your Company duties and responsibilities honestly, objectively and effectively. Examples include: significant personal investments in competing companies, outside employment or activities that interfere with job performance or threaten the Company’s reputation, or personal use of Company assets to provide gain either for the employee or others.

Directors. Directors must not:

- perform services as a consultant, employee, officer, director, advisor or in any other capacity, or permit any close relative to perform services as an officer or director, for a competitor of the Company;
- have, or permit any close relative to have, a financial interest in a competitor of the Company, other than an investment representing less than one percent (1%) of the outstanding shares of a publicly-held company;
- use his or her position with the Company to influence any decision of the Company relating to a contract or transaction with a supplier or customer of the Company if the director or a close relative of the director:
  - performs services as a consultant, employee, officer, director, advisor or in any other capacity for such supplier or customer; or
  - has a financial interest in such supplier or customer, other than an investment representing less than one percent (1%) of the outstanding shares of a publicly-held company.
- supervise, review or influence the job evaluation or compensation of a member of his or her immediate family; or
- engage in any other activity or have any other interest that the Board of Directors of the Company determines to constitute a conflict of interest.

It is your responsibility to disclose any transaction or relationship that reasonably could be expected to give rise to a conflict of interest to the Chief Executive Officer or Chief Financial Officer or, if you are an executive officer or director, to the Board of Directors, who shall be responsible for determining whether such transaction or relationship constitutes a conflict of interest.

### **Insider Trading**

Employees, officers and directors who have material non-public information about the Company or other companies, including our suppliers and customers, as a result of their relationship with the Company are prohibited by law and Company policy from trading in securities of the Company or such other companies, as well as from communicating such information to others who might trade on the basis of that information. To help ensure that you do not engage in prohibited insider trading and avoid even the appearance of an improper transaction, the Company has adopted an Insider Trading Policy, which is attached to this document.

If you are uncertain about the constraints on your purchase or sale of any Company securities or the securities of any other company that you are familiar with by virtue of your relationship with the Company, you should consult with the Chief Financial Officer before making any such purchase or sale.

### **Confidentiality**

Employees, officers and directors must maintain the confidentiality of confidential information entrusted to them by the Company or other companies, including our suppliers and customers, except when disclosure is authorized by a supervisor or legally mandated. Unauthorized disclosure of any confidential information is prohibited. Additionally, employees should take appropriate precautions to ensure that

confidential or sensitive business information, whether it is proprietary to the Company or another company, is not communicated within the Company except to employees who have a need to know such information to perform their responsibilities for the Company.

Third parties may ask you for information concerning the Company. Subject to the exceptions noted in the preceding paragraph, employees, officers and directors (other than the Company's authorized spokespersons which are the CEO and CFO) must not discuss internal Company matters with, or disseminate internal Company information to, anyone outside the Company, except as required in the performance of their Company duties and after an appropriate confidentiality agreement is in place. This prohibition applies particularly to inquiries concerning the Company from the media, market professionals (such as securities analysts, institutional investors, investment advisers, brokers and dealers) and security holders. All responses to inquiries on behalf of the Company must be made only by the Company's authorized spokespersons. If you receive any inquiries of this nature, you must decline to comment and refer the inquirer to your supervisor or one of the Company's authorized spokespersons.

You also must abide by any lawful obligations that you have to your former employer. These obligations may include restrictions on the use and disclosure of confidential information, restrictions on the solicitation of former colleagues to work at the Company and non-competition obligations.

### **Honest and Ethical Conduct and Fair Dealing**

Employees, officers and directors should endeavor to deal honestly, ethically and fairly with the Company's suppliers, customers, competitors and employees. Statements regarding the Company's products and services must not be untrue, misleading, deceptive or fraudulent. You must not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice.

### **Protection and Proper Use of Corporate Assets**

Employees, officers and directors should seek to protect the Company's assets. Theft, carelessness and waste have a direct impact on the Company's financial performance. Employees, officers and directors must use the Company's assets and services solely for legitimate business purposes of the Company and not for any personal benefit or the personal benefit of anyone else.

Employees, officers and directors must advance the Company's legitimate interests when the opportunity to do so arises. You must not take for yourself personal opportunities that are discovered through your position with the Company or the use of property or information of the Company.

### **Gifts and Gratuities**

The use of Company funds or assets for gifts, gratuities or other favors to employees or government officials is prohibited, except to the extent such gifts are in compliance with applicable law, insignificant in amount and not given in consideration or expectation of any action by the recipient.

Employees, officers and directors must not accept, or permit any member of his or her immediate family to accept, any gifts, gratuities or other favors from any customer, supplier or other person doing or seeking to do business with the Company, other than items of insignificant value. Any gifts that are not of insignificant value should be returned immediately and reported to your supervisor. If immediate return is not practical, they should be given to the Company for charitable disposition or such other disposition as the Company, in its sole discretion, believes appropriate.

Common sense and moderation should prevail in business entertainment engaged in on behalf of the Company. Employees, officers and directors should provide, or accept, business entertainment to or from

anyone doing business with the Company only if the entertainment is infrequent, modest and intended to serve legitimate business goals.

Bribes and kickbacks are criminal acts, strictly prohibited by law. You must not offer, give, solicit or receive any form of bribe or kickback anywhere in the world.

### **Accuracy of Books and Records and Public Reports**

Employees, officers and directors must honestly and accurately report all business transactions. You are responsible for the accuracy of your records and reports. Accurate information is essential to the Company's ability to meet legal and regulatory obligations.

All Company books, records and accounts shall be maintained in accordance with all applicable regulations and standards and accurately reflect the true nature of the transactions they record. The financial statements of the Company shall conform to generally accepted accounting rules and the Company's accounting policies. No undisclosed or unrecorded account or fund shall be established for any purpose. No false or misleading entries shall be made in the Company's books or records for any reason, and no disbursement of corporate funds or other corporate property shall be made without adequate supporting documentation.

It is the policy of the Company to provide full, fair, accurate, timely and understandable disclosure in reports and documents filed with, or submitted to, the Securities and Exchange Commission and in other public communications.

### **Concerns Regarding Accounting or Auditing Matters**

Employees with concerns regarding questionable accounting or auditing matters or complaints regarding accounting, internal accounting controls or auditing matters may confidentially, and anonymously if they wish, submit such concerns or complaints by one of the following means:

- A telephone line, 213-787-4136, answered by professional personnel from 8:00 a.m. to 6:00 p.m. Pacific time. Outside these hours, the phone will be answered by an automated voice mail system.
- A web-based form located at [www.fulcruminquiry.com/PenWest](http://www.fulcruminquiry.com/PenWest)
- E-mail sent to [whistle@fulcruminquiry.com](mailto:whistle@fulcruminquiry.com)
- U.S. mail addressed to Fulcrum Financial Inquiry LLP, Penwest Whistleblower Submission, 888 S. Figueroa Street, Suite 2000, Los Angeles, CA 90017.
- Fax sent to Fulcrum Financial Inquiry, LLP, Whistleblower Department, at 213-891-1300.

See "Reporting and Compliance Procedures." All such concerns and complaints will be forwarded to the Audit Committee of the Board of Directors unless they are determined to be without merit by the Chair of the Audit Committee. In any event, a record of all complaints and concerns received will be provided to the Audit Committee each fiscal quarter

The Audit Committee will evaluate the merits of any concerns or complaints received by it and authorize such follow-up actions, if any, as it deems necessary or appropriate to address the substance of the concern or complaint.

The Company will not discipline, discriminate against or retaliate against any employee who reports a complaint or concern, unless it is determined that the report was made with knowledge that it was false.

## **Dealings with Independent Auditors**

No employee, officer or director shall, directly or indirectly, make or cause to be made a materially false or misleading statement to an accountant in connection with (or omit to state, or cause another person to omit to state, any material fact necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading to, an accountant in connection with) any audit, review or examination of the Company's financial statements or the preparation or filing of any document or report with the SEC. No employee, officer or director shall, directly or indirectly, take any action to coerce, manipulate, mislead or fraudulently influence any independent public or certified public accountant engaged in the performance of an audit or review of the Company's financial statement.

## **Waivers of this Code of Business Conduct and Ethics**

While some of the policies contained in this Code must be strictly adhered to and no exceptions can be allowed, in other cases exceptions may be appropriate. Any employee or officer who believes that an exception to any of these policies is appropriate in his or her case should first contact his or her immediate supervisor. If the supervisor agrees that an exception is appropriate, the approval of the Chief Executive Officer or Chief Financial Officer must be obtained. The Corporate Secretary shall be responsible for maintaining a record of all requests for exceptions to any of these policies and the disposition of such requests.

Any executive officer or director who seeks an exception to any of these policies should contact the Chief Executive Officer or Chief Financial Officer. Any waiver of this Code for executive officers or directors or any change to this Code that applies to executive officers or directors may be made only by the Board of Directors of the Company and will be disclosed as required by law or stock market regulation.

## **Reporting and Compliance Procedures**

Every employee, officer and director has the responsibility to ask questions, seek guidance, report suspected violations and express concerns regarding compliance with this Code. Any employee, officer or director who knows or believes that any other employee or representative of the Company has engaged or is engaging in Company-related conduct that violates applicable law or this Code should report such information to his or her supervisor or to the Chief Executive Officer, Chief Financial Officer or Chair of the Audit Committee, as described below. You may report such conduct openly or anonymously without fear of retaliation. The Company will not discipline, discriminate against or retaliate against any employee who reports such conduct, unless it is determined that the report was made with knowledge that it was false, or who cooperates in any investigation or inquiry regarding such conduct. Any supervisor who receives a report of a violation of this Code must immediately inform the Chief Executive Officer or Chief Financial Officer.

You may report violations of this Code, on a confidential or anonymous basis, by contacting Fulcrum Financial Inquiry using the following means:

- A telephone line, 213-787-4136, answered by professional personnel from 8:00 a.m. to 6:00 p.m. Pacific time. Outside these hours, the phone will be answered by an automated voice mail system.
- A web-based form located at [www.fulcrumfinancial.com/PenWest](http://www.fulcrumfinancial.com/PenWest)
- E-mail sent to [whistle@fulcruminquiry.com](mailto:whistle@fulcruminquiry.com)
- U.S. mail addressed to Fulcrum Financial Inquiry LLP, Whistleblower Department 1000, Wilshire Boulevard, Suite 1650, Los Angeles, CA 90017.

- Fax sent to Fulcrum Financial Inquiry LLP, Whistleblower Department, at 213-787-4141.

Fulcrum may change the above phone numbers, addresses, etc. Fulcrum will provide reasonable notice of any change.

While we prefer that you identify yourself when reporting violations so that we may follow up with you, as necessary, for additional information, you may leave messages anonymously if you wish.

If Fulcrum Financial Inquiry receives information regarding an alleged violation of this Code, they shall, as appropriate, (a) evaluate such information, (b) if the alleged violation involves an executive officer or a director, inform the Chief Executive Officer and Board of Directors of the alleged violation, (c) determine whether it is necessary to conduct an informal inquiry or a formal investigation and, if so, initiate such inquiry or investigation and (d) report the results of any such inquiry or investigation, together with a recommendation as to disposition of the matter, to the CFO for action, or if the alleged violation involves an executive officer or a director, report the results of any such inquiry or investigation to the Board of Directors or a committee thereof. Employees, officers and directors are expected to cooperate fully with any inquiry or investigation by the Company regarding an alleged violation of this Code. Failure to cooperate with any such inquiry or investigation may result in disciplinary action, up to and including discharge.

The Company shall determine whether violations of this Code have occurred and, if so, shall determine the disciplinary measures to be taken against any employee who has violated this Code. In the event that the alleged violation involves an executive officer or a director, the Chief Executive Officer and the Board of Directors, respectively, shall determine whether a violation of this Code has occurred and, if so, shall determine the disciplinary measures to be taken against such executive officer or director.

Failure to comply with the standards outlined in this Code will result in disciplinary action including, but not limited to, reprimands, warnings, probation or suspension without pay, demotions, reductions in salary, discharge and restitution. Certain violations of this Code may require the Company to refer the matter to the appropriate governmental or regulatory authorities for investigation or prosecution. Moreover, any supervisor who directs or approves of any conduct in violation of this Code, or who has knowledge of such conduct and does not immediately report it, also will be subject to disciplinary action, up to and including discharge.

### **Dissemination and Amendment**

This Code shall be distributed to each new employee, officer and director of the Company upon commencement of his or her employment or other relationship with the Company and shall also be distributed annually to each employee, officer and director of the Company, and each employee, officer and director shall certify that he or she has received, read and understood the Code and has complied with its terms.

The Company reserves the right to amend, alter or terminate this Code at any time for any reason.

This document is not an employment contract between the Company and any of its employees, officers or directors.

### Certification

I, \_\_\_\_\_ do hereby certify that:  
(Print Name Above)

1. I have received and carefully read the Code of Business Conduct and Ethics of Penwest Pharmaceuticals Co.
2. I understand the Code of Business Conduct and Ethics.
3. I have complied and will continue to comply with the terms of the Code of Business Conduct and Ethics.
4. I have read the attached Insider Trading Policy and will comply with the Policy.

Date: \_\_\_\_\_  
(Signature)

**EACH EMPLOYEE, OFFICER AND DIRECTOR IS REQUIRED TO SIGN, DATE AND RETURN THIS CERTIFICATION TO THE CORPORATE SECRETARY WITHIN 20 DAYS OF ISSUANCE. FAILURE TO DO SO MAY RESULT IN DISCIPLINARY ACTION.**

# Penwest Pharmaceuticals Co.

## Insider Trading Policy

### Insider Trading.

#### Company Policy.

The Company's policy to help ensure compliance with insider trading laws is as follows:

(i) Prior to purchasing or selling any securities of the Company, each director and officer must notify the CEO or CFO, the CFO must notify the CEO, and the CEO must notify the Executive Committee of the Board of Directors.

(ii) No director, officer or employee may make any purchase or sale of securities of the Company (a) from the date two weeks prior to the end of each fiscal quarter until the beginning of the third business day after the public release of earnings for such quarter (directors and officers only), (b) from the time of the public release of any material information until the beginning of the third business day after such release, (c) during any period when he or she is aware that the Company expects to make a public release of material information in the near future and (d) during any other period when he or she has knowledge of any "material inside information" concerning the Company.

There may be times when the trading window is closed by the CEO and CFO for trading by directors, officers and employees of the Company in the Company's stock due to material information known within the Company, but not yet made public. This will restrict all buying and selling of the Company's stock, including shares held in the 401(k) Plan.

Notwithstanding the foregoing, purchases under the Company's 1997 Employee Stock Purchase Plan and exercises of stock options that would otherwise expire are permitted during these "blackout" periods; provided, however, that the shares so acquired may not be sold (either outright or in connection with a "cashless" exercise transaction) during these "blackout" periods.

In addition, the foregoing restrictions will not apply to purchases or sales made pursuant to a binding contract, written plan or specific instruction (a "trading plan") which is adopted and operated in compliance with Rule 10b5-1 under the Securities Exchange Act of 1934 (the "Exchange Act"); provided such trading plan: (1) is in writing; (2) was submitted to the Company for review by the Company prior to its adoption; (3) was not adopted during a "blackout" period; and (4) may be terminated or suspended upon notice by the Company that trading activity would have an adverse effect on the Company or cause a violation of law by such director, officer or employee; and provided further that if such trading plan provides for trades to occur only once per quarter or less frequently (other than a plan that relates solely to the immediate sale of shares acquired under an employee stock purchase plan) such trading plan may not provide for trades to occur during a regularly scheduled quarter-end "blackout" period.

The foregoing requirements also apply to any purchase or sale of securities of the Company by a family member of a director, officer or employee sharing the same address or by a corporation, partnership, trust or other entity owned or controlled by a director, officer or employee.

### **Applicable Law.**

Section 10(b) and Rule 10b-5 under the Exchange Act prohibit any director, officer or employee of the Company from (i) purchasing or selling any securities of the Company if he or she has knowledge of any “material inside information” concerning the Company, or (ii) disclosing to any other person any material inside information concerning the Company if it is reasonably foreseeable that such person may use that information in purchasing or selling Company securities. In addition, these same restrictions apply to directors, officers and employees of the Company with respect to material inside information concerning any other company that a director, officer or employee of the Company learns of in the course of his or her service as a director, officer or employee of the Company.

“Material inside information” concerning the Company is information that (i) is not generally known to the public and (ii) if publicly known, would be likely to affect either the market price of the Company’s securities or a person’s decision to buy, sell or hold the Company’s securities. Information concerning any of the following subjects, or the Company’s plans with respect to any of these subjects, is the type of information which is likely to be considered material information: (1) a merger or acquisition involving the Company; (2) the Company’s revenues or earnings; (3) a change in control or a significant change in management of the Company; (4) the public or private sale of a significant amount of additional securities of the Company; (5) a tender offer by the Company for another company’s securities; (6) the establishment of a program to repurchase securities of the Company; (7) the receipt of regulatory approval to market a product; (8) the establishment of a new collaboration; or (9) a significant development, invention or discovery. This list is illustrative only and is not intended to provide a comprehensive list or circumstances that could give rise to material inside information. Material inside information can include positive or negative information about the Company.

Under Rule 10b5-1, a person has an affirmative defense against an allegation of insider trading if he or she demonstrates that the purchase or sale in question took place pursuant to a binding contract, a specific instruction or a written plan that was put into place before he or she became aware of the material nonpublic information. For example, if a director, officer or employee implements a written plan specifying that he or she will sell 100 shares of common stock of the Company on the first day of each month, a sale pursuant to that plan should not subject the director, officer or employee to insider trading liability even if he or she was aware of material nonpublic information at the time the sale took place. Plans and contracts complying with Rule 10b5-1 have the obvious advantage of protecting you against insider trading liability. However, they also require you to make advance commitments regarding the amounts, prices and timing of purchases and sales under those plans and contracts, thus limiting their flexibility and discretion with respect to such transactions. Accordingly, while some directors, officers or employees may find such plans or contracts attractive, they are not likely to be suitable for all directors, officers and employees. There are a number of legal requirements that a Rule 10b5-1 plan or contract must satisfy, and it is the Company’s policy that any Rule 10b5-1 plan or contract be submitted in advance to the Company for its review. You are urged to consult with competent legal and financial advisors if you are interested in implementing such a plan or contract.