UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Commission
For the fiscal year ended JUNE 30, 1996File Number 0-12957

ENZON, INC.
(Exact name of registrant as specified in its charter)

| DELAWARE | 22-2372868 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

20 KINGSBRIDGE ROAD, PISCATAWAY, NEW JERSEY 08854
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (908) 980-4500

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, $.01 PAR VALUE
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

The aggregate market value of the Common Stock, par value $.01 per share, held by non-affiliates based upon the reported last sale price of the Common Stock on September 17, 1996 was approximately $62,227,000. There is no market for the Series A Cumulative Convertible Preferred Stock, the only other class of voting stock.

As of September 17, 1996, there were 27,707,643 shares of Common Stock, par value $.01 per share, outstanding.

The Index to Exhibits appears on page 26.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on December 3, 1996, to be filed with the Commission not later than 120 days after the close of the registrant's fiscal year, has been incorporated by reference, in whole or in part, into Part III Items 10, 11, 12 and 13 of this Annual Report on Form 10-K.

ENZON, INC.

1996 Form 10-K Annual Report

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The following trademarks and service marks appear in this Annual Report: ADAGEN(registered trademark) and ONCASPAR(registered trademark) are registered trademarks of Enzon, Inc.; SCA(registered trademark) is a registered trademark of Enzon Labs Inc.; Elspar(registered trademark) is a registered trademark of Merck & Co., Inc; Erwinase(registered trademark) is a registered trademark of Porton Products Limited; INTRON A(registered trademark) is a registered trademark of Schering Corporation; BABS(trademark) is a trademark of Creative BioMolecules, Inc.; Taxol(registered trademark) is a registered trademark of Bristol-Myers Squibb Co.; Hycamptin(trademark) is a trademark of SmithKline Beecham plc; Taxotere(registered trademark) is a registered trademark of Rhone-Poulenc Rorer Pharmaceuticals Inc.



PART I

## ITEM 1. BUSINESS

### Overview

Enzon, Inc. ("Enzon" or the "Company") is a biopharmaceutical company that develops, manufactures and markets enhanced therapeutics for life-threatening diseases through the application of its proprietary technologies, PEG Modification or the PEG Process and Single-Chain Antigen-Binding (SCA(registered trademark)) proteins.

The Company has received marketing approval from the United States Food and Drug Administration ("FDA") for two of its products: (i) ONCASPAR(registered trademark), approved in February 1994 for the indication of acute lymphoblastic leukemia ("ALL") in patients who are hypersensitive to native forms of L-asparaginase and (ii) ADAGEN(registered trademark), the first successful application of enzyme replacement therapy for an inherited disease, approved in March 1990, to treat a rare form of Severe Combined Immunodeficiency Disease ("SCID"), commonly known as the "Bubble Boy Disease".

The Company manufactures both ADAGEN and ONCASPAR in its South Plainfield, New Jersey facility and markets ADAGEN on a worldwide basis. ONCASPAR is marketed in the U.S. by Rhone-Poulenc Rorer Pharmaceuticals, Inc. ("RPR"). The Company received $6,000,000 from RPR related to the granting of

this license and is also entitled to royalties on the sales of ONCASPAR in the U.S. by RPR of 23.5% to 43.5%, based on the sales level of ONCASPAR. Royalties payable to the Company are being offset against an original credit of $5,970,000, which includes $3,500,000 in advance royalties received in fiscal 1995. The Company has also granted exclusive licenses to sell ONCASPAR in Canada and Mexico to RPR in exchange for royalty payments on future sales and is currently pursuing additional licenses for marketing and distribution rights outside North America. RPR is currently conducting clinical trials in expanded indications for ONCASPAR.

ONCASPAR is the enzyme L-asparaginase modified by the Company's PEG Process and ADAGEN is the enzyme adenosine deaminase modified by the Company's PEG Process. The PEG Process involves chemically attaching polyethylene glycol ("PEG"), a relatively non-reactive and non-toxic polymer, to proteins, chemicals and certain other pharmaceuticals for the purpose of enhancing their therapeutic value. The attachment of PEG helps to disguise the modified compound and reduce the recognition of the compound by the immune system, thereby generally lowering potential immunogenicity. Both the increased molecular size and lower immunogenicity result in extended circulating blood life, in some cases from minutes to days. The PEG Process also significantly increases the solubility of the modified compound which enhances the delivery of the native compound. The PEG Process was originally covered by a broad patent which is due to expire in late 1996. The Company has made significant improvements to the original PEG Process and has applied for and received numerous patents for such improvements.

The Company recently has developed technology that gives PEG-modified compounds "Pro Drug" attributes. This is accomplished by attaching PEG by means of a covalent bond that is designed to deteriorate over time, thereby releasing the therapeutic moiety (therapeutic part of the compound) in the proximity of the target tissue. These attributes could significantly enhance the therapeutic value of new chemicals, as well as drugs already marketed. The Company believes that this "Pro Drug/Transport Technology" has broad usefulness and that it can be applied to a wide range of drugs, such as cancer chemotherapy agents, antibiotics, anti-fungals and immunosuppressants, as well as to proteins and peptides, including enzymes and growth factors. The markets for these drugs and biologicals have large potential patient populations. The Company is currently applying its Pro Drug/Transport Technology to certain anticancer agents that are in the early research stage.



The Company's lead development candidate, PEG-hemoglobin, is a hemoglobin-based oxygen carrier, commonly referred to as a red blood cell substitute, and is currently being developed by the Company as a radiosensitizer for use with radiation treatment of solid hypoxic tumors. Preclinical studies conducted at Enzon, the University of Wisconsin School of Veterinary Medicine and Dana Farber Cancer Institute, indicate that PEG-hemoglobin may be useful in treating solid tumors. These studies suggest that PEG-hemoglobin delivers oxygen to solid hypoxic tumors, thereby enhancing the ability of radiation therapy to significantly decrease the size of these tumors.

During fiscal 1996, the Company completed a Phase I safety study for PEG-hemoglobin in which 34 normal volunteers received a single dose of PEG-hemoglobin in amounts up to 45 grams, the equivalent of 1.5 units of whole blood. The Company is currently conducting a multi-dose, multi-center clinical trial of PEG-hemoglobin in cancer patients receiving radiation treatment. Patients entering this new trial receive once-a-week infusions of PEG-hemoglobin followed by five days of radiation treatment. The protocol for this study calls for this to be repeated weekly for three weeks. The primary purpose of this trial is to evaluate safety related to multiple doses of PEG-hemoglobin and radiation therapy. It is estimated that approximately 800,000 cases of solid hypoxic tumors are diagnosed each year in the United States.

The Company is pursuing a dual strategy for commercializing its proprietary technologies. In addition to developing and manufacturing products, using the Company's proprietary technology, and marketing such products, the Company has established strategic alliances in which Enzon licenses its proprietary technologies and products in exchange for milestone payments, manufacturing revenues and/or royalties.

One such license is the Company's agreement with Schering Corporation ("Schering") to apply the PEG Process to Schering's product, INTRON A(registered trademark) (interferon alfa 2b), a genetically-engineered anticancer-antiviral drug. Schering indicates that the PEG-modified version of INTRON A is currently in clinical trials. Under the agreement, the Company is entitled to royalties on worldwide sales of PEG-INTRON A, if any, and payments of approximately $5,500,000 subject to the achievement of certain milestones in the product's development. Sales by Schering of the unmodified version of INTRON A were reported as $433 million for 1995. The Company has the option, upon FDA approval, to be Schering's exclusive manufacturer of PEG-INTRON A for the U.S. market.

The Company also has an extensive licensing program for its SCA protein technology. SCA proteins are genetically engineered proteins designed to overcome the problems hampering the diagnostic and therapeutic use of conventional monoclonal antibodies. Pre-clinical studies have shown that SCA proteins target and penetrate tumors more readily than conventional monoclonal antibodies. In addition to these advantages, because SCA proteins are developed at the gene level, they are better suited for targeted delivery of gene therapy vectors and fully-human SCA proteins can be isolated directly, with no need for costly "humanization" procedures. Also, many gene therapy methods require that proteins be produced in active form inside cells. SCA proteins can be produced through intracellular expression (inside cells) more readily than monoclonal antibodies.

Currently, there are eight SCA proteins in Phase I clinical trials by various institutions, including a product developed by the Company, SCA-CC49. Some of the areas being explored are cancer therapy, cardiovascular indications and AIDS.

The Company has granted non-exclusive SCA licenses to more than a dozen companies, including Bristol-Myers Squibb, Inc. ("Bristol-Myers"), Baxter Healthcare Corporation ("Baxter"), Eli Lilly & Co. ("Eli Lilly") and the Gencell division of RPR ("RPR/Gencell"). These licenses generally provide for upfront payments, milestone payments and royalties on sales of FDA approved products.

Information contained herein contains "forward-looking statements" which can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of



strategy. No assurance can be given that the future results covered by the forward-looking statements will be achieved. The matters set forth in Exhibit 99.0 hereto constitute cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to vary materially from the future results indicated in such forward-looking statements. Other factors could also cause actual results to vary materially from the future results indicated in such forward-looking statements.

## PRODUCTS ON THE MARKET

The Company currently has two products on the market, ONCASPAR and ADAGEN. The Company received marketing approval from the FDA for ONCASPAR in February 1994 and for ADAGEN in March 1990.

### ONCASPAR

ONCASPAR, the enzyme L-asparaginase modified by the PEG Process, is used in conjunction with other chemotherapeutics to treat patients with ALL who are hypersensitive (allergic) to native (unmodified) forms of L-asparaginase.

L-asparaginase is an enzyme which depletes the amino acid asparagine, a non-essential amino acid upon which certain leukemic cells are dependent for survival. Accordingly, the depletion of plasma asparagine levels selectively starves these leukemic cells. L-asparaginase is a component of standard pediatric ALL remission induction therapies. Unmodified L-asparaginase is currently marketed in the U.S. as Elspar(registered trademark). Erwinase(registered trademark), another form of unmodified L-asparaginase, is also available in the United States on a compassionate use basis, but is not FDA approved.

The therapeutic value of unmodified L-asparaginase is limited by two inherent features of the enzyme. First, its short half-life in blood (less than 1.5 days) requires every-other-day injections, causing significant discomfort and inconvenience to patients. Secondly, the enzyme's non-human source makes it inherently immunogenic, resulting in a high incidence of allergic reactions, some of which may be severe, necessitating the discontinuance of the L-asparaginase therapy.

Through PEG Modification, Enzon believes ONCASPAR offers significant therapeutic advantages over unmodified L-asparaginase. Namely, ONCASPAR has a significantly increased half-life in blood (greater than five days), allowing every-other-week administration, making its use more tolerable to patients than unmodified L-asparaginase. PEG Modification also disguises the enzyme's foreign nature, generally reducing its immunogenicity, and accordingly, the incidence of allergic reactions.

ONCASPAR was launched in the United States by RPR during March 1994. The Company has granted RPR an exclusive license (the "Amended RPR License Agreement") in the United States to sell ONCASPAR, and any other PEG-asparaginase product (the "Product") developed by Enzon or RPR during the term of the Amended RPR License Agreement. Under this agreement, Enzon has received licensing payments totaling $6,000,000 and was entitled to a base royalty of 10% for the year ended December 31, 1995 and 23.5% thereafter, until 2008, on net sales of ONCASPAR up to agreed upon amounts. Additionally, the Amended RPR License Agreement provides for a super royalty of 23.5% for the year ended December 31, 1995 and 43.5% thereafter, until 2008, on net sales of ONCASPAR which exceed the agreed upon amounts, with the limitation that the total royalties earned for any such year shall not exceed 33% of net sales. The Amended RPR License Agreement also provides for a payment of $3,500,000 in advance royalties, which was received in January 1995.

The payment of base royalties to Enzon under the Amended RPR License Agreement will be offset by an original credit of $5,970,000, which represents the royalty advance plus reimbursement of certain amounts due to RPR under the original RPR License Agreement and interest expense. Super royalties will be paid to the Company when earned. The royalty advance is shown as a long term liability, with the corresponding current portion included in accrued expenses



on the Consolidated Balance Sheet as of June 30, 1996. The royalty advance will be reduced as base royalties are recognized under the agreement.

The Amended RPR License Agreement prohibits RPR from selling a competing PEG-asparaginase product anywhere in the world during the term of such agreement and for five years thereafter. The Amended RPR License Agreement terminates in December 2008, subject to early termination by either party due to a default by the other or by RPR at any time on one year's prior notice to Enzon. Upon any termination all rights under the Amended RPR License Agreement revert to Enzon.

In addition to pediatric ALL, L-asparaginase is used in Europe to treat adult ALL and Non-Hodgkins Lymphoma. RPR is currently conducting clinical trials to expand the use of ONCASPAR in ALL treatment beyond the hypersensitive label indication, as well as for additional indications. RPR is responsible for all future clinical development of ONCASPAR in North America.

The Company has also granted exclusive licenses to RPR to sell ONCASPAR in Canada and Mexico. These agreements provide for RPR to obtain marketing approval of ONCASPAR in Canada and Mexico and for the Company to receive royalties on sales of ONCASPAR in these countries, if any. A separate supply agreement with RPR requires RPR to purchase from Enzon all of RPR's requirements for the Product for sales in North America.

In November 1994, the Company received approval in Germany for therapeutic use of ONCASPAR in patients with ALL who are hypersensitive to native (unmodifed) forms of L-asparaginase. Currently, the Company is not selling ONCASPAR in Germany. The Company is pursuing marketing and distribution agreements in countries outside of North America, including Germany.

ADAGEN

ADAGEN, the Company's first FDA approved product, is currently being used to treat 44 patients in seven countries. ADAGEN represents the first successful application of enzyme replacement therapy for an inherited disease. ADAGEN's Orphan Drug designation under the Orphan Drug Act provides the Company with marketing exclusivity in the United States through March 1997. The Company believes the expiration of ADAGEN's Orphan Drug designation will not have a material impact on the sales of ADAGEN.

ADAGEN, the enzyme adenosine deaminase ("ADA") modified through the PEG Process, was developed by the Company for the treatment of ADA deficiency associated with SCID. Commonly known as the "Bubble Boy Disease", SCID is a congenital disease that results in children being born without fully functioning immune systems, leaving them susceptible to a wide range of infectious diseases. Injections of unmodified ADA would not be effective because of its short circulating life (less than thirty minutes) and the potential for immunogenic reactions to a bovine-sourced enzyme. The attachment of PEG to ADA allows ADA to achieve its full therapeutic effect by increasing its circulating life and masking the ADA to avoid immunogenic reactions.

ADAGEN is being marketed on a worldwide basis and sold in the United States by the Company. Distribution of ADAGEN in Europe is being handled by a European firm. Enzon believes many newborns with ADA-deficient SCID go undiagnosed, and is therefore focusing its marketing efforts for ADAGEN on new patient identification. Its marketing efforts include educational presentations and publications designed to encourage early diagnosis and subsequent ADAGEN treatment.

Sales of ADAGEN for the fiscal years ended June 30, 1996, 1995 and 1994 were $8,696,000, $8,305,000 and $7,601,000, respectively. Sales of ADAGEN are expected to continue to be limited due to the small patient population worldwide.



RESEARCH AND DEVELOPMENT

The Company's primary source of new products is its internal research and development activities. Research and development expenses for the fiscal years ended June 30, 1996, 1995 and 1994 were approximately $10,124,000, $12,084,000 and $17,665,000, respectively. During fiscal 1996, research and development expenses were divided as follows: 19% for research; 49% for clinical and regulatory affairs; and 32% for pre-clinical activities.

The Company's research and development activities during fiscal 1996 concentrated primarily on the continued development of PEG-hemoglobin, as well as work on several oncology products using the Company's Pro Drug/Transport Technology. These activities related principally to Phase I clinical testing, scale up and process development and preclinical testing.

TECHNOLOGIES AND CAPABILITIES

The Company's technologies are focused in the area of drug delivery. The Company's PEG Modification technology is able to lower the potential immunogenicity, extend the circulating life, as well as enhance solubility of the modified compound. The Company believes its SCA and Pro Drug/Transport Technologies may be able to achieve targeting of the modified compound to the desired site in the body. It is believed that this will result in less toxicity to the surrounding tissue and an increase in the therapeutic effect due to a high concentration of the compound in the targeted tissue. The Company is currently applying its technologies to compounds with known therapeutic efficacy that suffer from delivery problems. This encompasses undeveloped compounds as well as products already on the market.

PEG MODIFICATION

Enzon's proprietary technology, PEG Modification or the PEG Process, involves chemically attaching PEG to proteins or chemical therapeutic compounds that are difficult to deliver. PEG is a relatively non-reactive and non-toxic polymer that has been designated as a GRAS (Generally Regarded As Safe) compound and is typically used in many food and drug products. Attachment of PEG disguises the protein and reduces its recognition by the immune system, thereby generally lowering potential immunogenicity and extending its circulating life, in some cases from minutes to days. Chemical compounds have

an added drawback in that they are typically water-insoluble, which makes delivery difficult, or in some cases, impossible. The Company believes the attachment of PEG to chemical substances not only disguises the chemical, thereby lowering potential immunogenicity and extending their circulatory life, but also greatly increases the solubility of these compounds. Enzon believes that compounds modified by the PEG Process may offer significant advantages over their unmodified forms. These advantages include: (i) extended circulating life, (ii) reduced incidence of allergic reactions, (iii) reduced dosages with corresponding lower toxicity without diminished efficacy, (iv) increased drug stability, and (v) enhanced drug solubility. Modification of proteins with the PEG Process often causes these proteins to have characteristics which significantly improve their therapeutic performance, and in some cases enables proteins to be therapeutically effective which, in their unmodified forms, have proven to be unacceptably toxic or non-efficacious.

The Company and its senior scientists have developed proprietary know-how which significantly improves the PEG Process over that described in the original patent covering this technology. This proprietary know-how enables the Company to tailor the PEG Process in order to produce the targeted results for the particular substance being modified. This know-how includes, among other things, proprietary linkers for the attachment of PEG to compounds, the selection of the appropriate attachment sites on the surface of the compound, and the amount and type of PEG used. The Company has filed patent applications and has received patents for numerous improvements to the PEG Process. See "Patents".



PRO DRUG/TRANSPORT TECHNOLOGY

The Company recently has developed technology that gives PEG-modified compounds "Pro Drug" attributes. This is accomplished by attaching PEG by means of a covalent bond that is designed to deteriorate over time, thereby releasing the therapeutic moiety in the proximity of the target tissue. These attributes could significantly enhance the therapeutic value of new chemicals, as well as drugs already marketed. The Company believes that this technology has broad usefulness and that it can be applied to a wide range of drugs, such as cancer chemotherapy agents, antibiotics, anti-fungals and immunosuppressants, as well as to proteins and peptides, including enzymes and growth factors. The markets for these drugs and biologicals have large potential patient populations.

The Company is currently applying its Pro Drug/Transport Technology to two cancer chemotherapy agents. The Company believes that, by adjusting the way PEG is covalently attached to these drugs, PEG attachment can be used to inactivate the drugs' toxic mechanisms, while allowing them to circulate in the bloodstream for longer periods of time and enhancing their antitumor effects. Animal studies conducted by the Company thus far have demonstrated increases in the therapeutic index of both drugs. However, there can be no assurance that these advantages can be attained or that drugs based on this technology will be approved by the FDA.

The Company has filed several patent applications relating to its Pro Drug/Transport Technology (See "Patents").

SINGLE-CHAIN ANTIGEN-BINDING (SCA) PROTEINS

Enzon's proprietary SCA proteins are genetically engineered proteins designed to overcome the problems associated with the therapeutic uses of monoclonal antibodies. SCA proteins have the binding specificity and affinity of monoclonal antibodies, but Enzon believes that SCA proteins offer at least five significant advantages over conventional monoclonal antibodies: (i) greater tumor penetration for cancer imaging and therapy, (ii) more specific localization to target sites in the body, (iii) a significant decrease in the immunogenic problems associated with monoclonals due to the SCA protein's small size and rapid clearance from the body, (iv) easier and more cost effective scale-up for manufacturing, and (v) enhanced screening capabilities which allow for the testing of SCA proteins for desired specificities using simple screening methods. In addition to these advantages, because SCA proteins are developed at the gene level, they are better suited for targeted delivery of gene therapy vectors and fully-human SCA proteins can be isolated directly,

with no need for costly "humanization" procedures. Also, many gene therapy methods require that proteins be produced in active form inside cells. SCA proteins can be produced through intracellular expression (inside cells) more readily than monoclonal antibodies.

Enzon's research and development capabilities for engineering SCA proteins include: (i) using computer modeling to design linker peptides to connect the two protein chains, and (ii) linking the two protein chains that make up the antigen-binding region of a natural antibody with such designed peptides, producing a single-chain protein that preserves the structural and functional integrity of the binding region. The resulting protein chain is approximately one-sixth the size of a natural antibody. The SCA protein has a binding specificity and affinity nearly identical to that of a single binding region of the monoclonal antibody from which the SCA protein was derived.

The binding specificity of SCA proteins has been demonstrated through the preparation and in vitro testing of more than a dozen different SCA proteins by Enzon. In addition, the Company, in collaboration with Dr. Jeffrey Schlom of the Laboratory of Tumor Immunology and Biology at the National Cancer Institute ("NCI"), has shown in published pre-clinical studies that SCA proteins localize to specific tumors and rapidly penetrate the tumors.



The Company intends to commercialize its SCA protein technology by licensing the technology to other companies. To date, the Company has granted SCA licenses to more than a dozen companies, including Bristol-Myers, Baxter, Eli Lilly and RPR/Gencell. These licenses generally provide for upfront payments, milestone payments and royalties on sales of FDA approved products. (See "Strategic Alliances and License Agreements").

Currently, there are eight SCA proteins in Phase I clinical trials by various organizations including licensees and academic institutions. Some of the areas being explored are cancer therapy, cardiovascular indications and AIDS. The Company believes those organizations that have not licensed this technology will have to obtain a license from the Company to commercialize these products.

The Company has received numerous patents for the SCA technology, the most recent of which expires in 2013 (See "Patents").

PRODUCTS AND TECHNOLOGIES UNDER DEVELOPMENT

HEMOGLOBIN BASED OXYGEN CARRIER

Hemoglobin is the protein, encased in red blood cells, which transports oxygen throughout the body. Over the last three decades, scientists have been attempting to modify the hemoglobin molecule for use as an artificial blood substitute, to replace the use of donated whole blood. While the Company's hemoglobin-based oxygen carrier, PEG-hemoglobin, has all of the attributes of a true red blood cell substitute, the Company has chosen to develop a product that does not compete with indications for which donated whole blood is utilized for the following reasons:

RELATIVE SAFETY OF CURRENT BLOOD SUPPLY. The implementation of stringent screening processes, which include not only the testing of collected blood to ensure it is free of all forms of HIV and hepatitis, but also careful screening of blood donors, has resulted in vast improvement in the safety of donor blood. Heat treating technologies that destroy HIV have also been implemented, prompting the FDA to deem the blood supply to be safe.

CURRENT COST ENVIRONMENT WILL LIMIT REIMBURSEMENT OF AN ARTIFICIAL BLOOD SUBSTITUTE. Given the relative safety of the donated blood supply and the emergence of managed care and cost containment measures instituted in the U.S. health care system, obtaining reimbursement for artificial blood substitute products at a level significantly higher than the cost of donated blood will be difficult or impossible. Management believes that unless the price of blood substitute products under development are in line with the price of donated blood, it will be extremely difficult for blood substitute products to compete effectively with donated blood.

DONATED BLOOD SUPPLY HAS REMAINED ADEQUATE. In the U.S., there generally

has not been a significant shortage of donated blood, due to the sophisticated collection systems in place.

CLINICAL ENDPOINTS FOR APPROVAL OF A BLOOD SUBSTITUTE HAVE NOT BEEN CLEARLY ESTABLISHED BY THE FDA. In 1994, the FDA published a paper entitled "Points to Consider in the Development of a Hemoglobin-Based Oxygen Carrier" that discusses the problems associated with determining clinical endpoints that will demonstrate efficacy of a hemoglobin-based oxygen carrier. The paper recommends the following indications that will simplify such endpoints: regional perfusion (radiosensitization), acute hemorrhagic shock and perioperative applications. The endpoints used for radiosensitization will be the same as the endpoints established for cytotoxic agents, a reduction in tumor size.



These factors have resulted in Enzon focusing its development of a hemoglobin-based oxygen carrier on indications where donated whole blood is unable to deliver oxygen, resulting, if such development efforts are successful, in a product which will not have to compete with donated blood. Such indications include radiosensitization (regional perfusion), stroke and ischemia. In addition, the Company believes PEG-hemoglobin could be used as a blood substitute in those countries that do not have the sophisticated blood collection systems that exist in the U.S.

Consistent with the FDA's Points to Consider, Enzon is developing its hemoglobin-based oxygen carrier as a radiosensitizer for use in radiation treatment of solid hypoxic tumors. Preclinical studies conducted at Enzon, the University of Wisconsin School of Veterinary Medicine and Dana Farber Cancer Institute, indicate that PEG-hemoglobin may be useful in treating solid tumors which are generally hypoxic or under-oxygenated. These studies suggest that PEG-hemoglobin delivers oxygen to solid hypoxic tumors, thereby enhancing the effects of radiation therapy and significantly decreasing the size of these tumors. Preclinical studies at Dana Farber Cancer Institute have suggested that PEG-hemoglobin may also sensitize solid hypoxic tumors to chemotherapy.

During fiscal 1996, the Company completed a Phase I safety study for PEG-hemoglobin in which 34 normal volunteers received a single dose of PEG-hemoglobin in amounts up to 45 grams, the equivalent of 1.5 units of whole blood. This study demonstrated that PEG-hemoglobin, in its active form, circulates in the blood for approximately eleven days. The Company is currently conducting a multi-dose, multi-center clinical trial of PEG-hemoglobin in cancer patients receiving radiation treatment. Patients entering this new trial receive once-a-week infusions of PEG-hemoglobin followed by five days of radiation treatment. The protocol for this study calls for this to be repeated weekly for three weeks. The primary purpose of this trial is to evaluate safety related to multiple doses of PEG-hemoglobin and radiation therapy. It is estimated that approximately 800,000 cases of solid hypoxic tumors, such as head and neck, lung, mammary, colon, prostate, bladder, fibrous, histiocytoma, brain mastases and glioma are diagnosed each year in the United States.

Hemoglobin by itself is very toxic and has a short circulation life. Many of the undesirable effects historically associated with hemoglobin based blood substitutes, such as vasoconstriction, kidney dysfunction and liver dysfunction, are a result of these properties. The Company believes that hemoglobin, modified through its PEG Process, will overcome the well-documented problems of toxicity and short circulating blood life associated with other forms of hemoglobin-based oxygen carriers that have been developed. The Company believes this is one of the significant advantages that PEG-hemoglobin has over other products being developed as red blood substitutes. The extended circulation life demonstrated in the Phase I safety study enables PEG-hemoglobin to be administered once a week for the radiation treatment protocol. Enzon has chosen to develop PEG-hemoglobin utilizing bovine hemoglobin, based upon its superior oxygen-carrying properties, relative stability, availability and low cost.

The Company currently obtains its raw hemoglobin from two small colonies of animals which are isolated and receive constant veterinary care and testing, which should insure that the animals remain disease free. In addition to keeping the animals disease free, the Company's manufacturing process provides or will provide virus removal, inactivation and filtration steps. Enzon believes it can supply the potential market demand for PEG-hemoglobin through a relatively small number of animals.

The Company uses a proprietary process for the separation and purification of the bovine hemoglobin and the attachment of PEG to the hemoglobin molecule.

Enzon presently produces PEG-hemoglobin in a pilot plant at its facilities in South Plainfield, New Jersey. This plant is expected to supply the quantities of PEG-hemoglobin needed for all ongoing research and development through Phase II clinical trials. The current production schedule for PEG-hemoglobin will fully utilize the pilot facility for the foreseeable future, thus precluding the resumption of PEG-glucocerebrosidase production, which was suspended in January 1996.



The Company estimates that development of a PEG-hemoglobin product will take several years and require substantial additional funds. There can be no assurance that a PEG-hemoglobin product can be successfully developed and brought to market. Due to the significant costs associated with the development and marketing of this product, the Company is currently exploring potential collaborative arrangements with one or more established pharmaceutical companies. To date, no such agreements have been concluded and there can be no assurance that any such agreements will be consummated. Furthermore, there can be no assurance of market acceptability of a hemoglobin-based oxygen carrier produced from bovine hemoglobin.

PRO DRUG/TRANSPORT TECHNOLOGY

The Company is currently applying its Pro Drug/Transport Technology to two oncolytic chemical compounds, Paclitaxel (Taxol(registered trademark)) and Camptothecin, a plant alkaloid. Both of the projects are in the early research stage and neither has been selected as a candidate for full product development. Both compounds represent substances with known therapeutic efficacy that have delivery problems. Taxol, a Paclitaxel product sold by Bristol-Myers, had reported worldwide sales of $580 million in 1995. The patent for Taxol expires in the U.S. in 1997. Recently, a Taxol derivative, Taxotere(registered trademark), was approved by the FDA and is being marketed by RPR. Camptothecin is a substance that for many years has been known to be a very effective oncolytic with drug delivery problems. Recently a Camptothecin derivative, Hycamptin(trademark), was approved by the FDA and is being marketed by SmithKline Beecham. While these two new products improved the solubility and effectiveness of these substances, the Company believes that its Pro Drug/Transport Technology has additional delivery advantages over these products and could significantly increase the therapeutic value of the products.

SINGLE-CHAIN ANTIGEN-BINDING (SCA) PROTEINS

The Company is also working on expanding the use of SCA technology in the area of gene therapy. Because SCA proteins are developed at the gene level, they are better suited for targeted delivery of gene therapy vectors and fully-human SCA proteins can be isolated directly, with no need for costly "humanization" procedures. Also, many gene therapy methods require that proteins be produced in active form inside cells. SCA proteins can be produced through intracellular expression (inside cells) more readily than monoclonal antibodies.

The Company's efforts are designed to expand the technology and enhance the Company's patent position for its SCA technology, as opposed to internal development of products in this area.

STRATEGIC ALLIANCES AND LICENSE AGREEMENTS

Enzon develops and manufactures, under joint arrangements with other pharmaceutical and biopharmaceutical companies, protein-based products utilizing its proprietary PEG and SCA technologies. Enzon believes that its technologies can be used to improve products which are already on the market or that are under development, thus producing therapeutic products which will provide a safer, more effective and more convenient therapy.

Enzon's agreements with its strategic alliance partners provide, in most cases, for Enzon's partners to pay the costs of development, clinical testing, obtaining regulatory approval and commercialization of the products. The alliance partner receives marketing rights, and in some cases manufacturing

rights, to the products developed. Enzon receives milestone payments, manufacturing revenues and/or royalty payments based on product sales. The following is a list of certain of the Company's strategic alliance partners:



| CORPORATE PARTNER | AGREEMENT DATE | PRODUCT | DISEASE OR INDICATION | PROGRAM STATUS |
|---|---|---|---|---|
| Schering Corporation | November 1990/ June 1995 | PEG-INTRON A | Various | Phase I Clinical Trials |
| Gencell Division of RPR | December 1995 | SCA proteins | Gene Therapy | Research |
| Baxter Healthcare Corporation | November 1992 | SCA proteins | Cancer | Research |
| Eli Lilly and Co. | December 1992 | SCA proteins | Undetermined | Research |
| Bristol-Myers Squibb, Inc. | September 1993/ July 1994 | SCA proteins | All Therapeutics | Research |

SCHERING AGREEMENT

In November 1990, Enzon and Schering Corporation ("Schering"), a subsidiary of Schering-Plough Corporation, signed an agreement (the "Schering Agreement") to apply the PEG Process to Schering's INTRON A (interferon alfa 2b), a genetically-engineered anticancer and antiviral drug. According to published sources, INTRON A, as it is currently formulated, must be administered at least three times a week by injection and can produce side effects such as fever and occasionally depressed blood count. A PEG form of INTRON A would be designed to improve the administration regimen by increasing the product's blood circulating life.

INTRON A is currently approved in the United States for use in chronic hepatitis B, chronic hepatitis C, AIDS-related Kaposi's sarcoma, venereal warts and hairy cell leukemia. It is approved for use in 65 countries for a total of 16 disease indications. Schering-Plough Corporation reported 1995 INTRON A sales of $433 million worldwide. In August 1992, a Phase I human clinical trial began using PEG-INTRON A for the indication of hepatitis. The protocol for that trial was completed. Schering and Enzon amended the Schering Agreement to develop a PEG-INTRON A formulation having improved performance characteristics. Pursuant to the amended agreement, the Company has prepared and delivered several PEG-INTRON A formulations for Schering's evaluation for additional clinical trials.

On June 30, 1995, the Company and Schering further amended the Schering Agreement pursuant to which Enzon agreed to transfer proprietary know-how and manufacturing rights for PEG-INTRON A to Schering for $3,000,000, of which $2,000,000 was paid on June 30, 1995 and $1,000,000 will be paid upon completion of the know-how transfer, as defined in such amended agreement. In connection with the amendment, the Company also sold to Schering approximately 847,000 shares of unregistered, newly issued Common Stock for $2,000,000 in gross proceeds. Under the current Schering Agreement, Enzon retained an option to become Schering's exclusive manufacturer of PEG-INTRON A for the United States market upon FDA approval of such product.

During the year ended June 30, 1992, the Company received the first milestone payment of $450,000, under the Schering Agreement, related to the filing of an Investigational New Drug Application. Enzon is entitled to receive future sequential payments, totaling approximately $5,500,000, subject to the achievement of certain milestones in the product's development program, as well as payments for the clinical material it produces. The Company will also receive royalties on worldwide sales of PEG-INTRON A, if any. Schering will be responsible for conducting and funding the clinical studies, obtaining regulatory approval and marketing the product worldwide on an exclusive basis.

The Schering Agreement terminates, on a country-by-country basis, upon the expiration of the last to expire of any future patents covering the product which may be issued to Enzon, or 15 years after the product is approved for commercial sale, whichever shall be the later to occur. This agreement is subject to Schering's right of early termination if the product does not meet

specifications, if Enzon fails to obtain or maintain the requisite product liability insurance, or if Schering makes certain payments to Enzon. If Schering terminates the agreement because the product does not meet specifications, Enzon may be required to refund certain of the milestone payments.



RPR/GENCELL AGREEMENT

In December 1995, Enzon and RPR/Gencell signed an agreement granting RPR/Gencell a worldwide, non-exclusive license to use Enzon's SCA protein technology for intracellular expression of SCA proteins and for targeted vectors in the field of cell and gene therapy. RPR/Gencell, the cell and gene therapy division of RPR, is planning to apply this technology to its IN VIVO and EX VIVO gene therapy programs in cancer, cardiovascular disease and immunology.

Under the agreement, the Company received approximately $1,000,000 during the fiscal year ended June 30, 1996 for signing the license agreement. The Company is also entitled to receive additional payments subject to the achievement of certain milestones in the development program, as well as a royalty on sales, if any, of products developed with this technology.

BRISTOL-MYERS AGREEMENT

In September 1993, the Company and Bristol-Myers signed a license agreement for Enzon's SCA protein technology granting Bristol-Myers a world-wide, semi-exclusive license for a particular antigen. Bristol-Myers will apply the technology to develop cancer therapies based on antibodies targeting certain cancer cells. Under the agreement, Enzon is entitled to receive certain upfront payments and sequential payments, subject to the achievement of certain milestones in the development program. Bristol-Myers will have the right to manufacture and market products which it develops and Enzon will receive certain royalties on Bristol-Myers sales, if any. During fiscal 1995, Bristol-Myers paid $1,800,000 to Enzon and exercised an option under the contract to acquire a world-wide non-exclusive license for SCA protein technology. The non-exclusive license is for all therapeutic fields.

BAXTER AGREEMENT

In November 1992, Enzon and Baxter signed an agreement granting Baxter a non-exclusive worldwide license to Enzon's SCA protein technology. It is anticipated that Baxter will use the SCA proteins in its cancer research programs focusing on human stem cell isolation and gene therapy.

Under the agreement, Enzon is entitled to receive certain upfront payments and sequential payments, subject to the achievement of certain milestones in the development programs. Baxter will have the exclusive worldwide right to manufacture and market any products which it develops and Enzon will receive certain royalties on Baxter's sales, if any.

ELI LILLY (HYBRITECH) AGREEMENT

In December 1992, Enzon and Hybritech Incorporated ("Hybritech"), a subsidiary of Eli Lilly, signed an agreement granting Hybritech a non-exclusive worldwide license to Enzon's SCA protein technology. Hybritech subsequently assigned this agreement to Eli Lilly. Under the agreement, Enzon received upfront payments totaling $1,200,000 and is entitled to receive certain royalties on sales of products that may be developed using Enzon's SCA protein technology.

MARKETING

Other than ADAGEN, which the Company markets on a worldwide basis to a small patient population, the Company does not engage in the direct commercial marketing of any of its products and therefore does not have an established sales force. For certain of its products, the Company has provided exclusive marketing rights to its corporate partners in return for royalties to be received on sales. With respect to ONCASPAR, the Company has granted RPR exclusive marketing rights in North America pursuant to the agreements described in "Products on the Market - ONCASPAR".

The Company expects to retain marketing partners to market ONCASPAR in other foreign markets and is currently pursuing arrangements in this regard. There can be no assurance that the Company will conclude any such arrangements. Regarding the marketing of certain of the Company's other future products, the Company expects to evaluate whether to create a sales force to market certain products in the United States or to continue to enter into license and marketing agreements with others for United States and foreign markets. These agreements generally provide that all or a significant portion of the marketing of these products will be conducted by the Company's licensees or marketing partners. In addition, under certain of these agreements, the Company's licensee or marketing partner may have all or a significant portion of the development and regulatory approval responsibilities.

RAW MATERIALS AND MANUFACTURING

In the manufacture of its products, the Company couples activated forms of PEG to the unmodified proteins. In the case of PEG, the Company does not have a long-term supply agreement, but maintains what it believes to be an adequate inventory which should provide the Company sufficient time to find an alternate supply of PEG, in the event it becomes necessary, without material disruption of its business.

With respect to Enzon's manufacturing facilities, prior to the approval of both ADAGEN and ONCASPAR, the Company's manufacturing facility was inspected by the FDA for compliance with its guidelines for current good manufacturing practices. The manufacturing facility was granted an establishment license by the FDA in February 1994.

The Company currently obtains its raw hemoglobin from two small colonies of animals which are isolated and receive constant veterinary care and testing, which should insure that the animals remain disease free. In addition to keeping the animals disease free, the Company's manufacturing process provides or will provide virus removal, inactivation and filtration steps. Enzon believes it can supply the potential market demand for PEG-hemoglobin through a relatively small number of animals.

Although the Company is currently producing many of the unmodified compounds utilized in products it has under development, including purified bovine hemoglobin for use in its PEG-hemoglobin product, it may be required to obtain supply contracts with outside suppliers for certain unmodified compounds. The Company does not produce the unmodified adenosine deaminase used in the manufacture of ADAGEN or the unmodified L-asparaginase used in the manufacture of ONCASPAR and has a supply contract with an outside supplier for each of these unmodified proteins. The supply contract for unmodified L-asparaginase which expires in December 1997, contains minimum purchase requirements. Schering is required under the Schering Agreement to provide the Company with unmodified INTRON A if the Company exercises its option to manufacture PEG-INTRON A for the United States market.

During the fiscal year ended June 30, 1996, the Company wrote-off approximately $351,000 of unmodified L-asparaginase purchased under its supply contract. The Company also paid a penalty of $350,000 related to the satisfaction of its purchase requirements for the calendar year ended December 31, 1995. While it is possible that the Company may incur similar losses on its remaining purchase commitments under this supply agreement, the Company does not consider such losses probable, nor can the amount of any loss which may be incurred in the future presently be estimated due to a number of factors, including but not limited to potential increased demand for ONCASPAR from RPR, expansion into additional markets outside the U.S. and the possibility that the Company could renegotiate the level of required purchases. If the Company does not achieve increases in sales of ONCASPAR beyond current levels or cannot renegotiate its commitment, a loss would be incurred on the remaining purchase commitment.



Delays in obtaining or an inability to obtain any unmodified compound which the Company does not produce, including unmodified adenosine deaminase or L-asparaginase, could have a material adverse effect on the Company. In the event the Company is required to locate an alternate supplier for an unmodified compound utilized in a product which is being sold commercially or which is in clinical development, the Company will likely be required to do additional testing, which could cause delay and additional expense, to demonstrate that

the alternate supplier's material is biologically and chemically equivalent to the unmodified compound previously used. Such evaluations could include one or all of the following: chemical, pre-clinical and clinical studies. Requirements for such evaluations would be determined by the stage of the product's development and the reviewing division of the FDA. If such alternate material is not demonstrated to be chemically and biologically equivalent to the previously used unmodified compound, the Company will likely be required to repeat some or all of the pre-clinical and clinical trials with such compound. The marketing of an FDA approved drug could be disrupted while such tests are conducted. Even if the alternate material is shown to be chemically and biologically equivalent to the previously used compound, the FDA may require the Company to conduct additional clinical trials with such alternate material.

GOVERNMENT REGULATION

The manufacturing and marketing of pharmaceutical products in the United States requires the approval of the FDA under the Federal Food, Drug and Cosmetic Act. Similar approvals by comparable agencies are required in most foreign countries. The FDA has established mandatory procedures and safety standards which apply to the clinical testing, manufacture and marketing of pharmaceutical products. Obtaining FDA approval for a new therapeutic may take several years and involve substantial expenditures. Pharmaceutical manufacturing facilities are also regulated by state, local and other authorities.

As an initial step in the FDA regulatory approval process, pre-clinical studies are conducted in animal models to assess the drug's efficacy and to identify potential safety problems. The results of these studies are submitted to the FDA as a part of the Investigational New Drug Application ("IND"), which is filed to obtain approval to begin human clinical testing. The human clinical testing program may involve up to three phases. Data from human trials are submitted to the FDA in a New Drug Application ("NDA") or Product License Application ("PLA"). Preparing an NDA or PLA involves considerable data collection, verification and analysis.

ADAGEN was approved by the FDA in March 1990. ONCASPAR was approved by the FDA in February 1994 and in Germany in November 1994 for patients with ALL who are hypersensitive to native forms of L-asparaginase, and in Russia in April 1993 for therapeutic use in a broad range of cancers. Except for these approvals, none of the Company's other products have been approved for sale and use in humans in the United States or elsewhere. Difficulties or unanticipated costs may be encountered by the Company or its licensees or marketing partners in their respective efforts to secure necessary governmental approvals, which could delay or preclude the Company or its licensees or marketing partners from marketing their products.

With respect to patented products, delays imposed by the government approval process may materially reduce the period during which the Company will have the exclusive right to exploit them. See "Patents".

COMPETITION

Many established biotechnology and pharmaceutical companies with greater resources than the Company are engaged in activities that are competitive with those of Enzon and may develop products or technologies which compete with those of the Company. Although Enzon believes that the experience of its personnel in biotechnology, the patents which have been licensed by or issued to the Company and the proprietary know-how developed by the Company provide it with a competitive advantage in its field, there can be no assurance that the Company will be able to maintain any competitive advantage, should it exist, in view of the greater size and resources of many of the Company's competitors.



Enzon is aware that other companies are conducting research on chemically modified therapeutic proteins and that certain companies are modifying pharmaceutical products, including proteins, by attaching PEG. While the Company believes that products modified with its PEG Process are superior to these other products, there is no assurance that this will prove to be the case. Other than the Company's products ONCASPAR and ADAGEN, the Company is unaware of any PEG-modified therapeutic proteins which are currently available commercially for therapeutic use. Nevertheless, other drugs or treatment modalities which are currently available or that may be developed in the future, and which treat the same diseases as those which the Company's products

are designed to treat, may be competitive with the Company's products.

Prior to the development of ADAGEN, the Company's first FDA approved product, the only treatment available to patients afflicted with SCID was a bone marrow transplant. Completing a successful transplant depends upon finding a matched donor, the probability of which is low. More recently, researchers at the NIH have been attempting to treat SCID patients with gene therapy, which if successfully developed, would compete with, and could eventually replace ADAGEN as a treatment. The theory behind gene therapy is that cultured T-lymphocytes that are genetically engineered and injected back into the patient will express permanently and at normal levels, adenosine deaminase, the deficient enzyme in people afflicted with SCID. To date, gene therapy clinical trials have not been conclusive. Those patients currently being treated with gene therapy have continued to be treated with ADAGEN.

Current standard treatment of patients with ALL includes administering unmodified L-asparaginase along with the drugs vincristine, prednisone and daunomycin. Studies have shown that long-term treatment with L-asparaginase increases the disease free survival in high risk patients. ONCASPAR, the Company's PEG-modified L-asparaginase product, is used to treat patients with ALL who are hypersensitive (allergic) to unmodified forms of L-asparaginase. The long-term survival and cure of ALL patients depends upon achieving a sustainable first remission. Currently, there are two unmodified forms of L-asparaginase available in the United States -- Elspar and Erwinase. The Company believes that ONCASPAR has the following two advantages over these unmodified forms of L-asparaginase: increased circulating blood life and generally reduced immunogenicity.

Several companies are actively pursuing the development of agents to increase the oxygen level in solid tumors and thereby enhance the efficacy of radiation and/or chemotherapy that could compete with PEG-hemoglobin. Some of these agents are also being tested in clinical trials. In addition, many conventional cytotoxic agents are currently used in combination with each other and/or with radiation to give additive or synergistic anti-cancer effects.

Hyperbaric oxygen chambers have been used clinically to increase the oxygen content of tumors and thereby improve the effectiveness of radiation therapy. However, this method is relatively costly and cumbersome, and is therefore not widely practiced. Compounds that decrease the affinity of hemoglobin for oxygen and thereby increase the level of free oxygen in the blood have been known for some time. At least one such "synthetic allosteric modifier" compound is reportedly being studied in clinical trials for its ability to increase the level of oxygen in tumors, which could enhance the efficacy of radiation therapy and/or chemotherapy. Compounds that inhibit the ability of cancer cells to repair radiation damage to their DNA are also known, and one such compound is reportedly in clinical trials as an adjunct to radiation therapy.

The Company believes that PEG-hemoglobin, due to its long circulation life, will deliver more oxygen to hypoxic tumors than the products currently under development and therefore, in combination with radiation, should result in greater reduction in tumor size.

Companies are also actively pursuing the development of hemoglobin-based oxygen carriers for use as a blood substitute and certain of these products are currently also being tested in clinical trials. Companies developing hemoglobin-based products have researched the use of human, bovine, genetically engineered and transgenic hemoglobin. Each source of hemoglobin has various



problems associated with it. Currently, the Company believes that none of the other companies developing hemoglobin-based oxygen carriers as blood substitutes are pursuing a radiosensitization indication.

Certain of the Company's competitors are attempting to develop oxygen carriers using perfluorocarbons ("PFC"). The FDA has allowed PFC trials only for very limited applications where benefits may be realized from localized, short-term use of very small amounts of the substance. PFCs are currently approved by the FDA for limited use in angioplasty patients. Clinical trials of PFC-based oxygen carriers for treatment of anemia were halted prior to completion.

There are several technologies which compete with the Company's SCA technology, including chimeric antibodies, humanized antibodies, human

monoclonal antibodies, recombinant antibody FAB fragments, low molecular weight peptides and mimetics. These competing technologies can be categorized into two areas: (i) those modifying the monoclonal to minimize immunological reaction to a foreign protein, which is the strategy employed with chimerics, humanized antibodies and human monoclonal antibodies, and (ii) those creating smaller portions of the monoclonal which are more specific to the target and have fewer side effects, as is the case with FAB fragments and low molecular weight peptides. Enzon believes that the smaller size of its SCA proteins should permit better penetration into the tumor, result in rapid clearance from the blood and cause a significant decrease in the immunogenic problems associated with conventional monoclonal antibodies. A number of companies have active programs in SCA proteins. The Company believes that its patent position on SCA proteins will require these other companies to obtain licenses from Enzon in order to commercialize their products, but there can be no assurance that this will prove to be the case.

PATENTS

The Company has licensed, and been issued, a number of patents in the United States and other countries and has other patent applications pending to protect its proprietary technology. Although the Company believes that its patents provide adequate protection for the conduct of its business there can be no assurance that such patents will be of substantial protection or commercial benefit to the Company, will afford the Company adequate protection from competing products, will not be challenged or declared invalid, or that additional United States patents or foreign patent equivalents will be issued to the Company. The degree of patent protection to be afforded to biotechnological inventions is uncertain and the Company's products are subject to this uncertainty. The Company is aware of certain issued patents and patent applications, and there may be other patents and applications, containing subject matter which the Company or its licensees or collaborators may require in order to research, develop or commercialize at least some of the Company's products. There can be no assurance that licenses under such subject matter will be available on acceptable terms. The Company expects that there may be significant litigation in the industry regarding patents and other proprietary rights and, if Enzon were to become involved in such litigation, it could consume a substantial amount of the Company's resources. In addition, the Company relies heavily on its proprietary technologies for which pending patent applications have been filed and on unpatented know-how developed by the Company. Insofar as the Company relies on trade secrets and unpatented know-how to maintain its competitive technological position, there can be no assurance that others may not independently develop the same or similar technologies. Although the Company has taken steps to protect its trade secrets and unpatented know-how, third-parties nonetheless may gain access to such information.

The original PEG Process patent which was licensed from Research Technologies Corp. is due to expire in December 1996. The Company has made significant improvements to the original PEG Process and has applied for and received numerous patents for such improvements. The Company believes, based on new patents received and applications pending, that this expiration will not have a material impact on its business.

In the field of SCA proteins, the Company has several United States and foreign patents and patent applications, including a patent granted in August 1990 covering the genes needed to encode SCA proteins. Creative BioMolecules, Inc. ("Creative") provoked an interference with the patent and on June 28, 1991, the United States Patent and Trademark Office entered summary judgment



terminating the interference proceeding and upholding the Company's patent. Creative subsequently lost its appeal of this decision in the United States Court of Appeals. Creative did not file a petition for review of this decision by the United States Supreme Court within the required time period.

In November 1993, Enzon and Creative signed collaborative agreements in the field of Enzon's SCA protein technology and Creative's Biosynthetic Antibody Binding Site (BABS(trademark)) protein technology. Under the agreements, each company is free, under a non-exclusive, worldwide license, to develop and sell products utilizing the technology claimed by both companies' antibody engineering patents, without paying royalties to the other. Each is also free to market products in collaboration with third parties, but the third parties will be required to pay royalties on products covered by the patents which will be shared by the companies, except in certain instances. Enzon has

the exclusive right to market licenses under both companies' patents other than to Creative's collaborators. In addition, the agreements provide for the release and discharge by each company of the other, from any and all claims based on past infringement of the technology which is the subject of the agreements. The agreement also provides for any future disputes between the companies, regarding new patents in the area of engineered monoclonal antibodies, to be resolved pursuant to agreed upon procedures.

Although the Company believes that its patents provide adequate protection for the conduct of its business as described herein, there can be no assurance that such patents will be of substantial protection from competing products, will not be challenged or declared invalid, or that additional United States patents or foreign patent equivalents will be issued to the Company.

EMPLOYEES

As of June 30, 1996, Enzon employed 101 persons, of whom 47 were engaged in research and development activities, 33 were engaged in manufacturing, and 21 were engaged in administration and management. As of June 30, 1996, the Company had 20 employees who hold Ph.D. degrees. The Company believes that it has been highly successful in attracting skilled and experienced scientific personnel; however, competition for such personnel is intensifying. None of the Company's employees are covered by a collective bargaining agreement. All of the Company's employees are covered by confidentiality agreements. Enzon considers relations with its employees to be good.



ITEM 2. PROPERTIES

The Company owns no real property. The following are all of the facilities that Enzon currently leases:

| LOCATION | PRINCIPAL OPERATIONS | APPROX. SQUARE FOOTAGE | APPROX. ANNUAL RENT | LEASE EXPIRATION |
|---|---|---|---|---|
| 20 Kingsbridge Road Piscataway, NJ | Research & Development & Administrative | 56,000 | $496,000(1) | June 15, 2007 |
| 40 Cragwood Road S. Plainfield, NJ | Research & Development, Pilot Scale Manufacturing | 88,000 | 814,000(2) | December 31, 1998 |
| 300 Corporate Ct. S. Plainfield, NJ | Manufacturing | 24,000 | 183,000 | November 30, 1998 |

(1) Under the terms of the lease, annual rent increases over the remaining term of the lease from $496,000 to $581,000.

(2) Net of subrental income of $221,000; the sublease is for approximately 27,412 square feet.

The Company believes that its facilities are well maintained and generally adequate for its present and future anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

There is no material litigation pending to which the Company is a party or to which any of its property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded in the over-the-counter market and is quoted on the NASDAQ National Market under the trading symbol "ENZN".

The following table sets forth the high and low sale prices for the Common Stock for the years ended June 30, 1996 and 1995, as reported by the NASDAQ National Market. The quotations shown represent inter-dealer prices without adjustment for retail mark-ups, mark downs or commissions, and may not necessarily reflect actual transactions.

| | HIGH | LOW |
|---|---|---|
| Year Ended June 30, 1996 | | |
| First Quarter | 4 1/8 | 2 3/16 |
| Second Quarter | 3 7/8 | 1 15/16 |
| Third Quarter | 5 1/2 | 2 1/8 |
| Fourth Quarter | 4 5/8 | 2 3/4 |
| Year Ended June 30, 1995 | | |
| First Quarter | 3 1/4 | 2 1/8 |
| Second Quarter | 3 1/8 | 1 1/2 |
| Third Quarter | 2 1/2 | 1 11/16 |
| Fourth Quarter | 2 7/8 | 1 3/4 |

As of September 17, 1996 there were 3,021 holders of record of the Common Stock.

The Company has paid no dividends on its Common Stock since its inception and does not plan to pay dividends on its Common Stock in the foreseeable future. Except as may be utilized to pay dividends payable on the Company's outstanding Series A Cumulative Convertible Preferred Stock ("Series A Preferred Shares" or "Series A Preferred Stock"), any earnings which the Company may realize will be retained to finance the growth of the Company. In addition, no dividends may be paid or set apart for payment on the Common Stock unless the Company shall have paid in full, or made appropriate provision for the payment in full of, all dividends which have then accumulated on the Series A Preferred Shares.



ITEM 6. SELECTED FINANCIAL DATA

Set forth below is the selected financial data for the Company for the five fiscal years ended June 30, 1996.

CONSOLIDATED STATEMENT OF OPERATIONS DATA:

YEAR ENDED JUNE 30,

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| Revenues | $ 12,681,281 | $ 15,826,437 | $ 14,797,499 | $ 8,414,349 | $ 5,684,944 |
| Net Loss | $ (5,175,279) | $ (6,291,491) | $(16,495,226) | $(24,601,310) | $(28,182,829) |
| Net Loss per Share | $ (.20) | $ (.26) | $ (.71) | $ (1.15) | $ (1.46) |

| | | | | | |
|---|---|---|---|---|---|
| Dividends on Common Stock | None | None | None | None | None |

CONSOLIDATED BALANCE SHEET DATA:

| | JUNE 30, | | | | |
|---|---|---|---|---|---|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| Total Assets | $21,963,856 | $19,184,042 | $20,543,252 | $33,920,859 | $39,310,862 |
| Long-Term Obligations | $ 1,728 | $ 4,076 | $ 115,733 | $ 141,772 | $ 232,958 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

FISCAL YEARS ENDED JUNE 30, 1996, 1995 AND 1994

REVENUES. Revenues for the year ended June 30, 1996 decreased by 20% to $12,681,000 as compared to $15,826,000 for fiscal 1995. The components of revenues are sales, which consist of sales of the Company's products and royalties on the sale of such products by others, and contract revenues. Sales decreased by 5% to $10,502,000 for the year ended June 30, 1996 as compared to $11,024,000 for the prior year. The decrease was principally due to an absence of any shipments of PEG-INTRON A to the Company's collaborative partner, Schering, during the year ended June 30, 1996 compared to shipments of approximately $1,135,000 recorded during the year ended June 30,1995. In June 1995, the Company amended its agreement with Schering and agreed to transfer the know-how and manufacturing rights for PEG-INTRON A to Schering. It is anticipated that Schering will manufacture all future clinical trial material. Enzon has the option to manufacture PEG-INTRON A for the U.S. market upon FDA approval, should it occur. This decrease was offset in part by increased ADAGEN sales of approximately $391,000 and increased revenues from ONCASPAR, which is marketed by RPR, of approximately $249,000. The Company expects sales of ADAGEN to increase at comparable rates as those achieved during the last two years as additional patients are treated. The Company also anticipates moderate growth of ONCASPAR sales to RPR and increased royalties on RPR sales of ONCASPAR. Currently RPR is conducting clinical trials to expand the use of ONCASPAR beyond its current FDA approved indication which could also result in additional revenues from this product. The Company is also pursuing licensing agreements for the sale of ONCASPAR outside of North America. There can be no assurance that any particular sales levels of ONCASPAR or ADAGEN will be achieved or maintained. ADAGEN sales for the year ended June 30, 1996 and 1995 were $8,696,000 and $8,305,000, respectively. Contract revenue for the year ended June 30, 1996 decreased by 55% to $2,179,000, as compared to $4,802,000 for fiscal 1995. The decrease was principally due to a payment of $2,000,000 recorded during the prior fiscal year from Schering related to the amendment of the Company's PEG-Intron A license with Schering. During the years ended June 30, 1996 and 1995, the Company had export sales of $2,270,000 and $2,105,000, respectively. Sales in Europe were $1,858,000 and $1,841,000 for the years ended June 30, 1996 and 1995, respectively.



Revenues for the fiscal year ended June 30, 1995 increased by 7% to $15,826,000 as compared to $14,797,000 for fiscal 1994. Sales increased by 35% to $11,024,000 for the year ended June 30, 1995 as compared to $8,182,000 for the prior year, due to the shipments of clinical material to Schering of approximately $1,135,000, an increase in sales of ADAGEN of $704,000 due to an increase in patients receiving the product and increased ONCASPAR revenues from RPR of approximately $1,129,000. ADAGEN sales for the years ended June 30, 1995 and 1994 were $8,305,000 and $7,601,000, respectively. Contract revenue for the year ended June 30, 1995 decreased by 27% to $4,802,000, as compared to $6,616,000 for fiscal 1994. The decrease was principally due to a one time

payment received during fiscal 1994 from RPR related to the FDA approval of ONCASPAR. The decrease was offset in part by a payment of $1,800,000 recorded in fiscal 1995 from Bristol-Myers related to the exercise of its option under an agreement dated September 1993, to acquire a worldwide non-exclusive license for all therapeutic indications for the Company's SCA protein technology and $2,000,000 received related to the amendment of the Company's agreement with Schering. During the fiscal years ended June 30, 1995 and 1994, the Company had export sales of $2,105,000 and $2,085,000, respectively. Sales in Europe were $1,841,000 and $1,957,000 for the years ended June 30, 1995 and 1994, respectively.

COST OF SALES. Cost of sales, as a percentage of sales, increased to 34% for the year ended June 30, 1996 as compared to 26% for fiscal 1995. The increase was due primarily to a payment in lieu of satisfying the minimum purchase requirements under the Company's long-term supply agreement for a raw material used in the production of ONCASPAR and the write-off of excess inventories of this raw material. While it is possible that the Company may incur similar losses on its remaining purchase commitments under the supply agreement (see Note 5 to the Consolidated Financial Statements), the Company does not consider such losses probable, nor can the amount of any loss which may be incurred in the future presently be estimated due to a number of factors, including but not limited to potential increased demand for ONCASPAR from RPR, expansion into additional markets outside the U.S. and the possibility that the Company could renegotiate the level of required purchases. If the Company does not achieve increases in sales of ONCASPAR beyond current levels or cannot renegotiate its commitment, a loss would be incurred on the remaining purchase commitment.

Cost of sales, as a percentage of sales, for fiscal 1995 was 26% as compared to 27% in fiscal 1994. An increase in the charge to cost of goods sold related to idle capacity at the Company's manufacturing facility was offset by a decrease in the write-off of excess raw material (PEG). Prior to the approval of ONCASPAR, the Company's first FDA approved drug for a potentially large patient population, idle capacity was charged to research and development expense.

RESEARCH AND DEVELOPMENT. Research and development expenses for the year ended June 30, 1996 decreased by 16% to $10,124,000 from $12,084,000 for the year ended June 30, 1995. This decrease was primarily due to reductions in personnel, principally in the clinical and research administration areas, and related costs, such as payroll taxes and benefits totaling approximately $1,150,000 and other cost containment measures taken by the Company.

Research and development expenses in fiscal 1995 decreased by 32% to $12,084,000 as compared to $17,665,000 in fiscal 1994. The decrease was principally due to (i) reductions in personnel, principally in the clinical and scientific administration areas, and related costs such as payroll taxes and benefits totaling approximately $2,124,000, (ii) decreased research facility and occupancy costs of $1,150,000, (iii) the charging of $832,000 in idle capacity to cost of sales, rather than research and development, as was the case in the first nine months of fiscal 1994, and (iv) other cost containment measures implemented by the Company. The decreases in research facility and occupancy costs related to a one time credit received from one of the Company's landlords, the sublease of certain facilities and the termination of one of the Company's long-term facility leases and the resulting consolidation of its operations.



SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses for the year ended June 30, 1996 decreased by 13% to $6,011,000 from $6,916,000 for the year ended June 30, 1995. The decrease was due to (i) reductions in personnel and related costs, such as payroll taxes and benefits of approximately $510,000, (ii) a reduction in facility and occupancy costs of approximately $486,000, and (iii) other cost containment measures taken by the Company.

Selling, general and administrative expenses for fiscal 1995 decreased by 41% to $6,916,000 from $11,710,000 for fiscal 1994. The decrease was due to (i) reductions in personnel and related costs, such as payroll taxes and benefits of approximately $2,690,000, (ii) a decrease in marketing and advertising costs for ONCASPAR as a result of the Company's license agreement with RPR totaling $291,000, and (iii) other cost containment measures taken by

the Company. Under the Company's exclusive U.S. marketing rights license, RPR is responsible for all marketing and advertising costs related to ONCASPAR.

RESTRUCTURING EXPENSE. During the year ended June 30, 1995, the Company recorded a restructuring expense related to a reduction in its workforce and the termination of a long-term facility lease.

OTHER INCOME/EXPENSE. Other income/expense increased by $829,000 to $1,823,000 for the year ended June 30, 1996 as compared to $994,000 last year. The increase was due principally to the recognition as other income of approximately $1,313,000 representing the unused portion of an advance received under a development and license agreement with Sanofi. During October 1995, the Company learned that Sanofi intended to cease development of PEG-SOD (Dismutec) due to the product's failure to show a statistically significant difference between the treatment group and the control group in a pivotal Phase III trial. Due, in part, to this product failure, the Company believes it has no further obligations under its agreement with Sanofi with respect to the $1,313,000 advance and therefore, the Company has recognized as other income the amount due Sanofi previously recorded as a current liability. Other income/expense in the prior year principally consisted of a one-time insurance payment.

Other income/expense increased to $994,000 for fiscal 1995 as compared to $250,000 for fiscal 1994. The increase was principally due to an insurance settlement of $645,000 received during fiscal 1995 related to ADAGEN that was destroyed in shipment.

The Company will adopt the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" as of July 1, 1996. This statement is not expected to have a material impact on the Company's consolidated financial statements.

The Company anticipates electing to continue its current accounting methodology regarding stock options granted to employees and will add the required additional footnote disclosures prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," in its consolidated financial statements for the year ending June 30, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Enzon had $12,666,000 in cash and cash equivalents as of June 30, 1996. The Company invests its excess cash in a portfolio of high-grade marketable securities and United States government-backed securities.

The Company's cash reserves as of June 30, 1996 increased by $4,563,000 from June 30, 1995. The increase in cash reserves reflects approximately $9,444,000 in net proceeds (after payment of related expenses) received from the Company's private placement of its Common Stock, Series B Convertible Preferred Shares ("Series B Preferred Shares") and warrants to purchase Common Stock in January 1996 and the private placement of its Common Stock, Series C Convertible Preferred Shares ("Series C Preferred Shares") and warrants to purchase Common Stock in March 1996. This increase was offset in part by the funding of operations.



The Company's Amended RPR License Agreement for ONCASPAR provides for a payment of $3,500,000 in advance royalties which was received from RPR in January 1995. Royalties due under the Amended RPR License Agreement will be offset against a credit of $5,970,000, which represents the royalty advance plus reimbursement of certain amounts due RPR under the previous agreement and interest expense, before cash payments will be made under the agreement. The royalty advance is shown as a long term liability with the corresponding current portion included in accrued expenses on the consolidated balance sheets and will be reduced as royalties are recognized under the agreement. Through June 30, 1996, an aggregate of $1,045,000 in royalties payable by RPR has been offset against the original credit.

As of June 30, 1996, 940,808 shares of Series A Cumulative Convertible Preferred Shares ("Series A Preferred Shares") had been converted into 3,093,411 shares of Common Stock. Accrued dividends on the converted Series A Preferred Shares in the aggregate of $1,792,000 were settled by the issuance of 232,383 shares of Common Stock. The Company does not presently intend to pay

cash dividends on the Series A Preferred Shares. As of June 30, 1996, there were $1,367,000 of accrued and unpaid dividends on the Series A Preferred Shares. These dividends are payable in cash or Common Stock at the Company's option and accrue on the outstanding Series A Preferred Shares at the rate of $218,000 per year. As of June 30, 1996, there had been no conversion of the Series B Preferred Shares or Series C Preferred Shares. Neither the Series B Preferred Shares nor the Series C Preferred Shares carry stated dividends.

To date, the Company's sources of cash have been the proceeds from the sale of its stock through public and private placements, sales of ADAGEN, sales of ONCASPAR, sales of its products for research purposes, contract research and development fees, technology transfer and license fees and royalty advances. The Company's current sources of liquidity are its cash, cash equivalents and interest earned on such cash reserves, sales of ADAGEN, sales of ONCASPAR, sales of its products for research purposes and license fees. Management believes that its current sources of liquidity will be sufficient to meet its anticipated cash requirements, based on current spending levels, for approximately the next two years.

Upon exhaustion of the Company's current cash reserves, the Company's continued operations will depend on its ability to realize significant revenues from the commercial sale of its products, raise additional funds through equity or debt financing, or obtain significant licensing, technology transfer or contract research and development fees. There can be no assurance that these sales, financings or revenue generating activities will be successful.

In management's opinion, the effect of inflation on the Company's past operations has not been significant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this Item is submitted as a separate section of this report commencing on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.



PART III

The information required by Item 10 - Directors and Executive Officers of the Registrant; Item 11 - Executive Compensation; Item 12 - Security Ownership of Certain Beneficial Owners and Management; and Item 13 - Certain Relationships and Related Transactions is incorporated into Part III of this Annual Report on Form 10-K by reference to the Company's Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on December 3, 1996.



PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) and (2). The response to this portion of Item 14 is submitted as a separate section of this report commencing on page F-1.

(a)(3) and (c). Exhibits (numbered in accordance with Item 601 of Regulation S-K).

| Exhibit NUMBER | DESCRIPTION | Page Number or Incorporation BY REFERENCE |
|---|---|---|
| 3(i) | Certificate of Incorporation, as amended | #### |
| 3(ii) | By-laws, as amended | *(4.2) |
| 10.0 | Employment Agreement dated March 25, 1994 with Peter G. Tombros | #(10.17) |
| 10.1 | Form of Change of Control Agreements dated as of January 20, 1995 entered into with the Company's Executive Officers | \|(10.2) |
| 10.2 | Lease - 300-C Corporate Court, South | |

Plainfield, New Jersey ***(10.3)
10.3 Modification of Lease - 300-C Corporate Court, South Plainfield New Jersey ++(10.3)
10.4 Lease Termination Agreement dated March 31, 1995 for 20 Kingsbridge Road and 40 Kingsbridge Road, Piscataway, New Jersey |(10.6)
10.5 Option Agreement dated April 1, 1995 regarding 20 Kingsbridge Road, Piscataway, New Jersey |(10.7)
10.6 Form of Lease - 40 Cragwood Road, South Plainfield, New Jersey ****(10.9)
10.7 Lease 300A-B Corporate Court, South Plainfield, New Jersey +++(10.10)
10.8 Stock Purchase Agreement dated March 5, 1987 between the Company and Eastman Kodak Company ****(10.7)
10.9 Amendment dated June 19, 1989 to Stock Purchase Agreement between the Company and Eastman Kodak Company **(10.10)
10.10 Form of Stock Purchase Agreement between the Company and the purchasers of the Series A Cumulative Convertible Preferred Stock +(10.11)
10.11 Amendment to License Agreement and Revised License Agreement between the Company and RCT dated April 25, 1985 ++++(10.5)
10.12 Amendment dated as of May 3, 1989 to Revised License Agreement dated April 25, 1985 between the Company and Research Corporation **(10.14)
10.13 License Agreement dated September 7, 1989 between the Company and Research Corporation Technologies, Inc. **(10.15)
10.14 Master Lease Agreement and Purchase Leaseback Agreement dated October 28, 1994 between the Company and Comdisco, Inc. ##(10.16)
10.15 Amendment dated as of May 15, 1995 to Employment Agreement with Peter G. Tombros ||(10.17)



10.16 Stock Purchase Agreement dated as of June 30, 1995 |||
10.17 Securities Purchase Agreement dated as of January 31, 1996 |||
10.18 Registration Rights Agreements dated as of January 31, 1996 |||
10.19 Warrants dated as of February 7, 1996 and issued pursuant to the Securities Purchase Agreement dated as of January 31, 1996 |||
10.20 Securities Purchase Agreement dated as of March 15, 1996 ####
10.21 Registration Rights Agreement dated as of March 15, 1996 ####
10.22 Warrant dated as of March 15, 1996 and issued pursuant to the Securities Purchase Agreement dated as of March 15, 1996 ####
21.0 Subsidiaries of Registrant ###
23.0 Consent of KPMG Peat Marwick LLP ###
27.0 Financial Data Schedule ###
99.0 Additional Exhibits ###

### Filed herewith.

* Previously filed as an exhibit to the Company's Registration Statement on Form S-2 (File No. 33-34874) and incorporated herein by reference thereto.

** Previously filed as exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1989 and incorporated herein by reference thereto.

*** Previously filed as an exhibit to the Company's Registration Statement on Form S-18 (File No. 2-88240-NY) and incorporated herein by reference thereto.

**** Previously filed as exhibits to the Company's Registration Statement on Form S-1 (File No. 2-96279) filed with the Commission and incorporated herein by reference thereto.

+ Previously filed as an exhibit to the Company's Registration Statement on Form S-1 (File No. 33-39391) filed with the Commission and incorporated herein by reference thereto.

++ Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1992 and incorporated herein by reference thereto.

+++ Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993 and incorporated herein by reference thereto.

++++ Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1985 and incorporated herein by reference thereto.

# Previously filed as an exhibit to the Company's Current Report on

Form 8-K dated April 5, 1994 and incorporated herein by reference thereto.

## Previously filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended December 31, 1994 and incorporated herein by reference thereto.

| Previously filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1995 and incorporated herein by reference thereto.

|| Previously filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended June 30, 1995 and incorporated herein by reference thereto.



||| Previously filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended December 31, 1995 and incorporated herein by reference thereto.

#### Previously filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1996 and incorporated herein by reference thereto.

(b) Reports on Form 8-K

On June 25, 1996, the Company filed with the Commission a Current Report on Form 8-K dated June 10, 1996 relating to the exercise by the Company of a warrant to purchase 150,000 shares of Neoprobe Corporation common stock. (Item 5).

On May 29, 1996, the Company filed with the Commission a Current Report on Form 8-K dated May 20, 1996 relating to the Company's Phase Ib clinical trials. (Item 5).

On April 30, 1996, the Company filed with the Commission a Current Report on Form 8-K dated January 11, 1996 relating to the Company's receipt of two additional United States patents for PEG-hemoglobin. (Item 5).

On April 24, 1996, the Company filed with the Commission a Current Report on Form 8-K dated January 11, 1996 relating to changes in the Company's board, the formation of a Steering Committee and an inquiry from NASDAQ. (Item 5).



## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENZON, INC.

Dated: September 27, 1996

/S/ PETER G. TOMBROS
By: Peter G. Tombros
President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| NAME | TITLE | DATE |
|---|---|---|
| /S/ PETER G. TOMBROS<br>Peter G. Tombros | President, Chief Executive Officer and Director (Principal Executive Officer) | September 27, 1996 |
| /S/ KENNETH J. ZUERBLIS | Vice President, Finance | September 27, 1996 |

| | | |
|---|---|---|
| Kenneth J. Zuerblis | and Chief Financial Officer (Principal Financial and Accounting Officer) | |
| /S/ RANDY H. THURMAN<br>Randy H. Thurman | Chairman of the Board | September 27, 1996 |
| /S/ ROSINA B. DIXON<br>Rosina B. Dixon | Director | September 27, 1996 |
| /S/ ROBERT LEBUHN<br>Robert LeBuhn | Director | September 27, 1996 |
| /S/ A.M. "DON" MACKINNON<br>A.M. "Don" MacKinnon | Director | September 27, 1996 |



ENZON, INC. AND SUBSIDIARIES

Index





INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Enzon, Inc.:

We have audited the consolidated financial statements of Enzon, Inc. and subsidiaries as listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial

statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Enzon, Inc. and subsidiaries as of June 30, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 1996, in conformity with generally accepted accounting principles.

/s/KPMG PEAT MARWICK LLP
KPMG Peat Marwick LLP

New York, New York
September 24, 1996



ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 1996 and 1995

| ASSETS | 1996 | 1995 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $12,666,050 | $8,102,989 |
| Accounts receivable | 2,123,691 | 2,362,277 |
| Inventories | 985,378 | 792,453 |
| Accrued interest receivable | 50,587 | 9,674 |
| Prepaid expenses | 383,731 | 175,552 |
| Total current assets | 16,209,437 | 11,442,945 |
| Property and equipment | 15,640,823 | 15,758,058 |
| Less accumulated depreciation and amortization | 11,617,690 | 9,968,024 |
| | 4,023,133 | 5,790,034 |
| Other assets: | | |
| Investments | 78,293 | 78,616 |
| Deposits and deferred charges | 55,945 | 46,627 |
| Patents, net | 1,597,048 | 1,825,820 |
| | 1,731,286 | 1,951,063 |
| Total assets | $21,963,856 | $19,184,042 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $2,078,924 | $1,561,968 |
| Accrued expenses | 4,387,052 | 4,045,302 |
| Other accrued liabilities - due to Sanofi | - | 1,312,829 |
| Total current liabilities | 6,465,976 | 6,920,099 |
| Accrued rent | 980,908 | 1,006,508 |
| Royalty advance - RPR | 1,600,786 | 2,955,841 |
| Other liabilities | 1,728 | 4,076 |
| | 2,583,422 | 3,966,425 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock-$.01 par value, authorized 3,000,000 shares; | | |

| | | |
|---|---|---|
| issued and outstanding 169,000 shares in 1996 and 109,000 in 1995 (liquidation preferences aggregating $8,725,000 in 1996 and $2,725,000 in 1995) | 1,690 | 1,090 |
| Common stock-$.01 par value, authorized 40,000,000 shares; issued and outstanding 27,706,396 shares in 1996 and 26,328,874 shares in 1995 | 277,064 | 263,289 |
| Additional paid-in capital | 121,272,024 | 111,494,180 |
| Accumulated deficit | (108,636,320) | (103,461,041) |
| Total stockholders' equity | 12,914,458 | 8,297,518 |
| Total liabilities and stockholders' equity | $21,963,856 | $19,184,042 |

The accompanying notes are an integral part of these consolidated financial statements.



ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended June 30, 1996, 1995 and 1994

| | YEARS ENDED JUNE 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Revenues | | | |
| Sales | $10,501,985 | $11,024,432 | $8,181,999 |
| Contract revenue | 2,179,296 | 4,802,005 | 6,615,500 |
| Total revenues | 12,681,281 | 15,826,437 | 14,797,499 |
| Costs and expenses | | | |
| Cost of sales | 3,545,341 | 2,918,737 | 2,168,398 |
| Research and development expenses | 10,123,525 | 12,083,960 | 17,665,014 |
| Selling, general and administrative expenses | 6,010,639 | 6,916,393 | 11,709,735 |
| Restructuring expense | - | 1,192,971 | - |
| Total costs and expenses | 19,679,505 | 23,112,061 | 31,543,147 |
| Operating loss | (6,998,224) | (7,285,624) | (16,745,648) |
| Other income (expense) | | | |
| Interest and dividend income | 449,855 | 236,848 | 306,381 |
| Interest expense | (12,886) | (3,988) | (19,068) |
| Other | 1,385,976 | 761,273 | (36,891) |
| | 1,822,945 | 994,133 | 250,422 |
| Net loss | ($5,175,279) | ($6,291,491) | ($16,495,226) |
| Net loss per common share | ($0.20) | ($0.26) | (0.71) |
| Weighted average number of common shares outstanding during the period | 26,823,142 | 25,184,718 | 23,646,061 |

The accompanying notes are an integral part of these consolidated financial statements.

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended June 30, 1996, 1995 and 1994

PREFERRED STOCK

| | Amount Per Share | Number of Shares | Par Value |
|---|---|---|---|
| Balance, July 1, 1993 | | 117,000 | $1,170 |
| Common stock issued for exercise of non-qualified stock options | - | - | - |
| Common stock issued on conversion of preferred stock | 25.00 | (8,000) | (80) |
| Dividends issued on preferred stock | - | - | - |
| Proceeds from public offering on April 22, 1994 | - | - | - |
| Compensation expense related to vesting of stock options | - | - | - |
| Common stock issued for acquisition of Enzon Labs Inc. | - | - | - |
| Issuance of common stock warrants for Enzon Labs Inc. | - | - | - |
| Net loss | - | - | - |
| Balance, June 30, 1994 | | 109,000 | 1,090 |
| Compensation expense related to vesting of stock options | - | - | - |
| Proceeds from public shelf offering | - | - | - |
| Common stock issued for building purchase option | - | - | - |
| Common stock issued to Schering Corporation | - | - | - |
| Common stock issued for acquisition of Enzon Labs Inc. | - | - | - |
| Issuance of common stock warrants for Enzon Labs Inc. | - | - | - |
| Net loss | - | - | - |
| Balance, June 30, 1995 carried forward | | 109,000 | $1,090 |

The accompanying notes are an integral part of these consolidated financial statements.

(continued)

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended June 30, 1996, 1995 and 1994

COMMON STOCK

| | Amount Per Share | Number of Shares | Par Value |
|---|---|---|---|
| Balance, July 1, 1993 | | 23,471,537 | $234,715 |
| Common stock issued for exercise of non-qualified stock options | $4.12 | 140,850 | 1,409 |
| Common stock issued on conversion of preferred stock | 9.10 | 21,978 | 220 |
| Dividends issued on preferred stock | 9.10 | 7,032 | 70 |
| Proceeds from public offering on April 22, 1994 | 2.55 | 785,358 | 7,854 |
| Compensation expense related to vesting of stock options | - | - | - |
| Common stock issued for acquisition of Enzon Labs Inc. | 8.88 | 503 | 5 |

| | | | |
|---|---|---|---|
| Issuance of common stock warrants for Enzon Labs Inc. | 2.02 | - | - |
| Net loss | - | - | - |
| Balance, June 30, 1994 | | 24,427,258 | 244,273 |
| Compensation expense related to vesting of stock options | - | - | - |
| Proceeds from public shelf offering | 2.06 | 954,000 | 9,540 |
| Common stock issued for building purchase option | 2.25 | 100,000 | 1,000 |
| Common stock issued to Schering Corporation | 2.36 | 847,489 | 8,475 |
| Common stock issued for acquisition of Enzon Labs Inc. | 8.88 | 127 | 1 |
| Issuance of common stock warrants for Enzon Labs Inc. | 2.02 | - | - |
| Net loss | - | - | - |
| Balance, June 30, 1995 carried forward | | 26,328,874 | $263,289 |

The accompanying notes are an integral part of these consolidated financial statements.

(continued)

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended June 30, 1996, 1995 and 1994

| | Additional paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|
| Balance, July 1, 1993 | $105,068,743 | ($80,610,324) | $24,694,304 |
| Common stock issued for exercise of non-qualified stock options | 578,942 | - | 580,351 |
| Common stock issued on conversion of preferred stock | (140) | - | - |
| Dividends issued on preferred stock | 63,921 | (64,000) | (9) |
| Proceeds from public offering on April 22, 1994 | 1,624,025 | - | 1,631,879 |
| Compensation expense related to vesting of stock options | 179,465 | - | 179,465 |
| Common stock issued for acquisition of Enzon Labs Inc. | 4,459 | - | 4,464 |
| Issuance of common stock warrants for Enzon Labs Inc. | 835 | - | 835 |
| Net loss | - | (16,495,226) | (16,495,226) |
| Balance, June 30, 1994 | 107,520,250 | (97,169,550) | 10,596,063 |
| Compensation expense related to vesting of stock options | 31,535 | - | 31,535 |
| Proceeds from public shelf offering | 1,742,524 | - | 1,752,064 |
| Common stock issued for building purchase option | 224,000 | - | 225,000 |
| Common stock issued to Schering Corporation | 1,974,575 | - | 1,983,050 |
| Common stock issued for acquisition of Enzon Labs Inc. | 1,126 | - | 1,127 |
| Issuance of common stock warrants for Enzon Labs Inc. | 170 | - | 170 |
| Net loss | - | (6,291,491) | (6,291,491) |
| Balance, June 30, 1995 carried forward | $111,494,180 | ($103,461,041) | $8,297,518 |

The accompanying notes are an integral part of these consolidated financial statements.



ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended June 30, 1996, 1995 and 1994

PREFERRED STOCK

| | Amount Per Share | Number of Shares | Par Value |
|---|---|---|---|
| Balance, June 30, 1995 brought forward | | 109,000 | $1,090 |
| Common stock issued for exercise of non-qualified stock options | - | - | - |
| Issuance of common stock warrants | - | - | - |
| Proceeds from private placement, January 1996 | 100.00 | 40,000 | 400 |
| Proceeds from private placement, March 1996 | 100.00 | 20,000 | 200 |
| Consulting expense for issuance of stock options | - | - | - |
| Donation of common stock | - | - | - |
| Net loss | - | - | - |
| Balance, June 30, 1996 | | 169,000 | $1,690 |

The accompanying notes are an integral part of these consolidated financial statements.

(continued)

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended June 30, 1996, 1995 and 1994

COMMON STOCK

| | Amount Per Share | Number of Shares | Par Value |
|---|---|---|---|
| Balance, June 30, 1995 brought forward | | 26,328,874 | $263,289 |
| Common stock issued for exercise of non-qualified stock options | 2.54 | 15,980 | 160 |
| Issuance of common stock warrants | - | - | - |
| Proceeds from private placement, January 1996 | 2.74 | 1,094,890 | 10,949 |
| Proceeds from private placement, March 1996 | 3.75 | 266,667 | 2,666 |
| Consulting expense for issuance of stock options | - | - | - |
| Donation of common stock | - | (15) | - |
| Net loss | - | - | - |
| Balance, June 30, 1996 | | 27,706,396 | $277,064 |

The accompanying notes are an integral part of these consolidated financial statements.

(continued)

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended June 30, 1996, 1995 and 1994

| | Additional paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|
| Balance, June 30, 1995 brought forward | $111,494,180 | ($103,461,041) | $8,297,518 |
| Common stock issued for exercise of non-qualified stock options | 40,376 | - | 40,536 |
| Issuance of common stock warrants | 246,000 | - | 246,000 |
| Proceeds from private placement, January 1996 | 6,661,006 | - | 6,672,355 |
| Proceeds from private placement, March 1996 | 2,768,920 | - | 2,771,786 |
| Consulting expense for issuance of stock options | 61,542 | - | 61,542 |
| Donation of common stock | - | - | - |
| Net loss | - | (5,175,279) | (5,175,279) |
| Balance, June 30, 1996 | $121,272,024 | ($108,636,320) | $12,914,458 |

The accompanying notes are an integral part of these consolidated financial statements.



ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 1996, 1995 and 1994

| | YEARS ENDED JUNE 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Cash flows from operating activities: | | | |
| Net loss | ($5,175,279) | ($6,291,491) | ($16,495,226) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Decrease in liability recognized pursuant to Sanofi Agreement | (1,312,829) | - | - |
| Depreciation and amortization | 2,051,735 | 2,477,671 | 2,796,654 |
| Reserve for shutdown Enzon Labs Inc. | - | (71,743) | (1,203,563) |
| Loss on retirement of assets | 69,444 | 9,003 | 38,868 |
| Non-cash expense for issuance of stock options | 61,542 | 31,535 | 179,465 |
| Non-cash portion of restructuring expense | - | 1,100,094 | - |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in accounts receivable | 238,586 | (433,824) | (313,141) |
| (Increase) decrease in inventories | (192,925) | 147,370 | 117,614 |
| (Increase) decrease in accrued interest receivable | (40,913) | (4,489) | 151,611 |
| (Increase) decrease in prepaid expenses | (208,179) | (68,222) | 222,179 |
| Decrease (increase) in cash surrender value of life insurance | - | 67,871 | (66,148) |
| (Increase) decrease in other assets | (8,995) | 126,448 | 5,303 |
| Increase (decrease) in accounts payable | 516,956 | (857,603) | 407,433 |
| Increase (decrease) in accrued expenses | 589,833 | (349,431) | 1,200,481 |
| (Decrease) increase in accrued rent | (25,600) | (854,274) | 345,755 |
| (Decrease) increase in royalty advance - RPR | (1,355,055) | 2,955,841 | - |
| Decrease in other liabilities | (2,348) | (110,360) | (1,340) |
| Net cash used in operating activities | (4,794,027) | (2,125,604) | (12,614,055) |
| Cash flows from investing activities: | | | |
| Capital expenditures | (136,789) | (387,020) | (828,711) |
| Proceeds from sale of equipment | 11,283 | 861,521 | 41,600 |
| Proceeds from sale of short-term investments | - | - | 4,947,393 |
| Proceeds from cash surrender value of officer's life insurance | - | 305,315 | - |
| Net cash (used in) provided by investing activities | (125,506) | 779,816 | 4,160,282 |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock, preferred stock and warrants | 9,484,677 | 3,735,114 | 2,212,221 |
| Principal payments of obligations under capital leases | (2,083) | (17,798) | (22,833) |
| Net cash provided by financing activities | 9,482,594 | 3,717,316 | 2,189,388 |
| Net increase (decrease) in cash and cash equivalents | 4,563,061 | 2,371,528 | (6,264,385) |
| Cash and cash equivalents at beginning of period | 8,102,989 | 5,731,461 | 11,995,846 |
| Cash and cash equivalents at end of period | $12,666,050 | $8,102,989 | $5,731,461 |

The accompanying notes are an integral part of these consolidated financial statements.

(1) COMPANY OVERVIEW

Enzon, Inc. ("Enzon" or "the Company") is a biopharmaceutical company that develops, manufactures and markets enhanced therapeutics for life-threatening diseases through the application of its proprietary technologies. The Company was originally incorporated in 1981. To date, the Company's sources of cash have been the proceeds from the sale of its stock through public offerings and private placements, sales of ADAGEN, sales of ONCASPAR, sales of its products for research purposes, contract research and development fees, technology transfer and license fees and royalty advances. The manufacturing and marketing of pharmaceutical products in the United States is subject to stringent governmental regulation and the sale of any of the Company's products for use in humans in the United States will require the prior approval of the United States Food and Drug Administration ("FDA"). To date, ADAGEN and ONCASPAR are the only products of the Company which have been approved for marketing by the FDA.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INVESTMENTS

Cash equivalents include investments which consist primarily of debt securities and time deposits. The Company invests its excess cash in a portfolio of marketable securities of institutions with strong credit ratings and U.S. Government backed securities.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," (SFAS No. 115) on July 1, 1994. Under SFAS No. 115, the Company classifies its investment securities as held-to-maturity. Held-to-maturity securities are those securities which the Company has the ability and intent to hold to maturity. Held-to-maturity securities are recorded at cost which approximated the fair value of the investments at June 30, 1996.

INVENTORY COSTING AND IDLE CAPACITY

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method and includes the cost of raw materials, labor and overhead.

Costs associated with idle capacity at the Company's manufacturing facility are charged to cost of sales as incurred. Prior to the fourth quarter of the year ended June 30, 1994 and the approval of ONCASPAR, the Company's first FDA approved drug for a potentially large patient population, costs associated with idle capacity at the Company's manufacturing facility were charged to research and development expenses.

PATENTS

The Company has licensed, and been issued, a number of patents in the United States and other countries and has other patent applications pending to protect its proprietary technology. Although the Company believes that its patents provide adequate protection for the conduct of its business, there can be no assurance that such patents will be of substantial protection or commercial benefit to the Company, will afford the Company adequate protection from competing products, will not be challenged or declared invalid, or that additional United States patents or foreign patent equivalents will be issued to the Company. The degree of patent protection to be afforded to biotechnological inventions is uncertain and the Company's products are subject to this uncertainty.

Patents related to the acquisition of Enzon Labs Inc., formerly Genex Corporation, were recorded at their fair value at the date of acquisition and are being amortized over the estimated useful lives of the patents ranging from 7 to 17 years. Accumulated amortization as of June 30, 1996 and 1995 was $721,000 and $588,000, respectively.

Costs related to the filing of patent applications related to the Company's products and technology are expensed as incurred.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. The cost of repairs and maintenance is charged to operations as incurred; significant renewals and betterments are capitalized.

REVENUE RECOGNITION

Reimbursement from third party payors for ADAGEN is handled on an individual basis due to the high cost of treatment and limited patient population. Because of the uncertainty of reimbursement and the Company's commitment of supply to the patient regardless of whether or not the Company will be reimbursed, revenues for the sale of ADAGEN are recognized when reimbursement from third party payors becomes likely.

Revenues from the sale of the Company's other products that are sold are recognized at the time of shipment and provision is made for estimated returns.

Contract revenues are recorded as the earnings process is completed.

Royalties under the Company's license agreement with Rhone-Poulenc Rorer Pharmaceuticals, Inc. ("RPR") (See Note 11), related to the sale of ONCASPAR by RPR, are recognized when earned.





RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred.

CASH FLOW INFORMATION

The Company considers all highly liquid securities with original

maturities of three months or less to be cash equivalents.

Cash payments for interest were approximately $13,000 in 1996, $4,000 in 1995, and $5,000 in 1994. There were no income tax payments made for the years ended June 30, 1996, 1995, and 1994.

During the year ended June 30, 1995, the Company issued 100,000 shares of unregistered Common Stock in order to acquire an option to purchase the facility it currently leases in Piscataway, New Jersey. During the year ended June 30, 1994, 8,000 shares of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Shares") were converted to 22,000 shares of Common Stock. Accrued dividends of $64,000 on the Series A Cumulative Convertible Preferred Stock that was converted were settled by issuing 7,000 shares of Common Stock and cash payments totaling $9 for fractional shares for the year ended June 30, 1994. There were no conversions of the Series A Preferred Shares during the years ended June 30, 1996 or 1995. As part of the commission due to the real estate broker in connection with the termination of the Company's lease at 40 Kingsbridge Road, the Company issued 150,000 five-year warrants to purchase the Company's Common Stock at $2.50 per share during the year ended June 30, 1996 (See Note 3). Also, in connection with the Company's private placements of Common Stock, Series B Convertible Preferred Stock ("Series B Preferred Shares"), and Series C Convertible Preferred Stock ("Series C Preferred Shares"), the Company issued an aggregate of 50,000 five-year warrants to purchase the Company's Common Stock, at $4.11 per share as a finder's fee, during the year ended June 30, 1996. These transactions are non-cash financing activities.

Management believes that its current sources of liquidity will be sufficient to meet anticipated cash requirements, based on current spending levels, for approximately the next two years. Upon exhaustion of the Company's current cash reserves, the Company's continued operations will depend on, among other things, its ability to realize significant revenues from the commercial sale of products, raise additional funds through equity or debt financing or obtain significant licensing, technology transfer or contract research and development fees. There can be no assurance that these sales, financings or revenue generating activities will be successful.

NET LOSS PER COMMON SHARE

Net loss per common share is based on net loss for the relevant period, adjusted for cumulative, undeclared Series A Preferred Stock dividends of $218,000, $218,000 and $230,000 for the years ended June 30, 1996, 1995 and 1994, respectively, divided by the weighted average number of shares issued and outstanding during the period. Stock options, warrants and Common Stock issuable upon conversion of the preferred stock are not reflected as their effect would be antidilutive for both primary and fully diluted earnings per share computations.





(3) RESTRUCTURING EXPENSE

During the year ended June 30, 1995, the Company reduced its workforce by approximately 22 employees. As a result of these reductions, the Company was able to move its general and administrative operations into its existing research and development facility at 20 Kingsbridge Road in Piscataway, New Jersey.

On March 31, 1995, the Company terminated its lease for 83,000 square feet at 40 Kingsbridge Road in Piscataway, New Jersey, its former general and administrative facility. As part of the termination agreement, the landlord was able to draw down on a $600,000 letter of credit that served as the security deposit for both buildings that the Company occupied on Kingsbridge Road in Piscataway. The termination

payment, severance related to staff reductions, write-off of leasehold improvements, moving expenses and the commission due the Company's real estate broker related to the termination of the 40 Kingsbridge lease were recorded as a restructuring charge during the year ended June 30, 1995. Approximately $227,000 of the restructuring expense represents severance related to the staff reduction and the remaining $966,000 represents expenses incurred in conjunction with the lease termination. As part of the commission due the Company's real estate broker, 150,000 five-year warrants to purchase the Company's Common Stock at $2.50 per share were issued in August 1995. All of the restructuring charges recorded have been paid as of June 30, 1996.

(4) RELATED PARTY TRANSACTIONS

The Company has license agreements with Research Corporation and its successor, Research Corporation Technologies, Inc. ("RCT"), related to the original PEG Process patent. The PEG Process was developed at Rutgers University in New Brunswick, New Jersey by Dr. Frank Davis, one of the Company's original founders, and two other inventors not affiliated with the Company. These agreements granted the Company an exclusive license to make, use and sell specific patented processes and products in countries in which a patent has been granted. The patent license under the agreement expires in December 1996.

The Company's obligation to pay royalties on sales of ADAGEN under the agreement terminates on the expiration of the patent in December 1996. Royalties for ONCASPAR will be paid until 1999. As of June 30, 1996 and 1995, the Company had approximately $212,000 and $286,000 related to such agreements recorded as accrued expenses in the Consolidated Balance Sheets.

During August 1992, the Company entered into a license agreement with two employees of the Company and an unrelated party to license a protein related technology. The Company paid $20,000 to each of the parties upon signing of the agreement and agreed to pay royalties of between 3% and 6% of net sales. The agreement was terminated in June 1996, and the Company gave up all rights related to the original patents for this technology. The agreement also provided for a yearly maintenance fee of $15,000 commencing on January 30, 1993. The Company paid yearly maintenance fees of $15,000 under this agreement in each of the fiscal years ended June 30, 1996, 1995 and 1994.





(5) COMMITMENTS AND CONTINGENCIES

The Company has a long-term supply agreement for unmodified L-asparaginase, one of the raw materials used in ONCASPAR, under which the Company is required to purchase minimum quantities of this raw material on an annual basis. Under the agreement, which was amended during the fiscal year ended June 30, 1995, the Company is currently required to purchase $2,125,000 in raw material during the term of the contract, which expires on December 31, 1997. During the years ended June 30, 1996 and 1995, the Company purchased approximately $850,000 related to this contract. The purchase requirements for the years ending December 31, 1996 and 1997 are $850,000 and $1,275,000, respectively. During the fiscal year ended June 30, 1996, the Company wrote-off approximately $351,000 of unmodified L-asparaginase purchased under this supply contract. The Company also paid a penalty of $350,000 related to the satisfaction of its purchase requirements for the calendar year ended December 31, 1995. While it is possible that the Company may incur similar losses on its remaining purchase commitments under this supply agreement, the Company does not consider such losses probable, nor can

the amount of any loss which may be incurred in the future presently be estimated due to a number of factors, including but not limited to potential increased demand for ONCASPAR from RPR, expansion into additional markets outside the U.S. and the possibility that the Company could renegotiate the level of required purchases. If the Company does not achieve increases in sales of ONCASPAR beyond current levels or cannot renegotiate its commitment, a loss would be incurred on the remaining purchase commitment.

The Company has agreements with certain members of its upper management which provide for payments following a termination of employment occurring after a change in control of the Company.

(6) INVENTORIES

Inventories consist of the following:

| | JUNE 30, 1996 | 1995 |
|---|---|---|
| Raw materials | $206,000 | $398,000 |
| Work in process | 383,000 | 134,000 |
| Finished goods | 396,000 | 260,000 |
| | $985,000 | $792,000 |





(7) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | JUNE 30, 1996 | 1995 | Estimated USEFUL LIVES |
|---|---|---|---|
| Equipment | $9,128,000 | $9,284,000 | 3-7 years |
| Furniture and fixtures | 1,586,000 | 1,598,000 | 7 years |
| Vehicles | 29,000 | 29,000 | 3 years |
| Leasehold improvements | 4,898,000 | 4,847,000 | 3-15 years |
| | $15,641,000 | $15,758,000 | |

Depreciation and amortization charged to operations, relating to property and equipment, were $1,891,000, $2,317,000 and $2,636,000 for the years ended June 30, 1996, 1995 and 1994, respectively.

(8) STOCKHOLDERS' EQUITY

On February 1, 1994, an option to purchase 150,000 shares of the Company's Common Stock became exercisable. This option was granted to the Company's former Chairman of the Board in 1989 and became exercisable upon the FDA's approval of ONCASPAR. The approval of ONCASPAR resulted in a non-cash compensation charge representing the difference between the exercise price of the option and the market value of the underlying Common Stock.

On May 26, 1994, the Company sold 785,000 shares of Common Stock to Susquehanna Brokerage Services, Inc. ("Susquehanna") in a public shelf offering at a weighted average price of $2.55 per share, resulting in net proceeds to the Company of approximately $1,632,000.

During the year ended June 30, 1995, the Company sold to Susquehanna, in a public shelf offering, an additional 954,000 shares of newly issued Common Stock. The shares were sold at a weighted average price of $2.06 per share, resulting in net proceeds to the Company of

approximately $1,752,000.

On April 1, 1995, the Company issued 100,000 shares of newly issued, unregistered Common Stock, valued at $2.25 per share, in consideration for an option to purchase the facility it currently leases in Piscataway, New Jersey.

On June 30, 1995, in conjunction with the license of know-how related to PEG-INTRON A, the Company sold 847,000 shares of newly issued, unregistered Common Stock to Schering Corporation, resulting in net proceeds of approximately $1,983,000 (See Note 10).

In January 1996, the Company completed a private placement of 1,094,890 shares of Common Stock and 40,000 Series B Preferred Shares resulting in gross proceeds of $7,000,000. In March 1996, the Company completed a private placement of 266,667 shares of Common Stock and 20,000 Series C Preferred Shares resulting in gross proceeds of $3,000,000. The two private placements resulted in net cash proceeds of approximately $9,444,000 after payment of related expenses and a finder's fee.





In connection with the January 1996 and March 1996 private placements, the Company issued five-year warrants to purchase 638,686 shares of Common Stock at $4.11 per share and 200,000 shares of Common Stock at $5.63 per share, respectively. The Company paid a finder's fee in cash and issued five-year warrants to purchase 50,000 shares of Common Stock at $4.11 per share related to the 1996 private placements.

PREFERRED STOCK

The Company's Series A Preferred Shares are convertible into Common Stock at an annually increasing rate per share with a maximum conversion rate of $11 per share. As of June 30, 1996 and 1995, the conversion rate was $11 per share. The value of the Series A Preferred Shares for conversion purposes is $25 per share. Holders of the Series A Preferred Shares are entitled to an annual dividend of $2 per share, payable semiannually, but only when and if declared by the Board of Directors, out of funds legally available. Dividends on the Series A Preferred Shares are cumulative and accrue and accumulate but will not be paid, except in liquidation or upon conversion, until such time as the Board of Directors deems it appropriate in light of the Company's then current financial condition. No dividends are to be paid or set apart for payment on the Company's Common Stock, nor are any shares of Common Stock to be redeemed, retired or otherwise acquired for valuable consideration unless the Company has paid in full or made appropriate provision for the payment in full of all dividends which have then accumulated on the Series A Preferred Shares. Holders of the Series A Preferred Shares are entitled to one vote per share on matters to be voted upon by the stockholders of the Company. As of June 30, 1996 and 1995 undeclared accrued dividends in arrears were $1,367,000 or $12.54 per share and $1,149,000 or $10.54 per share, respectively. All Common Shares are junior in rank to the Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares with respect to the preferences as to dividends, distributions and payments upon the liquidation, dissolution or winding up of the Company.

During the year ended June 30, 1994, 8,000 Series A Preferred Shares were converted into 22,000 shares of Common Stock. There were no conversions of Series A Preferred Shares during the years ended June 30, 1996 or 1995. As of June 30, 1996 and 1995, the Company had 109,000 shares of Series A Preferred Shares outstanding with a liquidation preference of $25 per share or $2,725,000.

The stated value of each Series B Preferred Share and Series C Preferred Share is $100. The Company's Series B Preferred Shares and Series C Preferred Shares are convertible at a conversion price equal to 80% of the average of the closing bid price of the Common Stock for the five consecutive trading days needed ("the Average Market Price") ending

one trading day prior to the date of conversion as reported by the National Association of Securities Dealers Automated Quotation National Market. The Series B Preferred Shares and the Series C Preferred Shares will not pay a dividend and do not have voting rights. In connection with the January 1996 and March 1996 private placements, the Company agreed to register and has filed a registration statement for the Common Stock issued, the shares of Common Stock underlying the Series B Preferred Shares, the shares of Common Stock underlying the Series C Preferred Shares, the shares of Common Stock underlying the warrants and certain shares of Common Stock issuable in the event the Company does not comply with certain of its obligations under the registration rights agreements. As of June 30, 1996, the 40,000 Series B Preferred Shares and 20,000 Series C Preferred Shares issued during fiscal 1996 were outstanding. The Series B Preferred Shares and Series C Preferred Shares have a liquidation preference of $100 per share or an aggregate of $6,000,000.





COMMON STOCK

Holders of shares of Common Stock are entitled to one vote per share on matters to be voted upon by the stockholders of the Company.

As of June 30, 1996, the Company has reserved its common shares for special purposes as detailed below:

| | |
|---|---|
| Shares issuable upon conversion of: | |
| Series A Preferred Shares | 248,000 |
| Series B Preferred Shares | 1,581,000 |
| Series C Preferred Shares | 791,000 |
| Shares issuable upon exercise of outstanding warrants | 1,039,000 |
| Non-Qualified Stock Option Plan | 5,661,000 |
| Other options | 200,000 |
| | 9,520,000 |

The Common Stock issuable upon conversion of the Series B Preferred Shares and Series C Preferred Shares is based on an assumed conversion price of $2.53 which would have been the conversion price if the Series B and Series C Preferred Shares were converted on June 30, 1996.

SERIES A PREFERRED STOCK WARRANTS

In connection with the private placement of the Series A Preferred Shares, the Company issued warrants to purchase 82,000 Series A Preferred Shares. Prior to the year ended June 30, 1995, 22,000 warrants were exercised. During the year ended June 30, 1995, the remaining warrants expired.

ENZON LABS WARRANTS

In connection with the acquisition of Enzon Labs Inc., the Company agreed to issue warrants to purchase 583,000 shares of Common Stock. Prior to the year ended June 30, 1995, 100 warrants were exercised. During the year ended June 30, 1995, the remaining warrants expired.

(9) NON-QUALIFIED STOCK OPTION PLAN

In November 1987, the Company's Board of Directors adopted a Non-Qualified Stock Option Plan (the "Plan"). On December 5, 1995, the stockholders voted to increase the number of shares reserved for issuance under the Plan from 5,000,000 to 6,200,000. Under the Plan, as amended, 5,661,000 shares of Common Stock as of June 30, 1996 are reserved for

issuance pursuant to options which may be granted to employees, non-employee directors or consultants to the Company. The exercise price of the options must be at least 100% of the fair market value of the stock at the time the option is granted and an option may be exercised for a period of up to ten years from the date it is granted. The other terms and conditions of the options generally are to be determined by the Board of Directors, or an option committee appointed by the Board, at their discretion.





A summary of the activity relating to the Plan follows:

| | Number of shares UNDER OPTION |
|---|---|
| Outstanding at July 1, 1993 | 2,041,000 |
| Granted at prices ranging from $2.38 to $6.00 | 1,292,000 |
| Exercised at prices ranging from $3.75 to $4.88 | (140,000) |
| Canceled at prices ranging from $4.00 to $14.88 | (355,000) |
| Outstanding at June 30, 1994 | 2,838,000 |
| Granted at prices ranging from $1.88 to $3.13 | 1,412,000 |
| Canceled at prices ranging from $2.09 to $15.25 | (645,000) |
| Outstanding at June 30, 1995 | 3,605,000 |
| Granted at prices ranging from $2.38 to $4.75 | 768,000 |
| Exercised at prices ranging from $2.09 to $2.80 | (16,000) |
| Canceled at prices ranging from $2.09 to $11.00 | (794,000) |
| Outstanding at June 30, 1996 | 3,563,000 |

At June 30, 1996, 2,295,000 of the outstanding options were exercisable at prices per share ranging from $2.00 to $14.88.

On August 24, 1994, the Compensation Committee of the Board of Directors of the Company extended the exercise period of all outstanding five year options to ten years under the Plan. None of the options extended had exercise prices less than the fair market value of the Company's Common Stock on August 24, 1994, and accordingly, no compensation expense was recorded.

(10) INCOME TAXES

The Company adopted Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Income Taxes" as of July 1, 1993. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The effects of adopting SFAS No. 109 were not material to the financial statements at July 1, 1993.

At June 30, 1996 and 1995, the tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are as follows:

| | 1996 | 1995 |
|---|---|---|
| Deferred tax assets: | | |
| Inventories | $151,000 | $57,000 |
| Investment valuation reserve | 86,000 | 86,000 |
| Contribution carryover | 12,000 | 10,000 |
| Compensated absences | 98,000 | 103,000 |
| Excess of financial statement over tax depreciation | 368,000 | 146,000 |
| Royalty advance - RPR | 1,153,000 | 1,340,000 |
| Sanofi liability | - | 524,000 |
| Non-deductible expenses | 343,000 | 457,000 |
| Federal and state net operating loss carryforwards | 38,495,000 | 35,816,000 |
| Research and development and investment tax credit carryforwards | 6,407,000 | 5,770,000 |
| Total gross deferred tax assets | 47,113,000 | 44,309,000 |
| Less valuation allowance | (46,407,000) | (43,597,000) |
| Net deferred tax assets | 706,000 | 712,000 |
| Deferred tax liabilities: | | |
| Step up in basis of assets related to acquisition of Enzon Labs Inc. | (706,000) | (712,000) |
| Total gross deferred tax liabilities | (706,000) | (712,000) |
| Net deferred tax | $0 | $0 |

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The net change in the total valuation allowance for the years ended June 30, 1996 and 1995 were increases of $2,810,000 and $2,187,000, respectively. Subsequently recognized tax benefits for the years ended June 30, 1996 and 1995 of $954,000 and $940,000 relating to the valuation allowance for deferred tax assets will be allocated to additional paid-in capital.

At June 30, 1996, the Company had federal net operating loss carryforwards of approximately $97,565,000 for tax reporting purposes, which expire in the years 1997 to 2011. The Company also has investment tax credit carryforwards of approximately $30,000 and research and development tax credit carryforwards of approximately $6,377,000 for tax reporting purposes which expire in the years 1998 to 2011.

As part of the Company's acquisition of Enzon Labs Inc., the Company acquired the net operating loss carryforwards of Enzon Labs Inc.. As of June 30, 1996, the Company had a total of $67,754,000 of acquired Enzon Labs net operating loss carryforwards, which expire between October 31, 1996 and October 31, 2006. As a result of the change in ownership the utilization of these carryforwards is limited to $613,000 per year.





(11) SIGNIFICANT AGREEMENTS

RHONE-POULENC RORER AGREEMENT

The Company has granted RPR an exclusive license ("the License Agreement") in the United States to sell ONCASPAR, and any other PEG-asparaginase product (the "Product") developed by Enzon or RPR during the term of the License Agreement. Under this agreement, Enzon was entitled to licensing payments totaling $6,000,000, of which $500,000 and $5,500,000 were paid during the fiscal years ended June 30, 1995 and 1994, respectively.

During January 1995, the Company amended its exclusive U.S. marketing rights license with RPR for ONCASPAR. Under the amended agreement, Enzon earned a base royalty of 10% for the year ended December 31, 1995 and will earn 23.5% thereafter, until 2008, on net sales of ONCASPAR up to agreed upon amounts, as opposed to 50% of net profits provided for under the original agreement. Additionally, the License Agreement provides for a super royalty of 23.5% for the year ended December 31, 1995 and 43.5% thereafter, until 2008 on net sales of ONCASPAR which exceed the agreed upon amounts, with the limitation that the total royalties earned for any such year shall not exceed 33% of net sales. The amended agreement also provides for a payment of $3,500,000 in advance royalties, which was received in January 1995.

Base royalties due under the amended agreement will be offset against a credit of $5,970,000 (which represents the royalty advance plus reimbursement of certain amounts due to RPR under the previous agreement and interest expense) before cash payments for base royalties will be made. Super royalties will be paid to the Company when earned. The royalty advance is shown as a long term liability, with the corresponding current portion included in accrued expenses on the Consolidated Balance Sheet as of June 30, 1996. The royalty advance will be reduced as base royalties are recognized under the agreement.

The agreement prohibits RPR from selling a competing PEG-asparaginase product anywhere in the world during the term of the License Agreement and for five years thereafter. The revised License Agreement terminates in December 2008, subject to early termination by either party due to a default by the other or by RPR at any time on one year's prior notice to Enzon. Upon any termination all rights under the License Agreement revert to Enzon.

The Company has also granted exclusive licenses to sell ONCASPAR in Canada and Mexico to RPR. These agreements provide for RPR to obtain marketing approval of ONCASPAR in Canada and Mexico and for the Company to receive royalties on sales of ONCASPAR in these countries, if any. The Company is currently pursuing other licenses for marketing and distribution rights for ONCASPAR outside North America. A separate supply agreement with RPR requires RPR to purchase from Enzon all of RPR's requirements for the Product for sales in North America.

SCHERING AGREEMENT

In November 1990, Enzon and Schering Corporation ("Schering") signed an agreement (the "Schering Agreement") to apply the PEG Process to Schering's INTRON A (interferon alfa 2b), a genetically-engineered anticancer and antiviral drug.





On June 30, 1995, the Company and Schering amended the Schering Agreement pursuant to which Enzon agreed to transfer proprietary know-how and manufacturing rights for PEG-INTRON A to Schering for $3,000,000, of which $2,000,000 was paid on June 30, 1995 and $1,000,000 will be paid upon completion of the know-how transfer, as defined in such amended agreements. In connection with the amendment, the Company also sold to Schering 847,000 shares of unregistered, newly issued Common Stock for $2,000,000 in gross proceeds. Under the current Schering Agreement, Enzon retained an option to become Schering's exclusive manufacturer of

PEG-INTRON A for the United States market upon FDA approval of such product.

Under the Schering Agreement, Enzon is entitled to receive sequential payments, totaling approximately $5,500,000, subject to the achievement of certain milestones in the product's development program, as well as payments for the clinical material it produces. The Company will also receive royalties on worldwide sales of PEG-INTRON A, if any. Schering will be responsible for conducting and funding the clinical studies, obtaining regulatory approval and marketing the product worldwide on an exclusive basis.

The Schering Agreement terminates, on a country-by-country basis, upon the expiration of the last to expire of any future patents covering the product which may be issued to Enzon, or 15 years after the product is approved for commercial sale, whichever shall be the later to occur. This agreement is subject to Schering's right of early termination if the product does not meet specifications, or if Enzon fails to obtain or maintain the requisite product liability insurance, or if Schering makes certain payments to Enzon. If Schering terminates the agreement because the product does not meet specifications, Enzon may be required to refund certain of the milestone payments.

RPR/GENCELL AGREEMENT

In December 1995, Enzon and the Gencell Division of RPR ("RPR/Gencell") signed an agreement granting RPR/Gencell a worldwide, non-exclusive license to use Enzon's Single-Chain Antigen-Binding (SCA) protein technology for intracellular expression of SCA proteins and for targeted vectors in the field of cell and gene therapy. RPR/Gencell, the cell and gene therapy division of RPR, is planning to apply this technology to its in vivo and ex vivo gene therapy programs in cancer, cardiovascular disease and immunology.

Under the agreement, the Company received approximately $1,000,000 during the fiscal year ended June 30, 1996 for signing the license agreement. The Company is also entitled to receive additional payments subject to the achievement of certain milestones in the development program, as well as a royalty on sales, if any, of products developed with this technology.

BAXTER AGREEMENT

In November 1992, Enzon and Baxter Healthcare Corporation ("Baxter") signed an agreement granting Baxter a non-exclusive worldwide license to Enzon's SCA protein technology. It is anticipated that Baxter's biotech group will use the SCA proteins in its cancer research programs focusing on human stem cell isolation and gene therapy.





Under the agreement, the Company is entitled to sequential payments, subject to the achievement of certain milestones in the products' development of $500,000 for each product developed, up to a maximum of $2,500,000. Baxter will have the exclusive worldwide rights to manufacture and market any products which it develops and Enzon will receive certain royalties on Baxter's sales, if any.

ELI LILLY (HYBRITECH) AGREEMENT

In December 1992, Enzon and Hybritech Incorporated ("Hybritech"), a subsidiary of Eli Lilly & Co., signed an agreement granting Hybritech a non-exclusive worldwide license to Enzon's SCA protein technology. Under the agreement, Enzon received upfront payments totaling $1,200,000, of which $700,000 was received during the year ended June 30, 1994, and will

receive certain royalties on Hybritech sales of products, if any, that may be developed using Enzon's SCA protein technology.

BRISTOL-MYERS SQUIBB

In September 1993, the Company and Bristol-Myers Squibb ("Bristol-Myers") signed a license agreement for Enzon's SCA protein technology granting Bristol-Myers a worldwide, semi-exclusive license for a particular antigen. Under the agreement, Enzon is entitled to receive certain upfront payments and sequential payments, subject to the achievement of certain milestones in the development program. Bristol-Myers will have the right to manufacture and market products which it develops and Enzon will receive certain royalties on Bristol-Myers sales, if any. Enzon also granted Bristol-Myers options to take non-exclusive licenses under patent rights for other applications/fields for certain additional payments. During the year ended June 30, 1994, Enzon received $200,000 under this agreement. In July 1994, Bristol-Myers paid $1,800,000 to Enzon and exercised its option to acquire a worldwide non-exclusive license for SCA protein technology. The non-exclusive license is for all areas of drug development.

(12) LEASES

The Company has several leases for office, warehouse, production and research facilities and equipment.

Future minimum lease payments, net of subleases, for noncancellable operating leases (with initial or remaining lease terms in excess of one year) and the present value of future minimum capital lease payments as of June 30, 1996 are:

| Year ending JUNE 30, | Capital LEASES | Operating LEASES |
|---|---|---|
| 1997 | $2,000 | $1,682,000 |
| 1998 | 2,000 | 1,706,000 |
| 1999 | - | 1,130,000 |
| 2000 | - | 496,000 |
| 2001 | - | 496,000 |
| Later years, through 2007 | - | 3,382,000 |
| Total minimum lease payments | $4,000 | $8,892,000 |

Rent expense amounted to $1,469,000, $1,642,000 and $2,181,000 for the years ended June 30, 1996, 1995 and 1994, respectively.





The Company currently subleases a portion of its facilities. For the years ended June 30, 1996, 1995 and 1994, rent expense is net of subrental income of $249,000, $353,000 and $101,000, respectively.

(13) CASH SURRENDER VALUE OF LIFE INSURANCE

As of June 30, 1996, the Company owned a split-dollar life insurance policy for its former Chairman of the Board with a face value of $3,000,000. Under the split-dollar agreement, in the event of death, the Company will receive the greater of the cash accumulation value or the premiums paid. The remainder of the death benefit, as defined, paid by the insurance company, will be paid to the named beneficiaries of the insured. The Company is currently in the process of canceling this policy. The Company also maintains a key man life insurance policy with a face value of $1,000,000 on its President and Chief Executive Officer.

In July 1992, the Company took a loan against the split dollar life insurance policy for $674,000. At June 30, 1996 and 1995, the cash surrender value of $914,000 and $847,000, respectively, less the outstanding loan balance and accrued interest of $914,000 and $847,000,

respectively, is recorded in other assets in the Consolidated Balance Sheets.

During the year ended June 30, 1995, the Company canceled a separate single premium key man life insurance policy on its former Chairman of the Board and received the cash surrender value of $305,000.

(14) RETIREMENT PLANS

The Company maintains a defined contribution, 401(k), pension plan for substantially all its employees. For the years ended June 30, 1996, 1995 and 1994, the Company matched 25% of the employee's contribution of up to 6% of compensation, as defined. Effective, January 1, 1995, the Company's match is invested solely in a fund which purchases the Company's Common Stock in the open market. Effective August 9, 1996, the Company increased its match to 50% of the employee's contribution of up to 6% of compensation, as defined. Total Company contributions for the years ended June 30, 1996, 1995 and 1994 were $63,000, $80,000 and $94,000, respectively.

(15) ACCRUED EXPENSES

Accrued expenses consist of:

| | JUNE 30, 1996 | 1995 |
|---|---|---|
| Accrued wages and vacation | $466,000 | $398,000 |
| Reserve for product returns | - | 298,000 |
| Accrued employee medical claims | 239,000 | 278,000 |
| Accrued Medicaid rebates | 996,000 | 813,000 |
| Accrued restructuring costs | - | 758,000 |
| Current portion of royalty advance - RPR | 1,287,000 | 400,000 |
| Other | 1,399,000 | 1,100,000 |
| | $4,387,000 | $4,045,000 |





(16) FOURTH QUARTER INFORMATION

During the fourth quarter of the year ended June 30, 1994, the Company recorded a charge to operations for excess raw material (PEG) of $618,000.

(17) SALES INFORMATION

During the years ended June 30, 1996, 1995 and 1994, the Company had export sales of $2,270,000, $2,105,000 and $2,085,000, respectively. Sales to Europe represented $1,858,000, $1,841,000 and $1,957,000 during the years ended June 30, 1996, 1995 and 1994, respectively.

ADAGEN sales represent approximately 83% of the Company's total net sales for the year ended June 30, 1996. ADAGEN's Orphan Drug designation under the Orphan Drug Act provides the Company with marketing exclusivity in the United States through March 1997. The Company believes the expiration of ADAGEN's Orphan Drug designation will not have a material impact on the sales of ADAGEN. Approximately 46%, 42% and 28% of the Company's ADAGEN sales for the years ended June 30, 1996, 1995 and 1994, respectively, were made to Medicaid patients.

(18) OTHER INCOME

During the year ended June 30, 1996, the Company recognized as other income approximately $1,313,000, representing the unused portion of an advance received under a development and license agreement with Sanofi Winthrop, Inc. ("Sanofi"). Under the agreement with Sanofi, Enzon transferred all responsibility for the development and regulatory

approval in the United States for PEG-superoxide dismutase ("PEG-SOD") in return for 40% of the net profits from sales of PEG-SOD in the United States. During October 1995, the Company learned that Sanofi intended to cease development of PEG-SOD (Dismutec(trademark)) due to the product's failure to show a statistically significant difference between the treatment group and the control group in a pivotal Phase III trial. Due, in part, to this product failure, the Company believes it has no further obligations under its agreement with Sanofi with respect to the $1,313,000 advance and therefore, the Company has recognized as other income the amount due Sanofi previously recorded as a current liability.

During the year ended June 30, 1995, the Company received approximately $645,000 for an insurance settlement related to ADAGEN that was destroyed in shipment.



EXHIBIT INDEX

EXHIBIT 21.0

# SUBSIDIARIES OF REGISTRANT

Symvex Inc. is a wholly-owned subsidiary of the Registrant incorporated in the State of Delaware. Symvex Inc. did business under its own name.

Enzon Labs Inc., is a wholly-owned subsidiary of the Registrant incorporated in the State of Delaware. Enzon Labs Inc. does business under its own name.

Enzon Pharm. B.V. is a wholly-owned subsidiary of the Registrant incorporated in the Netherlands.

Enzon GmbH is a wholly-owned subsidiary of the Registrant incorporated in Germany.

EXHIBIT 23.0

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Enzon Inc.:

We consent to incorporation by reference in the Registration Statement No. 33-50904 on Form S-8 and Registration Statement No. 333-1535 on Form S-3 of Enzon, Inc. of our report dated September 24, 1996, relating to the consolidated balance sheets of Enzon, Inc. and subsidiaries as of June 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 1996, which report appears in the June 30, 1996 annual report on Form 10-K of Enzon, Inc.

/s/KPMG PEAT MARWICK LLP
KPMG Peat Marwick LLP

New York, New York
September 27, 1996

<ARTICLE> 5
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This schedule contains summary financial information extracted from the Enzon, Inc. and Subsidiaries Consolidated Balance Sheet as of June 30, 1996 and the Consolidated Statement of Operations for the year ended June 30, 1996 and is qualified in its entirety by reference to such financial statements.
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EXHIBIT 99.0

CERTAIN FACTORS TO CONSIDER IN CONNECTION
WITH FORWARD LOOKING STATEMENTS

ACCUMULATED DEFICIT AND UNCERTAINTY OF FUTURE PROFITABILITY. Enzon, Inc. (the "Company" or "Enzon") was originally incorporated in 1981. To date, the Company's sources of cash have been the proceeds from the sale of its stock through public offerings and private placements, sales of ADAGEN(registered trademark), sales of ONCASPAR(registered trademark), sales of its products for research purposes, contract research and development fees, technology transfer and license fees and royalty advances. At June 30, 1996 the Company had an accumulated deficit of approximately $108,636,000. To date, ADAGEN and ONCASPAR are the only products of the Company which have been approved for marketing by the Food and Drug Administration (the "FDA"), having been approved in March 1990 and February 1994, respectively. In 1993, the Company granted exclusive U.S. marketing rights for ONCASPAR to Rhone-Poulenc Rorer Pharmaceuticals, Inc. ("RPR") in consideration for which the Company has received an aggregate of $6,000,000 of license fees. Under this license agreement (the "Amended License Agreement"), the Company is entitled to a base royalty of 10% for the year ended December 31, 1995 and of 23.5% thereafter, until 2008. During 1995, RPR paid the Company $3,500,000 in advance royalties. Payments of base royalties under the RPR agreement will be offset against a credit in the original amount of $5,970,000, which represents the royalty advance plus reimbursement of certain amounts due RPR under the original agreement and interest expense. Through June 30, 1996, an aggregate of $1,045,000 in royalties payable by RPR had been offset against the original credit. The Company anticipates moderate growth of ONCASPAR sales to RPR and increased royalties on RPR sales of ONCASPAR; however, there can be no assurance that any particular sales level of ONCASPAR will be achieved or maintained. The Company intends to pursue future licensing, marketing and development arrangements that may result in additional fees to the Company prior to its receiving revenues from commercial sales of its products which are sufficient for the Company to earn a profit. There can be no assurance, however, that the Company will be able to successfully consummate any such arrangements or receive such fees in the future. Although the Company has been receiving reimbursement from most third-party payors for ADAGEN, there can be no assurance that reimbursement at these levels will continue. Lifetime limits on benefits which are included in most private health insurance policies could permit insurers to cease reimbursement for ADAGEN. Potential investors should be aware of the difficulties a biopharmaceutical enterprise such as the Company encounters, especially in view of the intense competition in the pharmaceutical industry in which the Company competes. There can be no assurance that the Company's plans will either materialize or prove successful, that its products under development will be successfully developed or that its products will generate revenues sufficient to enable the Company to earn a profit.

NEED FOR FINANCING. The Company's current sources of liquidity are its cash reserves, and interest earned on such cash reserves, sales of ADAGEN, sales of ONCASPAR, sales of its products for research purposes, and license fees. There can be no assurance as to the level of sales of the Company's FDA approved products, ADAGEN and ONCASPAR, or the amount of royalties realized from the commercial sale of ONCASPAR pursuant to the Company's license with RPR. Total cash reserves, including short term investments, as of June 30, 1996 were approximately $12,666,000. Management believes that the foregoing sources of liquidity, will be sufficient to meet the Company's anticipated cash requirements, based on current spending levels, for approximately the next two years. The Company's continued operations thereafter will depend upon its ability to realize revenues from the commercial sale of its products which are sufficient to cover its operating and capital expense requirements, raise funds through equity or debt financing, or obtain significant contract research and development fees or license fees. To the extent the Company is unable to obtain funds, it may be required to curtail its activities or sell additional securities. There can be no assurance that any of the foregoing fund raising activities will successfully meet the Company's anticipated cash needs.



RAW MATERIALS AND DEPENDENCE UPON SUPPLIERS. The Company is currently producing many of the unmodified compounds utilized in products it has under development, including purified bovine hemoglobin for use in its PEG-hemoglobin

product. There can be no assurance that the purified bovine hemoglobin used in the manufacture of PEG-hemoglobin can be produced in the amounts necessary to expand the current clinical trials. The Company may be required to obtain supply contracts with outside suppliers for certain unmodified compounds. The Company does not produce the unmodified adenosine deaminase used in the manufacture of ADAGEN or the unmodified L-asparaginase used in the manufacture of ONCASPAR and has a supply contract with an outside supplier for each of these unmodified proteins. Delays in obtaining or an inability to obtain any unmodified compound which the Company does not produce, including unmodified adenosine deaminase, unmodified L-asparaginase or unmodified bovine blood could have a material adverse effect on the Company. In the event the Company is required to locate an alternate supplier for an unmodified compound utilized in a product which is being sold commercially or which is in clinical development, the Company will likely be required to do additional testing, which could cause delays and additional expenses, to demonstrate that the alternate supplier's material is biologically and chemically equivalent to the unmodified compound previously used. Such evaluations could include chemical, pre-clinical and clinical studies and could delay development of a product which is in clinical trials, limit commercial sales of an FDA approved product and cause the Company to incur significant additional expense. Requirements for such evaluations would be determined by the stage of the product's development and the reviewing division of the FDA. If such alternate material is not demonstrated to be chemically and biologically equivalent to the previously used unmodified compound, the Company will likely be required to repeat some or all of the pre-clinical and clinical trials conducted for such compound. The marketing of an FDA approved drug could be disrupted while such tests are conducted. Even if the alternate material is shown to be chemically and biologically equivalent to the previously used compound, the FDA may require the Company to conduct additional clinical trials with such alternate material.

PATENTS AND PROPRIETARY TECHNOLOGY. The Company has licensed, and been issued, a number of patents in the United States and other countries and has other patent applications pending to protect its proprietary technology. Although the Company believes that its patents provide adequate protection for the conduct of its business, there can be no assurance that such patents will be of substantial protection or commercial benefit to the Company, will afford the Company adequate protection from competing products, will not be challenged or declared invalid, or that additional United States patents or foreign patent equivalents will be issued to the Company. The degree of patent protection to be afforded to biotechnological inventions is uncertain and the Company's products are subject to this uncertainty. The Company is aware of certain issued patents and patent applications, and there may be other patents and applications, containing subject matter which the Company or its licensees or collaborators may require in order to research, develop or commercialize at least some of the Company's products. There can be no assurance that licenses under such subject matter will be available on acceptable terms. The Company expects that there may be significant litigation in the industry regarding patents and other proprietary rights and, if Enzon were to become involved in such litigation, it could consume a substantial amount of the Company's resources. In addition, the Company relies heavily on its proprietary technologies for which pending patent applications have been filed and on unpatented know-how developed by the Company. Insofar as the Company relies on trade secrets and unpatented know-how to maintain its competitive technological position, there can be no assurance that others may not independently develop the same or similar technologies. Although the Company has taken steps to protect its trade secrets and unpatented know-how, third-parties nonetheless may gain access to such information.

Research Corporation Technologies, Inc. ("Research Corporation") holds the original patent upon which the PEG Process is based. Research Corporation's patent in the United States expires in December 1996 and its patents in certain foreign countries have expired. Although the Company has obtained numerous improvement patents in connection with the PEG Process which it believes represent state of the art technology, there can be no assurance that any of these patents will enable the Company to prevent infringement or that competitors will not develop competitive products outside the protection that may be afforded by these patents. The Company is aware that others have also filed patent applications and have been granted patents in the United States and other countries with respect to the application of PEG to proteins. Upon the expiration of the Research Corporation patent, other parties will be permitted to make, use, or sell products covered by the claims of the Research Corporation patent, subject to other patents, including those held by the Company. The Company does not believe that the expiration of the Research Corporation patent will have a material adverse effect on the Company, but there can be no assurance that this will be the case.

MARKETING UNCERTAINTIES AND DEPENDENCE ON MARKETING PARTNERS. Other than ADAGEN, which the Company markets on a worldwide basis to a small patient population, the Company does not engage in the direct commercial marketing of any of its products and therefore does not have an established sales force. For certain of its products, the Company has provided exclusive marketing rights to its corporate partners in return for royalties to be received on sales. With respect to ONCASPAR, the Company has granted RPR exclusive marketing rights in North America. The Company expects to retain marketing partners to market ONCASPAR in other foreign markets and is currently pursuing arrangements in this regard. There can be no assurance that such discussions will result in the Company concluding such arrangements. Regarding the marketing of certain of the Company's other future products, the Company expects to evaluate whether to create a sales force to market certain products in the United States or to continue to enter into license and marketing agreements with others for United States and foreign markets. These agreements generally provide that all or a significant portion of the marketing of these products will be conducted by the Company's licensees or marketing partners. In addition, under certain of these agreements, the Company's licensee or marketing partner may have all or a significant portion of the development and regulatory approval responsibilities. Should the licensee or marketing partner fail to develop a marketable product (to the extent it is responsible for product development) or fail to market a product successfully, if it is developed, the Company's business may be adversely affected. There can be no assurance that the Company's marketing strategy will be successful. Under the Company's marketing and license agreements, the Company's marketing partners and licensees may have the right to terminate the agreement and abandon the product at any time for any reason without significant payments. The Company is aware that certain of its marketing partners are pursuing parallel development of products on their own and with other collaborative partners which may compete with the licensed products and there can be no assurance that the Company's other current or future marketing partners will not also pursue such parallel courses.

REIMBURSEMENT FROM THIRD-PARTY PAYORS. Sales of the Company's products will be dependent in part on the availability of reimbursement from third-party payors, such as governmental health administration authorities, private health insurers and other organizations. There can be no assurance that such reimbursement will be available or will permit the Company to sell its products at price levels sufficient for it to realize an appropriate return on its investment in product development. Since patients who receive ADAGEN will be required to do so for their entire lives (unless a cure or another treatment is developed), lifetime limits on benefits which are included in most private health insurance policies could permit insurers to cease reimbursement for ADAGEN.

GOVERNMENT REGULATION. The manufacturing and marketing of pharmaceutical products in the United States is subject to stringent governmental regulation and the sale of any of the Company's products for use in humans in the United States will require the prior approval of the FDA. Similar approvals by comparable agencies are required in most foreign countries. The FDA has established mandatory procedures and safety standards which apply to the clinical testing, manufacture and marketing of pharmaceutical products. Pharmaceutical manufacturing facilities are also regulated by state, local and other authorities. Obtaining FDA approval for a new therapeutic may take several years and involve substantial expenditures. ADAGEN was approved by the FDA in March 1990. ONCASPAR was approved by the FDA in February 1994 and in Germany in November 1994 for patients with acute lymphoblastic leukemia who are hypersensitive to native forms of L-asparaginase, and in Russia in April 1993 for therapeutic use in a broad range of cancers. Except for these approvals, none of the Company's other products have been approved for sale and use in humans in the United States or elsewhere. There can be no assurance that the Company will be able to obtain FDA approval for any of its other products. Failure to obtain requisite governmental approvals or failure to obtain approvals of the scope requested, will delay or preclude the Company or its licensees or marketing partners from marketing their products, or limit the commercial use of the products, and thereby may have a material adverse affect on the Company's liquidity and financial condition.

INTENSE COMPETITION AND RISK OF TECHNOLOGICAL OBSOLESCENCE. Many established biotechnology and pharmaceutical companies with resources greater than those of the Company are engaged in activities that are competitive with Enzon's and may develop products or technologies which compete with those of the Company's. Although Enzon is not aware of any competitor which has achieved the same level as the Company in utilizing PEG technology in developing drug products, it is aware of other companies which are engaged in this field and there can be no assurance that competitors will not successfully develop such products in the future. Although there are other companies engaged in the development of Single-Chain Antigen-Binding (SCA(registered trademark)) proteins, Enzon believes that these companies will be required to obtain a license under Enzon's SCA patents in order to commercialize any such product. There can be no assurance, however, that this will prove to be the case. Rapid technological development by others may result in the Company's products becoming obsolete before the Company recovers a significant portion of the research, development and commercialization expenses incurred with respect to those products. Enzon believes that the experience of certain of its personnel in research and development, and its patents and proprietary know-how may provide it with a competitive advantage in its field; however, there can be no assurance that the Company will be able to maintain such a competitive advantage, should it exist, in view of the greater size and resources of many of its competitors. Other drugs or treatment modalities which are currently available or that may be developed in the future, and which treat the same diseases as those which the Company's products are designed to treat, may be competitive with the Company's products.

POTENTIAL PRODUCT LIABILITY. The use of the Company's products during testing or after regulatory approval entails an inherent risk of adverse effects which could expose the Company to product liability claims. The Company maintains product liability insurance coverage in the total amount of $10,000,000 for claims arising from the use of its products in clinical trials prior to FDA approval and for claims arising from the use of its products after FDA approval. There can be no assurance that the Company will be able to maintain its existing insurance coverage or obtain coverage for the use of its other products in the future. Management believes that the Company maintains adequate insurance coverage for the operation of its business at this time; however, there can be no assurance that such insurance coverage and the resources of the Company would be sufficient to satisfy any liability resulting from product liability claims.

DIVIDEND POLICY AND RESTRICTIONS. The Company has paid no dividends on its common stock, $.01 par value (the "Common Stock") since its inception and does not plan to pay dividends on its Common Stock in the foreseeable future. Except as may be utilized to pay the dividends payable on the Company's Series A Cumulative Convertible Preferred Stock (the "Series A Preferred Stock"), any earnings which the Company may realize will be retained to finance the growth of the Company. In addition, the terms of the Series A Preferred Stock restrict the payment of dividends on other classes and series of stock. The holders of the Series B Convertible Preferred Shares and Series C Convertible Preferred Shares are not entitled to dividends.

POSSIBLE VOLATILITY OF STOCK PRICE. Since the Company's initial public offering, the market price of the Company's Common Stock has fluctuated over a wide range and it is likely that the price of the Common Stock will fluctuate in the future. Announcements regarding technical innovations, the development of new products, the status of corporate collaborations and supply arrangements, regulatory approvals, patent or proprietary rights or other developments by the Company or its competitors could have a significant impact on the market price of the Common Stock.