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

For the fiscal year ended June 30, 1998	Commission File Number 0-12957

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

Delaware (State or other jurisdiction of incorporation or organization)	22-2372868 (I.R.S. Employer Identification No.)
20 Kingsbridge Road, Piscataway, New Jersey (Address of principal executive offices)	08854 (Zip Code)

Registrant's telephone number, including area code: (732) 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 11, 1998 was approximately $150,277,000. There is no market for the Series A Cumulative Convertible Preferred Stock, the only other class of voting stock.

As of September 11, 1998, there were 35,359,384 shares of Common Stock, par value $.01 per share, outstanding.

The Index to Exhibits appears on page 28.

Documents Incorporated by Reference

The registrant's definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on December 1, 1998, 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.

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The following trademarks and service marks appear in this Annual Report: ADAGEN(R) and ONCASPAR(R) are registered trademarks of Enzon, Inc.; PROTHECAN(TM) is a trademark of Enzon, Inc.; SCA(R) is a registered trademark of Enzon Labs Inc.; Elspar(R) is a registered trademark of Merck & Co., Inc; INTRON(R) A registered trademarks of Schering-Plough Corporation; Hycamtin(TM) is a trademark of SmithKline Beecham plc; Camptosar(R) is a registered trademark of Rhone-Poulenc Rorer Pharmaceuticals Inc.; Roferon(R) is a registered trademark of Hoffmann-La Roche. REBETOL(R) is a registered trademark of ICN 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 two proprietary technologies: (i) polyethylene glycol ("PEG") Modification and (ii) single-chain antigen-binding SCA(R) proteins. Enzon is focusing its research activities primarily in the area of oncology and is applying its proprietary technologies to compounds of known therapeutic efficacy in order to enhance the performance of these compounds. The Company is commercializing its proprietary technologies by developing products internally and in cooperation with strategic partners. To date, the Company and its partners have successfully commercialized two products, ONCASPAR(R) and ADAGEN(R) (described below). The Company currently has two products under development internally and has established more than 20 strategic alliances and license relationships for the development of products using the Company's proprietary technologies. The Company believes that its partners are dedicating

substantial resources to the development of products which incorporate Enzon's proprietary technologies. These efforts include the development of PEG-Intron A, a PEG modified version of Schering-Plough Corporation's ("Schering-Plough") product, INTRON(R) A (interferon alfa 2b), a genetically-engineered anticancer-antiviral drug, for which Schering-Plough is currently conducting Phase III clinical trials.

PEG Technology

The PEG process involves chemically attaching 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 "PEG Process" or "PEG Modification"). The attachment of PEG helps to disguise the compound and reduce the recognition of the compound by the immune system, generally lowering potential immunogenicity and extending the life of such compounds in the circulatory system. The PEG Process also increases the solubility of the modified compound which enhances the delivery of the native compound. To date, Enzon's commercialized products are PEG modified proteins. Through enhancements, Enzon is seeking to apply its PEG technology to more traditional organic compounds.

The Company has made significant improvements to the original PEG Process, collectively referred to as "Second Generation PEG Technology", and has applied for and received certain patents covering some improvements. One of the components of the Second Generation PEG Technology is new linker chemistries; the chemical binding of PEG to unmodified proteins. These new linkers provide an enhanced binding of the PEG to the protein resulting in a more stable compound with increased circulation life and may result in more activity of the modified protein.

The Company also has developed a Third Generation PEG Technology that is designed to enable the technology to be expanded to certain organic compounds and would give such PEG modified compounds "Pro Drug" attributes. This is accomplished by attaching PEG to a compound by means of a covalent bond that is designed to break down over time, thereby releasing the active ingredient in the proximity of the targeted tissues. The Company believes that the "Pro Drug/Transport Technology" has much broader usefulness in that it can be applied to a wide range of small molecules, such as cancer chemotherapy agents, antibiotics, anti-fungals and immunosuppressants, as well as to proteins and peptides, including enzymes and growth factors, although there can be no assurance that such application will result in safe, effective, or commercially viable pharmaceutical products.

Marketed PEG Products

The Company has received marketing approval from the United States Food and Drug Administration ("FDA") for two First Generation PEG technology products: (i) ONCASPAR, the PEG formulation of L-asparaginase, for the indication of acute lymphoblastic leukemia ("ALL") in patients who are hypersensitive to

native forms of L-asparaginase and (ii) ADAGEN, the PEG formulation of adenosine deaminase ("ADA"), the first successful application of enzyme replacement therapy for an inherited disease to treat a rare form of Severe Combined Immunodeficiency Disease ("SCID"), commonly known as the "Bubble Boy Disease."

ADAGEN is marketed by Enzon on a worldwide basis. ONCASPAR is marketed in the U.S. and Canada by Rhone-Poulenc Rorer Pharmaceuticals, Inc. and certain of its affiliated entities ("RPR") and in Europe by Medac GmbH ("Medac"). The Company has also granted exclusive licenses to RPR to sell ONCASPAR in Mexico and the Pacific Rim region, specifically, Australia, New Zealand, Japan, Hong Kong, Korea, China, Taiwan, Philippines, Indonesia, Malaysia, Singapore, Thailand and Viet Nam, (the "Pacific Rim"). The Company is entitled to royalties on the sales of ONCASPAR in North America by RPR, as well as manufacturing revenue from the production of ONCASPAR. The Company's agreements with RPR for the Pacific Rim and with Medac require the partners to purchase ONCASPAR from the Company at a set price which increases over the term of the agreements. In addition, the agreements provide for minimum purchase quantities. The Company manufactures both ADAGEN and ONCASPAR in its South Plainfield, New Jersey facility.

PEG Products under Development

The Company currently has three products that utilize its Second and Third Generation PEG Technology in clinical and preclinical trials. The first is PEG-Intron A, a PEG modified version of Schering-Plough's product, INTRON A (interferon alfa 2b), a genetically-engineered anticancer-antiviral drug, for which Schering-Plough is currently conducting Phase III clinical trials for use in the treatment of hepatitis C and malignant melanoma. The second product under development is PEG-hemoglobin, a proprietary bovine hemoglobin-based oxygen-carrier being developed for the radiosensitization of solid hypoxic tumors, for which the Company recently concluded a Phase Ib clinical trial. The third product under development is PROTHECAN(TM), a PEG-modified version of camptothecin, a potent topoisomerase-1 inhibitor, for use in certain cancers, which is currently in preclinical studies.

PEG-Intron A was developed by the Company in conjunction with Schering-Plough to have longer lasting properties and the potential for an enhanced safety profile compared to currently marketed forms of alpha interferon. PEG-Intron A is currently in Phase III clinical trials in hepatitis C patients in the United States and Europe and has recently entered Phase III clinical trials for malignant melanoma. Other indications being pursued include chronic myelogenous leukemia, solid tumors, as well as combination treatment with Schering-Plough's product, REBETOL(R), for the treatment of hepatitis C. It is expected that PEG-Intron A will be administered once a week, compared to the current regimen for unmodified INTRON A of three times a week. Moreover, the Company believes that PEG-Intron A may provide an improved side effect profile and an improved therapeutic index for hepatitis C patients.

Pursuant to an agreement with Schering-Plough, the Company will receive royalties on worldwide sales of PEG-Intron A, as well as milestone payments. The Company also has the option to be the exclusive manufacturer of PEG-Intron A for the U.S. market. Schering-Plough's sales of INTRON A were approximately $598 million in 1997 for all approved indications. The worldwide market for alpha interferon products is estimated to be in excess of $1 billion for all approved indications. The Company's PEG technology patents which cover PEG-Intron A extend until at least 2015.

SCA Technology

The Company also has an extensive licensing program for its second proprietary technology, SCA protein technology. SCA proteins are genetically engineered proteins designed to overcome the problems hampering the diagnostic and therapeutic use of conventional monoclonal antibodies. Preclinical studies have shown that certain 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; also fully-human SCA proteins can be isolated directly, with no need for costly "humanization" procedures. In addition, many gene therapy methods require that proteins be produced in an active

form inside cells. SCA proteins can be produced through intracellular expression (inside cells) more readily than monoclonal antibodies.

Currently, there are ten SCA proteins that have either completed or are in Phase I or II clinical trials by various corporations and institutions. Three of these corporations and institutions have existing licenses with the Company with respect to SCA proteins and others are expected to require similar licenses. 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 Company, Baxter Healthcare Corporation, Eli Lilly & Co., Alexion Pharmaceuticals Inc., and the Gencell division of RPR. These licenses generally provide for upfront payments, milestone payments and royalties on sales of FDA approved products.

Information contained in this Annual Report, including without limitation the discussion of year 2000 compliance in "Management's Discussion and Analysis of Financial Condition and Results of Operations", 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 and elsewhere in this Annual Report 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 has received U.S. marketing approval from the FDA for two First Generation PEG Technology products, ONCASPAR and ADAGEN. The Company received 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 currently approved in the United States, Canada and Germany, for use in conjunction with other chemotherapeutics to treat patients with ALL who are hypersensitive (allergic) to native (unmodified) forms of L-asparaginase. ONCASPAR is also approved in Russia for therapeutic use in a broad range of cancers. ONCASPAR is marketed in the U.S. and Canada by RPR and in Europe by MEDAC.

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(R).

The therapeutic value of unmodified L-asparaginase is limited by two inherent aspects 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. 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 enabling its use in patients who are allergic to unmodified L-asparaginase.

In addition to pediatric ALL, native L-asparaginase sold by other companies 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, and in other additional indications, including non-Hodgkin's lymphoma. These indications represent larger patient populations and revenue potential than the limited current approved indication. The Company expects MEDAC to initiate similar trials in the near future.

RPR Agreements

ONCASPAR was launched in the United States by RPR during March 1994. The Company has granted RPR an exclusive license (the "Amended RPR U.S. 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 U.S. License Agreement. Under this agreement, Enzon has received licensing payments totaling $6,000,000 and is entitled to a base royalty of 23.5% until 2008 on net sales of ONCASPAR up to agreed upon amounts.

Additionally, the Amended RPR U.S. License Agreement provides for a super royalty of 43.5% until 2008 on net sales of ONCASPAR which exceed certain 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 U.S. 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 U.S. 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 U.S. 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 Sheets as of June 30, 1998 and 1997. The royalty advance will be reduced as base royalties are recognized under the agreement.

The Amended RPR U.S. 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 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 upon one year's prior notice to Enzon. Upon any termination all rights under the Amended RPR U.S. License Agreement revert to Enzon.

During December 1997, RPR received marketing approval for ONCASPAR in Canada. Under a separate license, the Company granted RPR the exclusive right 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 Product requirements for sales in North America.

During May 1998, the Company entered into an additional license agreement with RPR for the Pacific Rim. The agreement provides for RPR to purchase ONCASPAR for the Pacific Rim from the Company at certain established prices which increase over the ten year term of the agreement. Under the agreement, RPR is responsible for obtaining additional approvals and indications in the licensed territories. The agreement also provides for minimum purchase requirements for the first four years of the agreement.

MEDAC Agreement

The Company has also granted an exclusive license to MEDAC to sell ONCASPAR in Europe and Russia. The agreement provides for MEDAC to purchase ONCASPAR from the Company at certain established prices which increase over the initial five year term of the agreement. Under the agreement, MEDAC is responsible for obtaining additional approvals and indications in the licensed territories, beyond the currently approved hypersensitive indication in Germany. Under the agreement, MEDAC is required to meet certain minimum purchase requirements.

ADAGEN

ADAGEN, the Company's first FDA approved product, is currently being used to treat 53 patients in seven countries. ADAGEN represents the first successful application of enzyme replacement therapy for an inherited disease. ADAGEN, the enzyme 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 Enzon. Distribution of ADAGEN in Europe and Japan 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. The Company's 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, 1998, 1997 and 1996 were $10,107,000, $8,935,000 and $8,696,000, respectively. Currently, the only alternative to ADAGEN treatment is a well matched bone marrow transplant. Patients who are unable to receive successful bone marrow transplants are expected to require ADAGEN injections for the rest of their lives. 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, 1998, 1997 and 1996 were approximately $8,654,000, $8,520,000 and $10,124,000, respectively.

The Company's research and development activities during fiscal 1998 concentrated primarily on the continued development of PEG-hemoglobin, preclinical work on PEG-camptothecin, the Company's first product to use Third Generation Pro Drug/Transport Technology, and continued research and development of the Company's proprietary technologies.

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 and 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 a desired site in the body. It is believed that this will result in less toxicity to the surrounding tissue and increased 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 therapeutic proteins or chemical compounds that are difficult to deliver. PEG is a relatively non-reactive and non-toxic polymer that is used in many food and pharmaceutical 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 its 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 that significantly improve their therapeutic performance, and in some cases enables proteins to be therapeutically effective which, in their unmodified forms, have proven to be non-efficacious.

The Company has developed proprietary know-how, collectively referred to as Second Generation PEG Technology, which significantly improves the PEG Process over that described in the original broad patent covering this technology which expired in late 1996. This proprietary know-how enables the Company to tailor the PEG Process in order to produce the desired 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. These improvements allow PEG to bind to different parts of the molecules, which may result in more activity of the modified protein. Attachment of PEG to the wrong site on the protein can result in a loss of its activity or therapeutic effect. The main objective of the First and Second Generation technology is to permanently attach PEG to the unmodified protein. Currently, there are two Second Generation products in clinical trials, including a PEG modified version of Schering-Plough's INTRON A, which is in Phase III clinical trials. See "Strategic Alliances and License Agreements - Schering". The Company has received patents for numerous improvements to the PEG Process. See "Patents".

Pro Drug/Transport Technology

The Company recently has developed a Third Generation PEG technology that gives PEG-modified compounds "Pro Drug" attributes. This is accomplished by attaching PEG to a compound 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 by others. 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 cancer chemotherapy agents and anti-fungals. One such compound, a PEG-modified version of camptothecin, a topo-1 inhibitor, is in preclinical studies in preparation for an anticipated Investigational New Drug Application ("IND") filing during the second half of calendar year 1998. The Company believes that the covalent attachment of PEG can inactivate the drug's toxic mechanisms, while allowing the drug to circulate in the bloodstream for longer periods of time, thereby allowing the

compound to accumulate in the proximity of the tumor site. Preliminary animal studies have shown that a compound modified with the Company's Third Generation PEG Technology accumulates in tumors. The covalent bond used to attach the PEG to the drug in the Third Generation Peg Technology is designed to deteriorate over time, resulting in the PEG falling off and allowing the compound to resume its activity. Animal studies conducted by the Company thus far have demonstrated increases in the therapeutic index of compounds modified by the Company's Pro Drug/Transport Technology. However, there can be no assurance that these advantages can be attained in humans or that drugs based on this technology will be approved by the FDA.

The Company has several patent applications relating to its Pro Drug/Transport Technology that have been issued or are under review. 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.

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 preclinical studies that SCA proteins localize to specific tumors and rapidly penetrate the tumors.

Currently, there are ten SCA proteins that have either completed or are in Phase I or II clinical trials by various organizations, including licensees of the Company and academic institutions. Some of the areas being explored are cancer therapy, cardiovascular indications and AIDS. The Company believes that those organizations who have not yet licensed this technology will have to obtain a license from Enzon to commercialize these products, but there can be no assurance that this will prove to be the case. The following are some examples of research being conducted in the SCA area:

Scientists at the University of Alabama are conducting research utilizing SCA proteins produced inside the body at the cell level, in gene therapy for ovarian cancer. SCA proteins produced in an intracellular environment (inside the cell) via gene therapy are known as intrabodies. Animal data generated from these studies has revealed that SCA proteins produced through intracellular expression increased the response of several prevalent human cancers (e.g., breast, lung, ovarian, stomach) to chemotherapy. A clinical protocol has been published by these investigators for this application.

The Company's licensee, Alexion Pharmaceuticals, Inc. has developed an SCA protein application using a monomeric humanized SCA protein directed against complement protein C5, which causes inflammation in cardiopulmonary bypass and myocardial infarction patients. Alexion's compound is designed to block C5 production, which causes inflammation. Alexion is currently conducting a Phase IIb clinical trial in coronary bypass patients. Earlier Phase I/II trials

showed that the drug was well tolerated and showed biological efficacy.

Another application of the Company's SCA technology is in the area of "T-Bodies". T-Cells are one of the body's natural defenses against cancer and infections. T-Body technology is the adding of the gene code of an SCA protein to a T-cell which has been removed from the body. The T-Cells can be modified through recombinant technology to have the SCA receptors targeting a certain antigen, thereby concentrating the T-Cell on a specific area. Cell Genesys, an Enzon licensee, has had success in applying T-Bodies in preclinical studies with the CC49 SCA protein.

SCA proteins are also being used in antibody engineering, through the use of phage display library technology, for isolation of antibody specificities. Using phage display technology, it is possible to conveniently isolate a human high-affinity SCA protein specific to virtually any target antigen, including anti-self specificities. Cambridge Antibody Technology Ltd. ("CAT"), a pioneer in the development of combinatorial antibody libraries (the "Phage Antibody System"), currently has several licensing agreements with global pharmaceutical and biotechnology companies for use of this library. Because CAT licenses Enzon's SCA technology for this library, Enzon should receive royalties on any SCA protein products developed with this technology.

The Company believes it has a dominant patent position in SCA protein technology and has received numerous patents, the most recent of which expires in 2013. See "Patents".

The Company is currently evaluating the feasibility of licensing in several SCA protein compounds for development internally, in addition to licensing the technology to other companies. To date, the Company has granted SCA licenses to more than a dozen companies, including Bristol-Myers Squibb, Baxter Healthcare, 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".

Products Under Development

There are currently three products that utilize the Company's Second and Third Generation PEG Technology in clinical and preclinical development. The first is PEG-Intron A, a PEG modified version of Schering-Plough's product, INTRON A (interferon alfa 2b), a genetically-engineered anticancer-antiviral drug, for which Schering-Plough is currently conducting Phase III clinical trials for use in the treatment of hepatitis C and has recently entered Phase III clinical trials for malignant melanona. The second product under development is PEG-hemoglobin, a proprietary bovine hemoglobin-based oxygen-carrier being developed for the radiosensitization of solid hypoxic tumors, for which the Company recently concluded a Phase Ib clinical trial. The third product under development is PROTHECAN, a PEG-modified version of camptothecin, a potent topoisomerase-1 inhibitor, for use in certain cancers, which is currently in preclinical studies.

PEG-Intron A

PEG-Intron A was developed by the Company in conjunction with Schering-Plough to have longer lasting properties and the potential for an enhanced safety profile compared to currently marketed forms of alpha interferon. PEG-Intron A is currently in Phase III clinical trials in hepatitis C patients and has recently entered Phase III clinical trials for malignant melanoma. Other indications being pursued include chronic myelogenous leukemia, solid tumors, as well as trials of PEG-Intron A in combination with REBETOL for hepatitis C. It is expected that PEG-Intron A will be administered once a week, compared to the current regimen for unmodified INTRON A of three times a week. Moreover, the Company believes that in addition to the more convenient dosing schedule, the product may provide an improved side effect profile and an improved therapeutic index for hepatitis C patients.

Schering-Plough's sales of INTRON A were approximately $598 million in 1997 for all approved indications. The worldwide market for alpha interferon products is estimated to be in excess of $1 billion for all approved indications. The Company's PEG technology patents which cover PEG-Intron A extend until at least 2015.

Hemoglobin-Based Oxygen-Carrier

The Company is currently developing a hemoglobin-based oxygen-carrier, PEG-hemoglobin, for use as a radiosensitizer, in conjunction with radiation treatment of solid hypoxic tumors. Over the last three years, the Company has focused its development on those indications for which donated whole blood is not effective. This is due to the relative safety, adequate supply and low cost of the current donated blood supply.

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.

The Company has recently concluded a Phase Ib, multi-dose, multi-center clinical trial of PEG-hemoglobin in cancer patients receiving radiation treatment. Patients received once-a-week infusions of PEG-hemoglobin followed by five days of radiation treatment. The protocol for this study called for the regimen to be repeated for three weeks. The primary purpose of this trial was to evaluate safety related to multiple doses of PEG-hemoglobin and radiation therapy. The trial demonstrated that the compound was well tolerated by the majority of the 34 patients. The patients in this trial received three weekly infusions at doses ranging from 2ml/kg to 8ml/kg. The 8ml/kg exceeds the expected efficacious dose based on the Company's preclinical animal studies. It is estimated that approximately 800,000 cases of solid hypoxic tumors, such as head and neck, lung, mammary, colon, prostate, bladder, fibrous histiocytoma and glioma are diagnosed each year in the United States.

The Company believes that one of the significant advantages that

PEG-hemoglobin has over other products currently being developed is its long circulating life. The Company believes that hemoglobin, modified through its PEG Process, will overcome the well-documented problems of toxicity and short circulating life associated with other forms of hemoglobin-based oxygen-carriers that have been developed. The Company's Phase Ia trial demonstrated that PEG-hemoglobin, in its active form, circulates in the blood for approximately eleven days. The extended circulating life demonstrated in the Phase I safety study should enable 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.

Enzon presently produces PEG-hemoglobin in a recently upgraded pilot plant at its facility 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 III clinical trials.

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 looking for a medical institution or commercial partner to bring this product into Phase II clinical trials. 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.

PEG-camptothecin

PEG-camptothecin or PROTHECAN(TM) is the first product to utilize the Company's Third Generation-Pro/Drug Transport Technology. The compound, a PEG modified version of camptothecin, a topo-1 inhibitor, is being developed as an oncolytic. Camptothecin, which was originally developed at the NIH and no longer has patent protection, is believed be the most potent of the topo-1 inhibitors.

For many years camptothecin has been known to be a very efficacious oncolytic agent with drug delivery problems. Recently, camptothecin derivatives, Hycamtin(TM) and Camptosar(R), have been approved by the FDA. While these two products improved the solubility of camptothecin, their efficacy is relatively low. The Company believes that camptothecin modified by its Pro Drug/Transport Technology has additional delivery advantages and increased therapeutic value over the camptothecin compounds on the market.

The Company believes that the covalent attachment of PEG can be used to inactivate the compound's toxic mechanism, while allowing it to circulate in the bloodstream for long periods of time, thereby allowing the compound to accumulate in the proximity of tumor sites. Preliminary animal tests have shown that Third Generation PEG modified compounds accumulate in tumors. The covalent bond used to attach PEG to camptothecin is designed to break down over time, resulting in the PEG falling off the compound, allowing the compound to resume its activity.

The Company plans to file an IND on this product during the second half of calendar 1998.

Single-Chain Antigen-Binding (SCA) Proteins

The Company is currently evaluating the feasibility of licensing in, for internal development, several SCA compounds currently under development.

Currently, there are ten SCA proteins that have either completed or are in Phase I or II clinical trials by various corporations and institutions, including a product developed by one of the Company's licensees, Alexion Pharmaceuticals, Inc. which is in a Phase IIb clinical trial. Some of the areas being explored with SCA's are cancer therapy, cardiovascular indications and AIDS.

Strategic Alliances and License Agreements

In addition to internal product development, the Company utilizes joint development and licensing arrangements with other pharmaceutical and biopharmaceutical companies, to expand the pipeline of products utilizing its proprietary PEG and SCA protein 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. Currently, the Company's partners have two products in late stages of the approval progress, PEG-Intron A and a recombinant Human Serum Albumin ("rHSA"), as well as several SCA compounds in Phase I and Phase II clinical trials.

Schering Agreement

The Company and Schering Corporation ("Schering"), a subsidiary of Schering-Plough, entered into an agreement in November 1990 (the "Schering Agreement") to apply the Company's PEG Process to develop a modified form of Schering-Plough's INTRON A (interferon alfa 2b), a genetically-engineered anticancer and antiviral drug with longer activity. A PEG-modified version of INTRON A is currently in Phase III clinical trials for hepatitis C and has recently entered Phase III clinical trials for malignant melanona. It is expected that PEG-Intron A will be administered once a week as compared to the current regimen for unmodified INTRON A of three times a week. Other indications currently being pursued by Schering include

chronic myelogenous leukemia, solid tumors, as well as combination trials with REBETOL for the treatment of Hepatitis C. PEG-Intron A utilizes the Company's Second Generation PEG Technology.

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, hairy cell leukemia and malignant melanoma. It is marketed worldwide for use in 16 major disease indications. Schering-Plough reported 1997 INTRON A sales of $598 million worldwide.

Under the license agreement, which was amended in 1995, the Company will receive royalties on worldwide sales of PEG-Intron A, if any. Schering is responsible for conducting and funding the clinical studies, obtaining regulatory approval and marketing the product worldwide on an exclusive basis. Enzon also has the option to become Schering's exclusive manufacturer of PEG-Intron A for the United States market upon FDA approval of such product.

Enzon is also entitled to receive future sequential payments, subject to the achievement of certain milestones in the product's development program. During August 1997, Enzon received $2,500,000 in milestone payments from Schering as a result of the product moving into Phase III clinical trials. Enzon is entitled to an additional $3,000,000 in payments from Schering, subject to the achievement of certain additional milestones in the product's development.

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.

Green Cross Agreement

The Company has a license agreement with Green Cross Corporation ("Green Cross") (which was recently acquired by Yoshitomi Pharmaceutical, Inc.) for the development of a recombinant Human Serum Albumin ("rHSA"), as a blood volume expander. Green Cross has reported that it filed for marketing approval of this product in Japan in November 1997. The agreement, which the Company acquired as part of the acquisition of Genex Corporation in 1991, entitles Enzon to a royalty on sales of an rHSA product sold by Green Cross in much of Asia and North and South America. Currently, Green Cross is only developing this product for the Japanese market. The royalty is payable under the agreement for the first fifteen years of commercial sales. The parties are currently in

arbitration to resolve a dispute regarding the royalty rate called for in the agreement. Green Cross has filed papers in the arbitration taking the position that no royalty will be due to Enzon. Enzon does not believe that the provisions in the license agreement support such a position and intends to vigorously pursue its claim to a royalty in the arbitration. There can be no assurance that Enzon will prevail in the arbitration.

SCA Protein Technology Licenses

The Company's SCA protein licenses are primarily on a non-exclusive basis, and in most cases, provide for the partner to pay for all development costs and to market the products. Enzon receives a royalty on the sale of any SCA protein product developed, as well as, in most cases, payments based on the achievement of certain milestones in the development of the product. The Company has more than 15 non-exclusive SCA protein licenses. The following is a partial list of the Company's SCA protein licenses.

Corporate Partner	Agreement Date	Product	Disease or Indication	Program Status
Alexion Pharmaceuticals, Inc.	May 1996	Complement Protein C5	Cardiopulmonary bypass and myocardial infarction	Phase IIb
Baxter Healthcare Corporation	November 1992	SCA proteins	Cancer	Research
Bristol-Myers Squibb Company	September 1993/July 1994	SCA proteins	All Therapeutics	Research
Seattle Genetics	September 1998*	BR96	Cancer	Phase I
Cambridge Antibody Technology Ltd.	September 1996	Phage Display Library	All Therapeutics	Research
Cell Genesys, Inc.	November 1993	SCA/Receptor Technology	Colon Cancer	Phase I/II
Eli Lilly and Co.	December 1992	SCA proteins	Undetermined	Research
Gencell Division of RPR	December 1995	SCA proteins	Gene Therapy	Research

*Bristol-Myers Squibb sublicensed BR96 SCI to Seattle Genetics. This is the only compound that is sublicensed under the Bristol-Myers Agreement.

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 on sales. With respect to ONCASPAR, the Company has granted exclusive marketing rights to, (i) RPR for North America and the Pacific Rim, (ii) MEDAC for Europe and Russia and (iii) Tzamal Pharma Ltd. for Israel, pursuant to the agreements described in "Products on the Market - ONCASPAR".

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 the 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 partners 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 supplier of PEG, in the event it becomes necessary, without material disruption of its business.

The Company manufactures its two FDA approved products, ADAGEN and ONCASPAR, in its South Plainfield, New Jersey facility. On a continuing basis,

the Company's facility is inspected by two branches of the

FDA, the Center for Drugs Evaluation and Research and the Center for Biologics Evaluation and Research, for compliance with the FDA's current Good Manufacturing Practices. The facility has also been inspected by the Canadian Health Protection Branch and the German Federal Institute for Drugs and Medical Devices, the equivalent of the FDA in those countries. The manufacturing facility was granted an establishment license by the FDA in February 1994.

Except for PEG-hemoglobin, the Company purchases the unmodified compounds utilized in its approved products and products under development from outside suppliers. The Company has a supply contract with an outside supplier for the unmodified ADA used in the manufacture of ADAGEN and the unmodified L-asparaginases used in the manufacture of ONCASPAR. The Company purchases the unmodified L-asparaginase used in the production of ONCASPAR for the European market from a different supplier than that used for the U.S. market.

Recently the Company's quality assurance department has observed increased levels of particulates in certain batches of ONCASPAR which it manufactures. These batches were not shipped and the Company's recent rejection rate for the manufacture of this product is significantly higher than it has been historically. The Company is engaged in an extensive review of its manufacturing procedures for this product and believes that the problem may be related to certain materials which are used in the filling process, although this has not yet been determined. The Company has been in discussions with the FDA regarding this problem and expects to have further discussions shortly with the FDA. It is possible that the FDA may not allow the Company to ship ONCASPAR until this problem is resolved. However, it is also possible that the FDA may permit the Company to ship units of ONCASPAR which the Company determines are free from particulates, including units currently on hand. This problem may result in a temporary or extended disruption in the distribution of ONCASPAR. An extended disruption could have a material adverse impact on future ONCASPAR sales.

The Company currently obtains its raw hemoglobin from a small colony of animals which are isolated and receive regular veterinary care and testing. This 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.

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.

Delays in obtaining or an inability to obtain any unmodified compound which the Company does not produce, including unmodified ADA 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, preclinical 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 preclinical 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, preclinical studies are conducted in animal models to assess a drug's efficacy and to identify potential safety problems. The results of these studies are submitted to the FDA as a part of the 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 Biologic 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 for marketing in the U.S. and Germany in 1994 and in Canada in December 1997 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 and developing chemically modified therapeutic proteins and that certain companies are modifying pharmaceutical products, including proteins, by attaching PEG. 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, although it is aware of PEG-modified therapeutic proteins currently in clinical trials. 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 ADA deficient 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 National Institute of Health ("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 patients in these trials are also receiving ADAGEN treatment in addition to the gene therapy. 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 ADA deficient SCID. To date, patients in gene therapy clinical trials have not been able to stop ADAGEN treatment and therefore, the trial has been inconclusive.

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 to unmodified forms of L-asparaginase. The long-term survival and cure of ALL patients generally depends upon achieving a sustainable first remission. Currently, there is one unmodified form of L-asparaginase available in the United States (Elspar) and several available in Europe. The Company believes that ONCASPAR has two advantages over these unmodified forms of L-asparaginase: increased circulating blood life and generally reduced immunogenicity.

The current market for INTRON A, Schering Plough's interferon alpha 2b product, is highly competitive, with Schering, Hoffmann-La Roche, Inc. ("Hoffmann-La Roche") and Amgen, Inc. as well as several other companies selling similar products. The Company believes that its PEG modified INTRON A will have several potential advantages over the interferon products currently on the market, principally once a week dosing versus the current three times a week dosing, with an improved side effect profile. It has also been reported that Hoffmann-La Roche also has a potentially longer lasting version of its interferon product, Roferon(R), in Phase III clinical trials.

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.

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. These "synthetic allosteric modifier" compounds are currently being studied in clinical trials for their 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.

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 being tested in clinical trials. Currently, the Company believes that none of the other companies developing hemoglobin-based oxygen-carriers as blood substitutes are pursuing a radiosensitization indication. The Company believes that PEG-hemoglobin, due to its long circulating life, will deliver more oxygen to hypoxic tumors than the products currently under development and therefore, in combination with radiation, should result in a greater reduction in tumor size.

There are several technologies which compete with the Company's SCA protein 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 antibody 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 antibody 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 organizations have active programs in SCA proteins. The Company believes that its patent position on SCA proteins will require companies that have not licensed its SCA protein patents 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 patents will be available on acceptable terms. In certain cases, the Company has obtained opinions of patent counsel that certain of such patents, including patents relevant to PEG hemoglobin held by Biopure Inc. and patents relevant to PEG alpha interferon held by Hoffmann-La Roche, are not infringed by the products of the Company or its collaborators or would not be held to be valid if litigated. Such opinions have been relied upon by the Company and its collaborators in continuing to pursue development of the subject product. Such opinions are not binding on any court and there can be no assurance that such opinions will prove to be correct and that a court would find any of the claims of such patents to be invalid or that the product developed by the Company or its collaborator does not infringe such patents. 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., expired 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 the expiration of the original PEG Process patent 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 pending 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 and 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(TM)) 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.

Employees

As of June 30, 1998, Enzon employed 83 persons, of whom 33 were engaged in research and development activities, 32 were engaged in manufacturing, and 18 were engaged in administration and management. As of June 30, 1998, the Company had 14 employees who hold Ph.D. degrees. The Company believes that it has been 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 and Administrative	56,000	$496,000(1)	June 15, 2007
40 Cragwood Road S. Plainfield, NJ	Warehousing	88,000	446,000(2)	December 31, 1998
300 Corporate Ct. S. Plainfield, NJ	Manufacturing	24,000	183,000	March 31, 2007

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

(2) Amount represents the rent due for the period from July 1, 1998 through termination of the lease on December 31, 1998, net of sub-rental income of $110,000. The sublease is for approximately 27,412 square feet. The Company has consolidated the operations of this facility into its remaining two facilities and does not intend to renew this lease.

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

Item 3. Legal Proceedings

The Company is being sued, in the United States District Court for the District of New Jersey, by a former financial advisor, LBC Capital Resources Inc. ("LBC"), which is asserting that under the May 2, 1995 letter agreement ("Letter Agreement") between Enzon and LBC, LBC was entitled to a commission in connection with the Company's January and March 1996 private placements, comprised of $500,000 and warrants to purchase 1,000,000 shares of Enzon Common Stock at an exercise price of $2.50 per share. LBC has also asserted that it is entitled to an additional fee of $175,000 and warrants to purchase 250,000 shares of Enzon Common Stock when and if any of the warrants obtained pursuant to the private placements are exercised. LBC has claimed $3,000,000 in compensatory damages, plus punitive damages, counsel fees and costs for the alleged breach of the Letter Agreement. The Company believes that no such commission was due under the Letter Agreement and denies any liability under the Letter Agreement. The Company intends to defend this lawsuit vigorously.

There is no other pending material litigation 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, 1998 and 1997, as reported by the NASDAQ National Market. The quotations shown represent inter-dealer prices without adjustment for retail markups, markdowns or commissions, and may not necessarily reflect actual transactions.

	High	Low
Year Ended June 30, 1998		
First Quarter	5 3/16	2
Second Quarter	7 1/4	4 3/4
Third Quarter	7 3/16	5 1/8
Fourth Quarter	6 7/8	4 9/16
Year Ended June 30, 1997		
First Quarter	3 1/2	2 1/16
Second Quarter	3 1/4	2 1/8
Third Quarter	3 1/2	2 3/8
Fourth Quarter	3 1/16	2 1/8

As of September 11, 1998 there were 2,573 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, 1998.

Consolidated Statement of Operations Data:

	Year Ended June 30,				
	1998	1997	1996	1995	1994
Revenues	$14,644,032	$12,727,052	$12,681,281	$15,826,437	$14,797,499
Net Loss	$(3,617,133)	$(4,557,025)	$(5,175,279)	$(6,291,491)	$(16,495,226)
Net Loss per Share	$(0.12)	$(0.16)	$(.20)	$(.26)	$(.71)
Dividends on Common Stock	None	None	None	None	None

Consolidated Balance Sheet Data:

	June 30,				
	1998	1997	1996	1995	1994

Total Assets	$13,741,378	$16,005,278	$21,963,856	$19,184,042	$20,543,252
Long-Term Obligations	$ --	$ --	$1,728	$4,076	$115,733

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Fiscal Years Ended June 30, 1998, 1997 and 1996

Revenues. Revenues for the year ended June 30, 1998 increased to $14,644,000 as compared to $12,727,000 for fiscal 1997. 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 increased by 6% to $12,313,000 for the year ended June 30, 1998 as compared to $11,596,000 for the prior year. The increase was due to an increase in ADAGEN sales of approximately 13%, resulting from an increase in patients receiving ADAGEN treatment. Net sales of ADAGEN, which is marketed by Enzon, for the years ended June 30, 1998 and 1997 were $10,107,000 and $8,935,000, respectively. ONCASPAR, the Company's other approved product, is marketed in the U.S. and Canada by RPR and in Europe by MEDAC. ONCASPAR revenues are comprised of manufacturing revenues, as well as royalties on sales of ONCASPAR by RPR. ONCASPAR revenues decreased due to a decline in manufacturing revenue resulting from difficulties encountered in the Company's manufacturing process, as described below. The decrease in manufacturing revenue was partially offset by increased royalties due to an increase in sales of ONCASPAR by RPR.

Recently the Company's quality assurance department has observed increased levels of particulates in certain batches on ONCASPAR which it manufactures. These batches were not shipped and the Company's recent rejection rate for the manufacture of this product is significantly higher than it has been historically. The Company is engaged in an extensive review of its manufacturing procedures for this product and believes that the problem may be related to certain materials which are used in the filling process, although this has not yet been determined. The Company has been in discussions with the FDA regarding this problem and expects to have further discussions shortly with the FDA. It is possible that the FDA may not allow the Company to ship ONCASPAR until this problem is resolved. However, it is also possible that the FDA may permit the Company to ship units of ONCASPAR which the Company determines are free from particulates, including units currently on hand. This problem may result in a temporary or extended disruption in the distribution of ONCASPAR. An extended disruption could have a material adverse impact on future ONCASPAR sales.

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 its partners and increased royalties on RPR sales of ONCASPAR for the currently approved indication. RPR and MEDAC are conducting clinical trials to expand the use of ONCASPAR beyond its current approved indication which could also result in additional revenues from this product, subject to the manufacturing issue discussed in the preceeding paragraph. There can be no assurance that any particular sales levels of ONCASPAR or ADAGEN will be achieved or maintained.

Contract revenue for the year ended June 30, 1998 increased to $2,331,000, as compared to $1,131,000 for fiscal 1997. The increase was principally due to an increase in milestone payments received under the Company's licensing agreement for PEG-Intron A with Schering-Plough Corporation ("Schering-Plough"). During the year ended June 30, 1998, the Company recognized $2,200,000 in milestone payments received as a result of Schering-Plough advancing PEG-Intron A into a Phase III clinical trial. PEG-Intron A is a modified form of Schering-Plough's INTRON(R) A (interferon alfa-2b, recombinant), developed by Enzon to have longer-acting properties. INTRON A is a genetically engineered anticancer and antiviral agent, developed and marketed worldwide by Schering-Plough. Sales of INTRON A by Schering-Plough were $598 million in 1997. The worldwide market for alpha interferon is estimated to be in excess of $1 billion. Under the Company's licensing agreement, Enzon is entitled to royalties on product sales and has the option to become Schering-Plough's exclusive

manufacturer of PEG-Intron A for the U.S. market. During the prior year, the Company received a $1,000,000 milestone payment under the same licensing agreement with Schering-Plough. During the years ended June 30, 1998 and 1997, the Company had export sales of $2,641,000 and $2,377,000, of these amounts, sales in Europe were $2,117,000 and $1,937,000, respectively.

Revenues for the year ended June 30, 1997 increased to $12,727,000 as compared to $12,681,000 for fiscal 1996. Sales increased by 10% to $11,596,000 for the year ended June 30, 1997 as compared to $10,502,000 for the prior year. The increase was due to an increase in ONCASPAR revenues and an increase in ADAGEN sales of approximately 3%, resulting from an increase in patients receiving ADAGEN treatment. Net sales of ADAGEN, which is marketed by Enzon, for the years ended June 30, 1997 and 1996 were $8,935,000 and $8,696,000, respectively. ONCASPAR, the Company's other approved product, is marketed in the U.S. by RPR and in Europe by MEDAC. ONCASPAR revenues increased due to an increase in sales of ONCASPAR by RPR as well as an increase in the royalty rate under the RPR agreement during the second half of fiscal 1996, to 23.5% as compared to the former rate of 10.0%. The increase was also due to the commencement of shipments during fiscal 1997 of ONCASPAR to MEDAC for the European market. Contract revenue for the year ended June 30, 1997 decreased by 48% to $1,131,000, as compared to $2,179,000 for fiscal 1996. The decrease was principally due to the one-time gain, in fiscal 1996, related to the exercise of warrants received from Neoprobe Corporation and sale of the underlying securities. The warrants were consideration related to a licensing agreement for the Company's SCA protein technology. During the years ended June 30, 1997 and 1996, the Company had export sales of $2,377,000 and $2,270,000, of these amounts, sales in Europe were $1,937,000 and $1,858,000, respectively.

Cost of Sales. Cost of sales, as a percentage of sales, decreased to 30% for the year ended June 30, 1998 as compared to 33% for fiscal 1997. The decrease was primarily due to the prior year's expense of excess ONCASPAR raw material and purchase commitments related to the Company's supply agreement for this material. During the fiscal year ended January 1998, the Company amended its supply agreement for this material which extended the period available for the Company to accept delivery of its remaining purchase commitment through 1999, in exchange for a $1,300,000 advance payment of the remaining purchase commitment. (See Note 3 to the Consolidated Financial Statements).

Cost of sales, as a percentage of sales, decreased to 33% for the year ended June 30, 1997 as compared to 34% for fiscal 1996. The decrease was due to a reduction in the write-off of excess raw material used in the production of ONCASPAR. While it is possible that the Company may incur similar losses on its remaining purchase commitments under the amended supply agreement (see Note 3 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 or expansion into additional markets outside the U.S.

Research and Development. Research and development expenses for the year ended June 30, 1998 remained relatively unchanged at $8,654,000 as compared to $8,520,000 for fiscal 1997. The Company's research and development efforts were focused on the continued development of its Third Generation Pro Drug/Transport Technology, which included preclinical activities in preparation for the filing of an Investigational New Drug Application (IND) for PEG-camptothecin, as well as a clinical trial for PEG-hemoglobin.

Research and development expenses decreased by 16% for the year ended June 30, 1997 as compared to the prior year. The decrease was primarily due to (i) reductions in personnel made during fiscal 1996, principally in the clinical and research administration areas, and related costs, such as payroll taxes and benefits and (ii) other cost containment measures resulting from the narrowing of the Company's research efforts to focus on technologies and products with large revenue potential.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended June 30, 1998 increased by 16% to $6,426,000 as compared to $5,528,000 fiscal 1997. The increase was due to (i) increased investor and public relations activities, and (ii) consulting fees

related to the development of a strategic business plan for the Company's SCA protein technology.

Selling, general and administrative expenses for the year ended June 30, 1997 decreased by 8% to $5,528,000 from $6,011,000 for fiscal 1996. The decrease was due to (i) reductions in personnel and related costs, such as payroll taxes and benefits, and (ii) other cost containment measures taken by the Company.

Other Income/Expense. Other income/expense decreased by $141,000 to $464,000 for the year ended June 30, 1998 as compared to $605,000 last year. The decrease was due principally to a decline in interest income due to a decrease in interest bearing investments.

Other income/expense decreased by $1,218,000 to $605,000 for the year ended June 30, 1997 as compared to $1,823,000 for the year ended June 30, 1996. The decrease was due to the recognition of approximately $1,313,000 as other income during the year ended June 30, 1996. The $1,313,000 represented the unused portion of an advance received under a development and license agreement with Sanofi Winthrop.

In June 1997, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income" and No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information." In accordance with the effective dates, the Company will adopt SFAS 130 and SFAS 131 for the fiscal year ending June 30, 1999. The Company is currently evaluating the impact of the disclosure requirements for SFAS 130 and SFAS 131. These statements are not expected to have a material impact on the Company's Consolidated Financial Statements.

Liquidity and Capital Resources

Total cash reserves, including cash and cash equivalents as of June 30, 1998 were $6,478,000. The Company completed a private placement during July 1998, in which the Company sold 3,983,000 shares of Common Stock to a small group of investors resulting in net proceeds of approximately $17,600,000. Total cash reserves, as of June 30, 1998, after giving proforma effect to this financing, were approximately $24,078,000. The Company invests its excess cash in a portfolio of high-grade marketable securities and United States government-backed securities.

The Company's Amended RPR U.S. 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 U.S. License Agreement will be offset against an original 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, 1998, an aggregate of $4,256,000 in royalties payable by RPR has been offset against the original credit.

As of June 30, 1998, 942,808 shares of Series A Preferred Shares had been converted into 3,097,955 shares of Common Stock. Accrued dividends on the converted Series A Preferred Shares in the aggregate of $1,824,000 were settled by the issuance of 235,231 shares of Common Stock. The Company does not presently intend to pay cash dividends on the Series A Preferred Shares. As of June 30, 1998, there were accrued and unpaid dividends totaling $1,770,000 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 $214,000 per year.

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, proceeds from the recently completed private placement of Common Stock, sales of ADAGEN, sales of ONCASPAR, sales of its products for research purposes and license fees. Based upon its currently

planned research and development activities and related costs and its current sources of liquidity, the Company anticipates its current cash reserves will be sufficient to meet its capital and operational requirements for the foreseeable future.

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.

Year 2000

The Company has completed a review of its business systems, including its computer systems and manufacturing equipment, and has queried its customers and vendors as to their progress in identifying and addressing problems that their systems may face in correctly interpreting and processing date information as the year 2000 approaches and is reached. Based on this review, the Company has implemented a plan to achieve year 2000 compliance. The Company believes that it will achieve year 2000 compliance no later than September 1999 in a manner which will be non-disruptive to its operations. In addition, the Company has commenced work on various types of contingency planning to address potential problem areas with internal systems and with suppliers and other third parties, although such plans have not yet been determined. Year 2000 compliance should not have a material adverse effect on the Company, including the Company's financial condition, results of operations or cash flow. The Company estimates the cost (including historical costs to date) of its year 2000 efforts to be approximately $400,000. The total cost estimate is based on management's current assessment and is subject to change.

However, the Company may encounter problems with suppliers and or revenue sources which could adversely affect the Company's financial condition, results of operations or cash flow. The Company cannot accurately predict the occurrence and or outcome of any such problems, nor can the dollar amount of any such problem be estimated. In addition, there can be no assurance that the failure to ensure year 2000 compliance by a third party would not have a material adverse effect on the Company.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

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 1, 1998.

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)
3(iii)	Certificate of Designations, Preferences and Rights of Series D Convertible Preferred Stock	^^^^3(iii)
3(iv)	Amendment to Certificate of Incorporation dated January 5, 1998	###3(iv)
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)
10.4	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	Employment Agreement with Peter G. Tombros dated as of April 5, 1997	^^^^(10.15)
10.16	Stock Purchase Agreement dated as of June 30, 1995	~~~(10.16)
10.17	Securities Purchase Agreement dated as of January 31, 1996	~~~(10.17)
10.18	Registration Rights Agreements dated as of January 31, 1996	~~~(10.18)

10.19 Warrants dated as of February 7, 1996 and issued pursuant to the

	Securities Purchase Agreement dated as of January 31, 1996	~~~(10.19)
10.20	Securities Purchase Agreement dated as of March 15, 1996	^(10.20)
10.21	Registration Rights Agreement dated as of March 15, 1996	^(10.21)
10.22	Warrant dated as of March 15, 1996 and issued pursuant to the Securities Purchase Agreement dated as of March 15, 1996	^(10.22)
10.23	Amendment dated March 25, 1994 to License Agreement dated September 7, 1989 between the Company and Research Corporation Technologies, Inc.	^^(10.23)
10.24	Independent Directors' Stock Plan	^^(10.24)
10.25	Stock Exchange Agreement dated February 28, 1997, by and between the Company and GFL Performance Fund Ltd.	^^^(10.25)
10.26	Agreement Regarding Registration Rights Under Registration Rights Agreement dated March 10, 1997, by and between the Company and Clearwater Fund IV LLC	^^^(10.26)
10.27	Common Stock Purchase Agreement dated June 25, 1998	^^^^(10.27)
10.28	Placement Agent Agreement dated June 25, 1998 with SBC Warburg Dillon Read Inc.	o
21.0	Subsidiaries of Registrant.	o
23.0	Independent Auditor's Consent	o
27.0	Financial Data Schedule	o
99.0	Factors to Consider in Connection with Forward-Looking Statements	o

o 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, 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 December 31, 1997 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.

^^ Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 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, 1997 and incorporated herein by reference thereto.

^^^^ Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 1997 and incorporated herein by reference thereto.

^^^^^ Previously filed as an exhibit to the Company's Registration Statement on Form S-3 (File No. 333-58269) filed with the Commission and incorporated herein by reference thereto.

(b) Reports on Form 8-K

On June 30, 1998, the Company filed with the Commission a Current Report on Form 8-K dated April 14, 1998 related to the following items: (i) the appointment of Richard P. Voss to the newly created position of Vice President, Business Development, (ii) arbitration proceedings between the Company and Yoshitomi Pharmaceuticals Industries, Ltd. ("Yoshitomi"), related to the resolution of a dispute over the extent of royalties payable to the Company for a research and license agreement for the development of a recombinant Human Serum Albumin ("rHSA"), and (iii) a Notice of Allowance from the U.S. Patent and Trademark Office for a patent on the Company's Pro Drug/Transport Technology.

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 28, 1998

/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 Peter G. Tombros	President, Chief Executive Officer and Director (Principal Executive Officer)	September 28, 1998
/s/ Kenneth J. Zuerblis Kenneth J. Zuerblis	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	September 28, 1998
/s/ Randy H. Thurman Randy H. Thurman	Chairman of the Board	September 28, 1998
/s/ Rolf A. Classon Rolf A. Classon	Director	September 28, 1998
/s/ Rosina B. Dixon Rosina B. Dixon	Director	September 28, 1998
/s/ David W. Golde David W. Golde	Director	September 28, 1998
/s/ Robert LeBuhn Robert LeBuhn	Director	September 28, 1998
/s/ A.M. "Don" MacKinnon A.M. "Don" MacKinnon	Director	September 28, 1998

ENZON, INC. AND SUBSIDIARIES

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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, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 1998, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Short Hills, New Jersey
September 8, 1998

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 1998 and 1997

	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,478,459	$ 8,315,752
Accounts receivable	2,300,046	2,433,762
Inventories	1,022,530	859,873
Prepaid expenses and other current assets	447,952	87,732
Total current assets	10,248,987	11,697,119
Property and equipment	15,134,075	15,676,525
Less accumulated depreciation and amortization	13,368,330	12,923,802
	1,765,745	2,752,723
Other assets:		
Investments	69,002	78,293
Deposits and deferred charges	464,747	34,575
Patents, net	1,192,897	1,442,568
	1,726,646	1,555,436
Total assets	$ 13,741,378	$ 16,005,278
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,711,856	$ 1,910,737
Accrued expenses	4,375,822	3,504,966
Total current liabilities	6,087,678	5,415,703
Accrued rent	727,160	870,012
Royalty advance - RPR	--	1,177,682
	727,160	2,047,694
Commitments and contingencies		
Stockholders' equity:		
Preferred stock-$.01 par value, authorized 3,000,000 shares; issued and outstanding 107,000 shares in 1998 and 109,000 in 1997 (liquidation preferences aggregating $2,675,000 in 1998 and $2,725,000 in 1997)	1,070	1,090
Common stock-$.01 par value, authorized 60,000,000 shares;		

issued and outstanding 31,341,353 shares in 1998 and 30,797,735 shares in 1997	313,414	307,977
Additional paid-in capital	123,453,874	121,426,159
Accumulated deficit	(116,841,818)	(113,193,345)
Total stockholders' equity	6,926,540	8,541,881
Total liabilities and stockholders' equity	$ 13,741,378	$ 16,005,278

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

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended June 30, 1998, 1997 and 1996

	1998	1997	1996
Revenues:			
Sales	$ 12,312,730	$ 11,595,985	$ 10,501,985
Contract revenue	2,331,302	1,131,067	2,179,296
Total revenues	14,644,032	12,727,052	12,681,281
Costs and expenses:			
Cost of sales	3,645,281	3,840,198	3,545,341
Research and development expenses	8,653,567	8,520,366	10,123,525
Selling, general and administrative expenses	6,426,241	5,528,174	6,010,639
Total costs and expenses	18,725,089	17,888,738	19,679,505
Operating loss	(4,081,057)	(5,161,686)	(6,998,224)
Other income (expense):			
Interest and dividend income	460,922	584,384	449,855
Interest expense	(13,923)	(14,891)	(12,886)
Other	16,925	35,168	1,385,976
	463,924	604,661	1,822,945
Net loss	($ 3,617,133)	($ 4,557,025)	($ 5,175,279)
Basic and diluted loss per common share	($ 0.12)	($ 0.16)	($ 0.20)
Weighted average number of common shares outstanding during the period	31,092,369	29,045,605	26,823,142

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, 1998, 1997 and 1996

	Preferred stock			Common Stock		
	Amount per share	Number of Shares	Par Value	Amount per share	Number of Shares	Par Value
Balance, July 1, 1995	--	109,000	$1,090		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	$100.00	40,000	400	2.74	1,094,890	10,949
Proceeds from Private Placement, March 1996	100.00	20,000	200	3.75	266,667	2,666
Consulting expense for issuance of stock options	--	--	--	--	--	--
Donation of common stock	--	--	--	--	(15)	--
Net loss	--	--	--	--	--	--

Balance, June 30, 1996		169,000	$1,690		27,706,396	$277,064
Common stock issued for exercise of non-qualified stock options	--	--	--	2.36	11,219	112
Common stock issued for Independent Directors' Stock Plan	--	--	--	2.97	25,903	259
Consulting expense for issuance of stock options	--	--	--	--	--	--
Common stock issued on conversion of Series B Preferred Stock	1.95	(40,000)	(400)	1.95	2,038,989	20,390
Common stock issued on conversion of Series D Preferred Stock	1.97	(20,000)	(200)	1.97	1,015,228	10,152
Net loss	--	--	--	--	--	--
Balance, June 30, 1997, carried forward		109,000	$1,090		30,797,735	$307,977

	Additional paid-in capital	Accumulated Deficit	Total
Balance, July 1, 1995	$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
Common stock issued for exercise of non-qualified stock options	26,499	--	26,611
Common stock issued for Independent Directors' Stock Plan	76,598	--	76,857
Consulting expense for issuance of stock options	80,984	--	80,984
Common stock issued on conversion of Series B Preferred Stock	(19,993)	--	(3)
Common stock issued on conversion of Series D Preferred Stock	(9,953)	--	(1)
Net loss	--	(4,557,025)	(4,557,025)
Balance, June 30, 1997, carried forward	$121,426,159	($113,193,345)	$8,541,881

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

(continued)

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
Years ended June 30, 1998, 1997 and 1996

	Preferred stock			Common Stock		
	Amount per share	Number of Shares	Par Value	Amount per share	Number of Shares	Par Value
Balance, June 30, 1997, brought forward		109,000	$1,090	--	30,797,735	$307,977
Common stock issued for exercise of non-qualified stock options	--	--	--	2.23	505,072	5,051
Common stock issued on conversion of Preferred Stock	25.00	(2,000)	(20)	11.00	4,544	45
Dividends issued on Preferred stock	--	--	--	11.00	2,848	29
Common stock issued for Independent Directors' Stock Plan	--	--	--	4.11	16,904	169
Common stock issued to consultants	--	--	--	4.77	14,259	143
Consulting expense for issuance of stock options	--	--	--	--	--	--
Donation of Common Stock	--	--	--	--	(9)	--
Net loss	--	--	--	--	--	--
Balance, June 30, 1998		107,000	$1,070		31,341,353	$313,414

	Additional paid-in capital	Accumulated Deficit	Total
Balance, June 30, 1997, brought forward	$121,426,159	($113,193,345)	$8,541,881
Common stock issued for exercise of non-qualified stock options	1,653,557	--	1,658,608
Common stock issued on conversion of Preferred Stock	(42)	--	(17)
Dividends issued on Preferred stock	31,300	(31,340)	(11)
Common stock issued for Independent Directors' Stock Plan	69,231	--	69,400

Common stock issued to consultants	67,854	--	67,997
Consulting expense for issuance of stock options	205,815	--	205,815
Donation of Common Stock	--	--	--
Net loss	--	(3,617,133)	(3,617,133)
Balance, June 30, 1998	$123,453,874	($116,841,818)	$6,926,540

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, 1998, 1997 and 1996

	1998	1997	1996
Cash flows from operating activities:			
Net loss	($3,617,133)	($4,557,025)	($5,175,279)
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	1,217,423	1,653,331	2,051,735
Loss (gain) on retirement of assets	97,037	(35,168)	69,444
Non-cash expense for issuance of common stock and stock options options	343,212	157,841	61,542
Changes in assets and liabilities, excluding acquisition items:			
Decrease (increase) in accounts receivable	133,716	(310,071)	238,586
(Increase) decrease in inventories	(162,657)	125,505	(192,925)
(Increase) decrease in prepaid expenses and other current assets	(360,220)	346,586	(249,092)
(Increase) decrease in other assets	(430,172)	21,370	(8,995)
(Decrease) increase in accounts payable	(198,881)	(168,187)	516,956
Increase (decrease) in accrued expenses	796,403	(522,761)	102,700
Decrease in accrued rent	(142,852)	(110,896)	(25,600)
Decrease in royalty advance - RPR	(1,101,501)	(780,081)	(867,922)
Decrease in other liabilities	--	(1,728)	(2,348)
Net cash used in operating activities	(3,425,625)	(4,181,284)	(4,794,027)
Cash flows from investing activities:			
Capital expenditures	(160,940)	(873,754)	(136,789)
Proceeds from sale of equipment	83,129	680,481	11,283
Decrease in investments	9,291	--	--
Net cash used in investing activities	(68,520)	(193,273)	(125,506)
Cash flows from financing activities:			
Proceeds from issuance of common stock, preferred stock and warrants	1,658,580	26,607	9,484,677
Principal payments of obligations under capital leases	(1,728)	(2,348)	(2,083)
Net cash provided by financing activities	1,656,852	24,259	9,482,594
Net (decrease) increase in cash and cash equivalents	(1,837,293)	(4,350,298)	4,563,061
Cash and cash equivalents at beginning of period	8,315,752	12,666,050	8,102,989
Cash and cash equivalents at end of period	$6,478,459	$8,315,752	$12,666,050

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

ENZON, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Years ended June 30, 1998, 1997 and 1996

(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(R), sales of ONCASPAR(R), 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 have been 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 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 approximates the fair value of the investments at June 30, 1998 and 1997.

Inventory Costing and Idle Capacity

Inventories are stated at the lower of cost or market. Cost is determined using 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.

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, or 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 8 to 17 years. Accumulated amortization as of June 30, 1998 and 1997 was

$956,000 and $875,000, 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.

Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances occur that indicate that the carrying amount of the assets may not be recoverable. The Company assesses the recoverability of long-lived assets held and to be used based on undiscounted cash flows and measures the impairment, if any, using discounted cash flows.

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 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.

Stockholders' Equity

The Company maintains a Non-Qualified Stock Option Plan (the "Stock Option Plan") for which it applies Accounting Principles Board ("APB") Opinion No. 25 ,"Accounting for Stock Issued to Employees," and related interpretations in accounting for the Stock Option Plan. Stock options issued to employees are granted with an exercise price equal to the market price and in accordance with APB No. 25, compensation expense is not recognized.

Cash Flow Information

The Company considers all highly liquid securities with original maturities of three months or less to be cash equivalents.

During the year ended June 30, 1998, 2,000 shares of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock" or "Series A Preferred Shares") were converted to 4,544 shares of Common Stock. Accrued dividends of $31,000 on the Series A Preferred Shares that were converted were settled by issuing 2,848 shares of Common Stock and cash payments totalling $28 for fractional shares. There were no conversions of Series A Preferred Stock for the years ended June 30, 1997 and 1996.

Cash payments for interest were approximately $14,000, $15,000 and $13,000 for the years ended June 30, 1998, 1997 and 1996, respectively. There were no income tax payments made for the years ended June 30, 1998, 1997 and 1996.

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. Also, in connection with the Company's private placements of Common Stock, Series B Convertible Preferred Stock ("Series B Preferred Shares" or "Series B Preferred Stock") and Series C Convertible Preferred Stock ("Series C Preferred Shares" or "Series C Preferred Stock"), 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.

Upon exhaustion of the Company's current cash reserve including its financing in July 1998 (see note), 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.

Net Loss Per Common Share

Basic and diluted loss per common share is based on the net loss for the relevant period, adjusted for cumulative, undeclared Series A Preferred Stock dividends of $216,000, $218,000 and $218,000 for the years ended June 30, 1998, 1997 and 1996, respectively, divided by the weighted average number of shares issued and outstanding during the period. For purposes of the diluted loss per share calculation, the exercise or conversion of all dilutive potential common shares is not included, due to the net loss recorded for the years ended June 30, 1998, 1997 and 1996. As of June 30, 1998, the Company had 6,788,000 dilutive potential common shares outstanding that could potentially dilute future diluted earnings per share calculations.

Reclassifications

Certain prior year balances were reclassified to conform to the 1998 presentation.

(3) Commitments and Contingencies

The Company has a long-term supply agreement for unmodified L-asparaginase, one of the raw materials used in ONCASPAR produced for the U.S. market, under which the Company is required to purchase minimum quantities of this raw material on an annual basis. Under the agreement, the Company was required to purchase $1,300,000 of raw material for the year ended December 31, 1997. During the fiscal years ended June 30, 1997 and 1996, the Company expensed approximately $592,000 and $701,000, respectively, related to the satisfaction of the minimum purchase requirements for unmodified L-asparaginase under this supply contract. During the year ended June 30, 1998, the parties amended this agreement. The amendment extended the term of the supply agreement and the time for the Company to fulfill the remaining $1,300,000 of minimum purchase commitments until December 31, 1999. In consideration for the extension, the Company paid $75,000, and made an advance payment for the remaining minimum purchase commitment of $1,300,000. During the year ended June 30, 1998, the Company made purchases of approximately $621,000, which were applied against the advance payment. The remaining advance payment is shown as a long term other asset with the corresponding current portion included in other current assets in the accompanying consolidated balance sheet as of June 30, 1998. The supplier will deliver the prepaid inventory at the Company's request through December 31, 1999. Any inventory that is not taken by the Company by December 31, 1999 will be forfeited. 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.

The Company has agreements with certain members of its upper management that provide for payments following a termination of employment occurring after a change in control of the Company. The Company also has a 3-year employment agreement, dated April 5, 1997, with President and Chief Executive Officer which provides for severance payments in addition to the change in control provisions discussed above.

The Company is being sued by a former financial advisor, LBC Capital Resources Inc. ("LBC"), which is asserting that under a May 2, 1995, letter agreement ("Letter Agreement") between Enzon and LBC Capital Resources ("LBC"), LBC was entitled to a commission in connection with the Company's January and March 1996 private placements, comprised of $500,000 and warrants to purchase 1,000,000 shares of Enzon common stock at an exercise price of $2.50 per share. LBC has also asserted that it is entitled to an additional fee of $175,000 and warrants to purchase 250,000 shares of Enzon common stock when and if any of the warrants obtained pursuant to the private placements are exercised. LBC has claimed $3,000,000 in compensatory damages, plus punitive damages, counsel fees and costs for the alleged breach of the Letter Agreement. The Company believes that no such commission was due under the Letter Agreement and denies any liability under the Letter Agreement. The Company intends to defend this lawsuit vigorously.

In the course of normal operations, the Company is subject to the marketing and manufacturing regulations as established by the Food and Drug Administration (FDA). Recently, the Company's quality assurance department has observed increased levels of particulates in certain batches of ONCASPAR which it manufactured. These batches were not shipped and the Company's recent rejection rate for the manufacture of this product is significantly higher than it has been historically. The Company is engaged in an extensive review of its manufacturing procedures of this product and believes that the problem may be related to certain materials which are used in the filling process. Accordingly, the Company has been in discussions with the FDA regarding this problem and expects to have further discussions with the FDA. The Company is unable to predict what, if any, impact this matter will have on future sales and manufacturing of ONCASPAR.

(4) Inventories

Inventories consist of the following:

	June 30,	
	1998	1997
Raw materials	$510,000	$269,000
Work in process	398,000	269,000
Finished goods	115,000	322,000
	$1,023,000	$860,000

(5) Property and Equipment

Property and equipment consist of the following:

	June 30,		
	1998	1997	Estimated useful lives

Equipment	$8,647,000	$9,108,000	3-7 years
Furniture and fixtures	1,501,000	1,530,000	7 years
Vehicles	29,000	29,000	3 years
Leasehold improvements	4,957,000	5,010,000	3-15 years
	$15,134,000	$15,677,000	

Depreciation and amortization charged to operations, relating to property and equipment, totaled $1,063,000, $1,499,000 and $1,891,000 for the years ended June 30, 1998, 1997 and 1996, respectively.

(6) Stockholders' Equity

In July 1998, the Company sold 3,983,000 shares of Common Stock to a small group of investors resulting in gross proceeds of approximately $18,919,000 via a private placement. Net proceeds of approximately $17,600,000 were received by the Company.

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.

During the year ended June 30, 1997, all of the outstanding shares of Series B Preferred Stock were converted into Common Stock. The 40,000 shares of Series B Preferred Stock which were converted resulted in the issuance of 2,038,989 shares of Common Stock.

During March 1997, all of the outstanding Series C Preferred Stock was exchanged for newly issued Series D Preferred Stock. The Series D Preferred Stock contained the same provisions as the Series C Preferred Stock, with the exception of the elimination of a restriction on the maximum number of shares which could be held by the holding institution. During March 1997, all of the outstanding Series D Preferred Stock was converted into Common Stock. The 20,000 shares of Series D Preferred Stock which were converted resulted in the issuance of 1,015,228 shares of Common Stock.

Series A Preferred Stock

The Company's Series A Preferred Shares are convertible into Common Stock at a conversion rate of $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, 1998 and 1997, undeclared accrued dividends in arrears were $1,770,000 or $16.54 per share and $1,585,000 or

$14.54 per share, respectively. All Common Shares are junior in rank to the Series A 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, 1998, 2,000 shares of Series A Preferred Shares were converted to 4,544 shares of Common Stock. Accrued dividends of $31,000 were settled by issuing 2,848 shares of Common Stock and cash payments totaling $28 for fractional shares. There were no conversions of Series A Preferred Shares during the years ended June 30, 1997 or 1996.

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, 1998, the Company has reserved its common shares for special purposes as detailed below:

Shares issuable upon conversion of Series A Preferred Shares	404,000
Shares issuable upon exercise of outstanding warrants	1,039,000
Shares issuable for private placement	3,983,000
Non-Qualified Stock Option Plan	5,345,000
	10,771,000

Common Stock Warrants

During the year ended June 30, 1996, as part of the commission due to the real estate broker in connection with the termination of the Company's former 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.

Series B and C Preferred Stock Warrants

As of June 30, 1998 and 1997, warrants to purchase 688,686 shares of common stock at $4.11 and 200,000 shares of common stock at $5.63, issued in connection with the private placements of Series B and C Preferred Shares, respectively, were outstanding.

(7) Independent Directors' Stock Plan

On December 3, 1996, the stockholders voted to approve the Company's Independent Directors' Stock Plan, which provides for compensation in the form of quarterly grants of Common Stock to independent directors serving on the Company's Board of Directors. Each independent director is granted shares of Common Stock equivalent to $2,500 per quarter plus $500 per Board of Directors meeting attended. The number of shares issued is based on the fair market value of Common Stock on the last trading day of the applicable quarter. During the years ended June 30, 1998 and 1997, the Company issued 16,904 and 25,903 shares of Common Stock, respectively, to non-executive directors, pursuant to the Independent Directors' Stock Plan.

(8) Non-Qualified Stock Option Plan

In November 1987, the Company's Board of Directors adopted a Non-Qualified Stock Option Plan (the "Stock Option Plan"). As of June 30, 1998, 5,345,000 shares of Common Stock were 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 granted must be at least 100% of the fair market value of the stock at the time the option is granted. Options may be exercised for a period of up to ten years from the date they are 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 of Directors, at their discretion.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation". The Company continues to use APB No. 25, "Accounting for Stock Issued to Employees," to account for the Stock Option Plan. All options granted under the Stock Option Plan are granted with exercise prices which equal or exceed the fair market value of the stock at the date of grant, accordingly, there is no compensation expense recognized for options granted to employees. The Company records compensation expense equal to the value of stock options granted for consulting services rendered to the Company by non-employees. The value of the options granted to non-employees is determined using the Black-Scholes option-pricing model.

The following pro forma financial information shows the effect and the Company's net loss and loss per share, had compensation expense been recognized consistent with the fair value method prescribed by SFAS No. 123.

	1998	1997	1996
Net loss - as reported	($3,617,000)	($4,557,000)	($5,175,000)
Net loss - pro forma	($5,638,000)	($5,927,000)	($5,645,000)
Loss per share - as reported	($0.12)	($0.16)	($0.20)
Loss per share - pro forma	($0.19)	($0.21)	($0.22)

The pro forma effect on the loss for each of the years in the three-year period ended June 30, 1998 is not necessarily indicative of the pro forma effect on earnings in future years since it does not take into effect the pro forma compensation expense related to grants made prior to the year ended June 30, 1996. The fair value of each option granted during the three years ended June 30, 1998 is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (i) dividend yield of 0%, (ii) expected term of five years, (iii) expected volatility of 84%, 82% and 78%, and (iv) a risk-free interest rate of 5.57%, 6.45% and 6.09% for the years ended June 30, 1998, 1997, and 1996, respectively. The weighted average fair value at the date of grant for options granted during the years ended June 30, 1998, 1997 and 1996 was $5.85, $2.78 and $3.51 per share, respectively.

The following is a summary of the activity in the Company's Stock Option Plan:

	Shares	Weighted Average Exercise Price	Range of Prices
Outstanding at July 1, 1995	3,603,000	$4.95	$1.88 to $14.88
Granted at exercise prices which exceeded the			

fair market value on the date of grant	4,000	3.38	$3.38
Granted at exercise prices which equaled the fair market value on the date of grant	763,000	3.51	$2.38 to $4.75
Exercised	(16,000)	2.54	$2.09 to $2.81
Cancelled	(796,000)	4.50	$2.09 to $11.00
Outstanding at June 30, 1996	3,558,000	4.75	$1.88 to $14.88
Granted at exercise prices which exceeded the fair market value on the date of grant	3,000	2.81	$2.81
Granted at exercise prices which equaled the fair market value on the date of grant	1,469,000	2.78	$2.31 to $3.41
Exercised	(11,000)	2.37	$2.00 to $2.63
Cancelled	(822,000)	6.26	$2.00 to $14.25
Outstanding at June 30, 1997	4,197,000	3.77	$1.88 to $14.88
Granted at exercise prices which equaled the fair market value on the date of grant	719,000	5.85	$2.03 to $6.56
Exercised	(305,000)	2.73	$2.06 to $5.13
Cancelled	(189,000)	6.69	$2.09 to $14.88
Outstanding at June 30, 1998	4,422,000	4.06	$1.88 to $10.88

As of June 30, 1998, the Stock Option Plan had options outstanding and exercisable by price range as follows:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$1.88 to $2.56	570,000	7.46	$2.26	461,000	$2.19
$2.63 to $2.75	663,000	7.34	$2.68	563,000	$2.68
$2.81 to $2.94	845,000	8.13	$2.86	389,000	$2.85
$2.95 to $4.00	556,000	6.91	$3.51	535,000	$3.51
$4.06 to $5.38	675,000	5.83	$4.73	672,000	$4.73
$5.44 to $6.00	643,000	8.88	$5.88	31,000	$5.85
$6.13 to $10.88	470,000	2.48	$7.50	404,000	$7.70
$1.88 to $10.88	4,422,000	6.93	$4.06	3,055,000	$3.92

(10) Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Income Taxes". 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.

At June 30, 1998 and 1997, the tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	1998	1997
Deferred tax assets:		
Inventories	$111,000	$50,000
Investment valuation reserve	86,000	86,000
Contribution carryover	19,000	17,000
Compensated absences	115,000	111,000
Excess of financial statement over tax depreciation	827,000	627,000
Royalty advance - RPR	402,000	842,000
Non-deductible expenses	543,000	301,000
Federal and state net operating loss carryforwards	42,133,000	40,385,000
Research and development and investment tax credit carryforwards	7,447,000	6,912,000
Total gross deferred tax assets	51,683,000	49,331,000
Less valuation allowance	(50,977,000)	(48,625,000)
Net deferred tax assets	706,000	706,000
Deferred tax liabilities:		
Step up in basis of assets related to acquisition of Enzon Labs Inc.	(706,000)	(706,000)
Total gross deferred tax liabilities	(706,000)	(706,000)
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, 1998 and 1997 was an increase of $2,221,000 and $2,218,000, respectively. The tax benefit assumed using the Federal statutory tax rate of 34% has been reduced to an actual benefit of zero due principally to the aforementioned valuation allowance. Subsequently recognized tax benefits as of June 30, 1998 of $1,071,000 relating to the valuation allowance for deferred tax assets will be allocated to additional paid-in capital.

At June 30, 1998, the Company had federal net operating loss carryforwards of approximately $107,313,000 for tax reporting purposes, which expire in the years 1998 to 2013. The Company also has investment tax credit carryforwards of approximately $10,000 and research and development tax credit carryforwards of approximately $6,292,000 for tax reporting purposes which expire in the years 1998 to 2013.

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, 1998, the Company had a total of $61,493,000 acquired Enzon Labs, Inc. net operating loss carryforwards, which expire between December 31, 1998 and October 31, 2006. As a result of the change in ownership, the utilization of these carryforwards is limited to $613,000 per year. If utilized, the benefit will be recorded as a reduction in the carrying value of patents, net.

(11) Significant Agreements

Schering Agreement

The Company and Schering Corporation ("Schering"), a subsidiary of Schering-Plough Corporation, entered into an agreement in November 1990 (the "Schering Agreement") to apply the Company's PEG Process to develop a modified form of Schering's INTRON(R) A (interferon alfa 2b), a genetically-engineered anticancer and antiviral drug with longer lasting activity.

Under the license agreement, which was amended in 1995, the Company

transferred proprietary 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 was paid during the year ended June 30, 1997. 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, of which two payments totaling $2,500,000 were received in August 1997 related to the commencement of a Phase III clinical trial. 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 final expiration 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.

Rhone-Poulenc Rorer Agreement

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 License Agreement. Under this agreement, Enzon received licensing payments totaling $6,000,000 and was entitled to 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. 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.

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 Sheets as of June 30, 1998 and 1997. 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 the License Agreement and for five years thereafter. The 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 RPR exclusive licenses 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.

During May 1998, the Company entered into an additional license agreement with RPR for the Pacific Rim region, specifically, Australia, New Zealand, Japan, Hong Kong, Korea, China, Taiwan, Philippines, Indonesia, Malaysia, Singapore, Thailand and Viet Nam, (the "Pacific Rim"). The agreement provides for RPR to purchase ONCASPAR for the Pacific Rim from the Company at certain established prices which increase over the ten year term of the agreement. Under the agreement, RPR is responsible for obtaining additional approvals and indications in the licensed territories. The agreement also provides for minimum purchase requirements for the first four years of the agreement.

MEDAC Agreement

During October 1996, the Company entered into an exclusive license agreement with Medac GmbH ("MEDAC") to sell ONCASPAR in Europe and Russia. The agreement provides for MEDAC to purchase ONCASPAR from the Company at certain established prices which increase over the initial term of the five year agreement. Under the agreement, MEDAC is responsible for obtaining additional approvals and indications in the licensed territories, beyond the currently approved hypersensitive indication, in Germany. Under the agreement, MEDAC is required to meet certain minimum purchase requirements.

(12) Leases

The Company has several leases for office, warehouse, production and research facilities and equipment. Future minimum lease payments for noncancellable operating leases with initial or remaining lease terms in excess of one year as of June 30, 1998 are as follows:

Year ending June 30,	Operating leases
1999	1,505,000
2000	979,000
2001	952,000
2002	819,000
2003	765,000
Later years, through 2007	2,935,000
Total minimum lease payments	$7,955,000

Rent expense amounted to $1,768,000, $1,608,000 and $1,469,000 for the years ended June 30, 1998, 1997 and 1996, respectively.

The Company currently subleases a portion of its facilities. For the years ended June 30, 1998, 1997 and 1996, rent expense is net of sublease income of $221,000, $233,000 and $249,000, respectively.

(13) Retirement Plans

The Company maintains a defined contribution, 401(k) pension plan for substantially all its employees. The Company currently matches 50% of the employee's contribution of up to 6% of compensation, as defined. Prior to August 9, 1996, the Company's match was 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. Total company contributions for the years ended June 30, 1998, 1997 and 1996 were $100,000, $105,000 and $63,000, respectively.

(14) Accrued Expenses

Accrued expenses consist of:

	June 30, 1998	June 30, 1997
Accrued wages and vacation	$695,000	$484,000
Accrued Medicaid rebates	1,083,000	989,000
Current portion of royalty advance - RPR	1,006,000	930,000
Accrual for commitments	--	340,000
Other	1,592,000	762,000
	$4,376,000	$3,505,000

(15) Sales Information

During the years ended June 30, 1998, 1997 and 1996, the Company had export sales of $2,641,000, $2,377,000 and $2,105,000, of these amounts, sales to Europe represented $2,117,000, $1,937,000 and $1,858,000, respectively.

ADAGEN sales represent approximately 82% of the Company's total net sales for the year ended June 30, 1998. ADAGEN's Orphan Drug designation under the Orphan Drug Act expired in 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 48%, 54% and 46% of the Company's ADAGEN sales for the years ended June 30, 1998, 1997 and 1996, respectively, were made to Medicaid patients.

(16) 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(TM)) 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.

EXHIBIT INDEX

ENZON, INC.

4,000,000 Shares

Common Stock, $0.01 Par Value

PLACEMENT AGENT AGREEMENT

June 25, 1998

SBC Warburg Dillon Read Inc.
535 Madison Avenue
New York, New York 10022

Ladies and Gentlemen:

The undersigned, Enzon, Inc., a Delaware corporation (the "Company"), hereby confirms its agreements with SBC Warburg Dillon Read Inc. (the "Placement Agent") as follows:

1. Description of the Shares. The Company has authorized by appropriate corporate action and proposes to sell in the manner contemplated by this Placement Agent Agreement (the "Agreement") up to 4,000,000 shares (the "Shares") of its Common Stock, $0.01 par value (the "Common Stock").

2. Closing. The closing of the purchase and sale of the Shares to the Purchasers (as such term is defined in the form of Common Stock Purchase Agreement attached as Appendix A to the Offering Memorandum (the "Purchase Agreement")), pursuant to the Purchase Agreement (the "Closing") shall be held at the offices of Dorsey & Whitney LLP, 250 Park Avenue, New York, New York 10177 at or before 10:00 a.m., New York time, on the date that is two business days after the date on which the Registration Statement on Form S-3 contemplated by the Purchase Agreement (including all amendments thereto, the "Registration Statement") is declared effective or at such other time and place as the Company and the Placement Agent may agree (the "Closing Date"). At the Closing, the Purchasers shall deliver to the Placement Agent wire transfers in the gross amount due to the Company for the Shares being purchased by each Purchaser and the Placement Agent shall deliver to the Company a wire transfer in the net amount due to the Company (after deducting the Placement Agent Fee (as

defined in Section 4(b) for such Shares to the extent (and only to the extent) that payments have been delivered to the Placement Agent by the Purchasers for such Shares (it being understood that the Company will not be obligated to issue any Shares for which full payment of the gross purchase price has not been received).

3. Representations and Warranties of the Company. The Company represents and warrants to and agrees with the Placement Agent that:

(a) The Private Placement Offering Memorandum dated June 4, 1998 (including appendices thereto, information incorporated by reference therein and the financial statements of the Company and the related notes thereto included therein), as amended and supplemented prior to the execution hereof, and all amendments and supplements thereto (including appendices thereto, information incorporated by reference therein and the financial statements of the Company and the related notes thereto included therein) delivered to the Purchasers prior to the Closing (collectively, the "Offering Memorandum") at the date hereof does not, and at the Closing will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make any statements therein, in the light of the circumstances under which they are made, not misleading; provided, however, that none of the representations and warranties contained in this subparagraph shall apply to information that relates to the plan of distribution or to the Placement Agent that is included in the Offering Memorandum in reliance upon, and in conformity with, written information furnished to the Company by the Placement Agent

specifically for inclusion therein.

(b) The Company has filed all the documents (collectively, the "SEC Documents") that the Company was required to file with the Securities and Exchange Commission (the "Commission") under Section 13, 14 or 15(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act") since the effective date of the registration statement filed with respect to its initial public offering. The SEC Documents, when they were filed with the Commission, conformed in all material respects to the requirements of the Securities Act of 1933, as amended (the "Act") or the Exchange Act, as applicable, and the rules, regulations and instructions of the Commission thereunder, and any documents so filed and included or incorporated by reference in the Offering Memorandum or the Registration Statement subsequent to the date hereof will, when they are filed with the Commission, conform in all material respects to the requirements of the Exchange Act and the rules, regulations and instructions of the Commission thereunder; and when such documents were or are filed with the Commission, none of such documents included or will include any untrue statement of a material fact or omitted or will omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(c) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation with full power and authority (corporate and other) to own, lease and operate its properties and conduct its

business as described in the Offering Memorandum; except as described in Schedule 3(c) hereto, the Company does not own or control, directly or indirectly any corporation, association or other entity; the Company is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the ownership or leasing of properties or the conduct of its business requires such qualification, except where the failure to be so qualified would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company; except for product marketing approvals by the United States Food and Drug Administration and comparable foreign regulatory agencies described in the Offering Memorandum required for the conduct of its business as proposed to be conducted in the future, the Company is in possession of and operating in compliance with all authorizations, licenses, certificates, consents, orders and permits from state, federal and other regulatory authorities which are applicable to the conduct of its business as presently conducted and proposed to be conducted, all of which are valid and in full force and effect, except where the failure to so possess or so operate would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company; the Company is not in violation of its respective charter or bylaws or in breach or default (nor has any event occurred which with notice, lapse of time, or both, would constitute a breach or default) in the performance or observance of any material obligation, agreement, covenant or condition contained in any material bond, debenture, note or other evidence of indebtedness or in any material contract, indenture, mortgage, loan agreement, joint venture or other agreement or instrument to which the Company is a party or by which it or any of its properties may be bound or in material violation of any law, order, rule, regulation, writ, injunction or decree of any government, government instrumentality or court, domestic or foreign, of which it has knowledge, except for violations or defaults which are not material to the Company.

(d) The Company has full legal right, power and authority to enter into this Agreement with the Placement Agent and to enter into a Common Stock Purchase Agreement, a form of which is attached as Appendix A to the Offering Memorandum, with each purchaser (a "Purchaser") of Shares (the "Purchase Agreement"), and to perform the transactions contemplated hereby and thereby. This Agreement and the Purchase Agreement have been duly authorized, executed and delivered by the Company, and this Agreement and the Purchase Agreement, upon their execution, delivery and performance by the Company (assuming due execution, delivery and performance by the other parties thereto), will be valid and binding agreements on the part of the

Company, enforceable in accordance with their terms, except as rights to indemnity and contribution hereunder and thereunder may be limited by applicable law and except as the enforcement hereof and thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally, or by general equitable principles; the performance of this Agreement and the Purchase Agreement and the consummation of the transactions herein and therein contemplated will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, (i) any indenture, mortgage, deed of trust, loan agreement, bond, debenture, note agreement or other evidence of indebtedness, or any material lease, contract or other agreement

or instrument to which the Company is a party or by which the property of the Company is bound, or (ii) the charter or bylaws of the Company, or (iii) any law, order, rule, regulation, writ, injunction, judgment or decree of any court or governmental agency or body having jurisdiction over the Company or over the properties of the Company; and no consent, approval, authorization or order of any court or governmental agency or body is required for the consummation by the Company of the transactions herein contemplated, except such as may be required under the Act, the Exchange Act or under state or other securities or Blue Sky laws.

(e) There is not any pending or, to the knowledge of the Company, threatened any action, suit, claim or proceeding against the Company or any of its respective officers or any of their properties, assets or rights before any court or governmental agency or body or otherwise which (i) might result in any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company or might materially and adversely affect its properties, assets or rights or (ii) might prevent consummation of the transactions contemplated hereby which have not been accurately described in all material respects in the Offering Memorandum.

(f) All outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and the authorized and outstanding capital stock of the Company conforms, as of the dates for which such information is given, in all material respects to the statements relating thereto contained in Exhibit G to the Purchase Agreement; there is no capital stock outstanding as of such dates other than as described in Exhibit G to the Purchase Agreement; and all issued and outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable.

(g) Except as disclosed in or contemplated by the Offering Memorandum, the Company does not have outstanding any options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations. No stockholder of the Company, other than the Purchasers, has any right (which has not been waived or has not expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement) to require the Company to register the sale of any shares owned by such stockholder under the Act in the Registration Statement, except stockholders of the Company with such rights that are eligible to sell all of such securities pursuant to Rule 144(k) promulgated under the Act.

(h) The Shares have been duly authorized, and, when issued and delivered pursuant to the Purchase Agreement, will have been duly issued and delivered; and the Shares will conform to the description thereof in Exhibit G to the Purchase Agreement in all material respects.

(i) Except as disclosed in the Offering Memorandum, the Company owns or possesses sufficient rights to use all existing patents, patent rights, inventions, trade secrets, know-how, proprietary rights and processes that are necessary for the conduct and proposed conduct of its business as described in the Offering Memorandum (the "Company's Proprietary Rights") without any conflict with or infringement of the rights of others which would result in a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company. The Company believes that there are no third parties who have or will be able to establish rights to any of the Company's Proprietary Rights, except for (i) the ownership rights of the third party licensors to the Company's Proprietary Rights which are licensed to the Company by such third party licensors and (ii) the third party licensees of the Company's Proprietary Rights. Except as disclosed in the Offering Memorandum, to the knowledge of the Company, there is no infringement by any third parties of any of the Company's Proprietary Rights. Except as disclosed in the Offering Memorandum, the Company has not received any notice of, and has no knowledge of any basis for, any infringement of or conflict with asserted rights of others with respect to any patent, patent right, invention, trade secret, know-how or other proprietary rights that, individually or in the aggregate, would have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company.

(j) While there can be no assurance that FDA approval for any of the Company's products will be obtained on a timely basis, or at all, the Company has received no communication from the FDA expressing adverse comments, questions or concerns with regard to (i) any New Drug Application filed by the Company or (ii) any current or pending clinical trials relating to any of the Company's products, other than comments, questions or concerns to which the Company reasonably believes it has responded, or can respond, to the satisfaction of the FDA without unreasonable delay or expense and without materially impairing the commercial feasibility of introducing the product in question. The Company has applied for and obtained from the FDA an Investigational New Drug exemption for each product with respect to which it has commenced human clinical trials, and all such human clinical trials are being conducted, to the best of the Company's knowledge, in compliance in all material respects with the protocols submitted by the Company to the FDA and any conditions relating thereto imposed by the FDA. The Company has received no notice from the FDA, and has no reason to believe, that its manufacturing facilities or processes are not in compliance with current good manufacturing practice requirements.

(k) KPMG Peat Marwick LLP, which has examined the financial statements, together with the related schedules and notes, of the Company as of June 30, 1995, 1996 and 1997 and for the years then ended, are independent accountants within the meaning of the Act and the rules and regulations promulgated by the Commission thereunder; the audited financial statements of the Company, together with the related schedules and notes, and the unaudited financial information forming part of the Offering Memorandum fairly present the financial position and the results of operations of the Company at the respective dates and for the respective periods to which they apply; and all audited financial statements, together with the

related schedules and notes, and the unaudited financial information, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved except as may be otherwise stated therein; provided, however, that the unaudited financial statements are subject to normal recurring year-end adjustments (which will in any case not be material) and do not contain all footnotes required under generally accepted accounting principles). The selected financial data included in the Offering Memorandum present fairly the information shown therein and have been compiled on a basis consistent with the audited financial statements referred to above.

(l) Except as described in the Offering Memorandum, subsequent to the respective dates as of which information is given in the Offering

Memorandum through the date hereof, there has not been (i) any material adverse change in the business, properties or assets described or referred to in the Offering Memorandum, or the results of operations, condition (financial or otherwise) earnings, operations, business or business prospects, of the Company, (ii) any transaction that is material to the Company, except transactions in the ordinary course of business and except as described in the Offering Memorandum, (iii) any obligation that is material to the Company, direct or contingent, incurred by the Company, except obligations incurred in the ordinary course of business, (iv) any change in the capital stock or outstanding indebtedness of the Company, which is material to the Company, except for the exercise of stock options disclosed as outstanding, or (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company.

(m) Except as set forth in the Offering Memorandum, (i) the Company has good and marketable title to all properties and material assets described in the Offering Memorandum as owned by it, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest other than such as are not material to the business of the Company, (ii) the agreements to which the Company is a party described in the Offering Memorandum are valid agreements in full force and effect, enforceable by the Company, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally or by general equitable principles and, to the knowledge of the Company, the other contracting party or parties thereto are not in material breach or material default under any of such agreements, and (iii) the Company has valid and enforceable leases for the properties described in the Offering Memorandum as leased by it with such exceptions as are not material, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles.

(n) Except as disclosed in the Offering Memorandum, (i) the Company is in compliance in all material respects with all rules, laws and regulations, and has all necessary permits, relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment ("Environmental Laws") which are applicable to its business, (ii) the Company has not received any notice from any governmental authority or third party of an asserted claim under Environmental Laws, (iii) to the knowledge of the Company, no facts

currently exist that will require the Company to make future material capital expenditures to comply with Environmental Laws, and (iv) to the knowledge of the Company, no property which is or has been owned, leased or occupied by the Company has been designated as a Superfund site pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. ss. 9601, et seq.), or otherwise designated as a contaminated site under applicable state or local law.

(o) The Company has filed all necessary federal and state income and franchise tax returns and has paid all taxes due, and there are no tax payment or filing deficiencies that have been or, to the Company's knowledge, might be asserted against the Company that might have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company considered as one enterprise; all tax liabilities are adequately provided for on the books of the Company, in all material respects.

(p) The Company maintains insurance of the types and in the amounts generally deemed adequate for its business, including without limitation insurance covering real and personal property owned or leased by the Company against theft, damage, destruction, acts of vandalism and, to the best of the Company's knowledge, all other risks customarily insured against, all of which insurance is in full force and effect.

(q) To the knowledge of the Company, no labor disturbance by the employees of the Company exists or is imminent; no collective bargaining agreement exists with any of the Company's employees and, to the knowledge of the Company, no such agreement is imminent.

(r) The Company has not been advised, and has no reason to believe, that it is not conducting business in compliance with all of the laws, rules and regulations of the jurisdictions in which it is conducting business except where failure to be so in compliance would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company.

(s) The Company has not distributed and will not distribute prior to the Closing Date or on any date on which Shares are to be purchased, as the case may be, any offering material in connection with the offering and sale of the Shares other than the Offering Memorandum.

(t) The Company has not at any time during the last five years (i) made any unlawful contribution to any candidate for foreign office, or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States of any jurisdiction thereof.

(u) The Company has not taken and will not take, directly or indirectly, any action designed to, or that might be reasonably expected to, cause or result in stabilization or manipulation of the price of the Shares to facilitate the sale or resale of the Shares.

(v) The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

4. Appointment of Placement Agent; Agreements of Placement Agent.

(a) Subject to the terms and conditions stated in this Agreement, the Company hereby appoints the Placement Agent its placement agent for the purpose of offering and selling the Shares in a private placement to "accredited investors" as defined in Rule 501(a) under the Act.

(b) In connection with the offers and sales of the Shares, the Company will pay the Placement Agent a placement agent fee for its services in acting as Placement Agent for the Company in the sale of the Shares in the amount of $900,000, provided that in no event shall such fee exceed 6% of the gross proceeds to the Company from the sale of the Shares (the "Placement Agent Fee").

(c) The Placement Agent will use diligent efforts to sell the Shares on behalf of the Company at the price and on the terms set forth in the Offering Memorandum and the Purchase Agreement; provided, however, that the Company understands that the Placement Agent has no obligation to find Purchasers. The Placement Agent will use diligent efforts to obtain performance by each Purchaser, but the Placement Agent will have no liability to the Company in the event any such purchase is not consummated for any reason not related to the gross negligence or willful misconduct of the Placement Agent. The Company also understands that the Placement Agent is under no obligation to purchase any Shares for its own account. While it is contemplated that the Placement Agent may purchase Shares from Purchasers and resell such Shares in its capacity as a market-maker or may act as agent in the resale of Shares in brokerage transactions, the Placement Agent shall not act as an underwriter in connection with resales of the Shares or participate in any other way in the drafting of the Registration Statement or the resale of the Shares.

(d) The Placement Agent agrees that in carrying out the transactions contemplated by this Agreement, it has observed and will observe and comply with (i) all applicable securities laws, regulations, rules and ordinances in any jurisdiction in which the Shares may be offered, sold or delivered, including, without limitation, Rule 502 and Rule 506 under the Act and (ii) all applicable regulations and rules of the National Association of Securities Dealers, Inc.; provided, however, that except as specifically provided herein, the Placement Agent assumes no responsibility for the accuracy or completeness of information contained in the Offering Memorandum or provided to Purchasers in connection with their investment

decisions.

(e) The Placement Agent agrees that (i) it will deliver the Offering Memorandum to all purchasers prior to their execution of the Purchase Agreement, (ii) it will not deliver the Offering Memorandum to any person that it does not reasonably believe to be an "accredited investor" under Section 501(a) of the Act, (iii) promptly upon receipt of a notice pursuant to Section 5(d) hereto, it shall suspend offers for sale, and solicitations of purchases, of the Shares and cease using the Offering Memorandum until such time as the Company advises the Placement Agent that it may resume offers for sale, and solicitations of purchases, of the Shares and (vi) it will not deliver any materials regarding the Company to the purchasers other than the Offering Memorandum.

(f) The Company will pay all expenses, fees and taxes in connection with (i) the preparation and printing and reproducing of copies of the Offering Memorandum and all amendments and supplements thereto, including in each case all documents incorporated by reference therein, and this Agreement, (ii) the delivery of the Shares, (iii) the qualification for offer and sale of the Shares under securities laws as aforesaid (including filing fees and reasonable fees and disbursements of the Placement Agent's counsel in connection therewith) and all registrations and listings of the Shares, (iv) the furnishing of the opinions of counsel for the Company and other certificates referred to herein, (v) travel and related expenses with respect to Company personnel in connection with any road show and (vi) up to $50,000 of the expenses of the Placement Agent in connection with the sale of the Shares, including expenses related to visits to the Company with prospective Purchasers or any road show expenses of the Placement Agent and the reasonable fees and costs of counsel for the Placement Agent in connection with the transactions contemplated hereby or by the Purchase Agreement.

5. Agreements of the Company. The Company agrees:

(a) to use its best efforts to qualify the Shares for offer and sale as contemplated hereby in such jurisdictions as the Placement Agent may reasonably designate and to continue such qualifications in effect for so long as may be required in connection with the sale of the Shares; provided that the Company shall not be required to qualify as a foreign corporation or dealer in securities or to a general consent to service of process or to file an annual report in any jurisdiction;

(b) to deliver to the Placement Agent without charge as soon as practicable after each supplement to the Offering Memorandum or amended Offering Memorandum has been prepared, as many copies of the Offering Memorandum as then amended or supplemented as the Placement Agent may reasonably request for the purposes contemplated by the Act or this Agreement;

(c) to advise the Placement Agent promptly (confirming such advice in writing) of any request made by the Commission for amendments to any document included or incorporated by reference in the Offering Memorandum or the Registration Statement, or of the

initiation or threatened initiation of proceedings for the purpose of entering a stop order with respect to the Registration Statement or for additional information with respect to any thereof;

(d) for so long as sales pursuant to this Agreement and the Purchase Agreement are continuing and either (i) any event shall occur as a result of which the Offering Memorandum would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, when such Offering Memorandum is delivered, not misleading or (ii) for any other reason it shall be necessary to amend or supplement the

Offering Memorandum or to file under the Exchange Act any document incorporated by reference in the Offering Memorandum in order to comply with the Act or the Exchange Act, to notify the Placement Agent promptly to suspend offers for sale and solicitations of purchases of the Shares; the Placement Agent agrees that promptly after the receipt of such notice the Placement Agent will suspend offers for sale and solicitations of purchases of the Shares and cease using the Offering Memorandum; and if the Company shall determine so to amend or supplement the Offering Memorandum or to file such document under the Exchange Act, the Company will so advise the Placement Agent and will promptly prepare an amendment or supplement to the Offering Memorandum or a document as required by the Exchange Act and will, in the case of a document required under the Exchange Act, file such document with the Commission that will correct such statement or omission or effect such compliance and will advise the Placement Agent when it may resume offers for sale, and solicitations of purchases, of the Shares.

6. Conditions to Placement Agent's Obligations. The obligations of the Placement Agent hereunder shall be subject, in its discretion, to the following conditions:

(a) All representations, warranties and other statements of the Company shall be at the Closing true and correct in all material respects.

(b) The Company shall have performed in all material respects its obligations hereunder.

(c) No court or administrative order prohibiting the Closing shall have been issued and no proceedings for that purpose shall be pending or threatened.

(d) All corporate proceedings and other legal matters in connection with this Agreement, the Purchase Agreement, the Offering Memorandum and the authorization, issue, sale and delivery of the Shares shall have been reasonably satisfactory to counsel for the Placement Agent, and the Company shall have furnished to counsel for the Placement Agent such documents and information as it may have requested for the purpose of enabling the Placement Agent to pass upon the legal matters referred to above.

(e) The Placement Agent shall have received an opinion reasonably satisfactory to the Placement Agent, dated as of the Closing Date, of Dorsey & Whitney LLP, counsel to the Company, substantially in the form of Exhibit A to this Agreement.

(f) The Placement Agent shall have received an opinion reasonably satisfactory to the Placement Agent, dated as of the Closing Date, of patent counsel to the Company, with respect to the matters set forth on Exhibit D to the Purchase Agreement.

(g) The Company shall have furnished the Placement Agent a certificate of the Company, dated as of the Closing Date and executed by the President of the Company, stating that, since the date as of which information is given in the Offering Memorandum, (i) the Company has not incurred any liabilities or obligations, contingent or otherwise, that are material in the aggregate to the Company, taken as a whole, except in the ordinary course of business, (ii) there has been no material adverse change in the condition or results of operations, financial or otherwise, of the Company; (iii) there has been no document required to be filed under the Exchange Act and the rules and regulations thereunder that has not been so filed, (iv) no order preventing the Closing is in effect and no proceedings for that purpose are pending or threatened by the Commission, and (v) all representations and warranties of the Company herein are true as of the Closing.

(h) The Registration Statement registering the resale of the Shares by the Purchasers shall have been filed with and declared effective by the Commission, and no stop order suspending the effectiveness thereof and no proceedings therefor shall be pending or threatened by the Commission.

(i) Prior to the Closing Date, the shares to be issued and sold by the Company shall have been duly authorized for listing by the Nasdaq Stock

Market.

(j) The Company shall have furnished to the Placement Agent such other affidavits and certificates as to the accuracy and completeness of any statement in the Offering Memorandum as of the Closing Date and as to any other matter in connection with the transactions contemplated hereby or by the Purchase Agreement as the Placement Agent may reasonably request.

All opinions, letters, certificates and affidavits above mentioned shall be deemed to be in compliance with this Section 6 only if they shall be in form and substance reasonably satisfactory to counsel for the Placement Agent.

In case any of the conditions specified above in this Section 6 shall not have been fulfilled, the Placement Agent shall have no obligation to proceed with any offer for sale, or any solicitation of purchases, of the Shares.

7. Indemnification.

(a) The Company agrees to indemnify, defend and hold harmless the Placement Agent and any person who controls the Placement Agent within the meaning of Section 15 of the Act or Section 20 of the Exchange Act (the "Placement Agent Affiliates"), from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, any such Placement Agent Affiliates controlling person may incur insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Offering Memorandum or Registration Statement, or arises out of or is based upon any omission or alleged omission to state a material fact required to be stated in either such Offering Memorandum or Registration Statement necessary to make the statements made therein not misleading, except insofar as any such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by the Placement Agent or any Placement Agent Affiliates to the Company expressly for use with reference to such Placement Agent in such Offering Memorandum or Registration Statement.

If any action is brought against the Placement Agent or Placement Agent Affiliate in respect of which indemnity may be sought against the Company pursuant to the foregoing paragraph, the Placement Agent shall promptly notify the Company in writing of the institution of such action and the Company shall assume the defense of such action, including the employment of counsel and payment of expenses. Such Placement Agent or any Placement Agent Affiliate shall have the right to employ its or their own counsel in any such case, such counsel which shall be reasonably satisfactory to the Company, but the fees and expenses of such counsel shall be at the expense of such Placement Agent or any Placement Agent Affiliate unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have employed counsel to have charge of the defense of such action or such indemnified party or the Placement Agent or such Placement Agent Affiliate shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such reasonable fees and expenses shall be borne by the Company and paid as incurred (it being understood, however, that the Company shall not be liable for the expenses of more than one separate counsel in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent.

(b) The Placement Agent agrees to indemnify, defend and hold harmless the Company, its directors and officers, and any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act (the "Company Affiliates")

from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, the Company or any Company Affiliate may incur insofar as such loss, expense, liability or claim (i) arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by or on behalf of the Placement Agent to the Company expressly for use with reference to the Placement Agent in the Offering Memorandum or Registration Statement, or (ii) arises out of or is based upon the gross negligence or willful misconduct of the Placement Agent with respect to this Agreement as determined in a final judgment by a Court of competent jurisdiction from which no appeal can be or is taken. Neither the Placement Agent nor any Placement Agent Affiliate shall have any liability (whether direct or indirect, by statute, in contract or tort or otherwise) to the Company or to any third party in connection with the Registration Statement or the resale by the Purchasers of the Shares.

If any action is brought against the Company or the Company Affiliates or any such person in respect of which indemnity may be sought against the Placement Agent pursuant to the foregoing paragraph, the Company or such Company Affiliate shall promptly notify the Placement Agent in writing of the institution of such action and the Placement Agent shall assume the defense of such action, including the employment of counsel and payment of expenses. The Company or such Company Affiliate shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Company or such Company Affiliate unless (i) the employment of such counsel shall have been authorized in writing by the Placement Agent in connection with the defense of such action, (ii) or the Placement Agent shall not have employed counsel to have charge of the defense of such action, (iii) or such indemnified party or the Company or such Company Affiliates shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to the Placement Agent (in which case the Placement Agent shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such reasonable fees and expenses shall be borne by the Placement Agent and paid as incurred (it being understood, however, that the Placement Agent shall not be liable for the expenses of more than one separate counsel in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, the Placement Agent shall not be liable for any settlement of any such claim or action effected without the written consent of the Placement Agent.

(c) If the indemnification provided for in this Section 7 is unavailable to an indemnified party under subsections (a) and (b) of this Section 7 with respect of any losses, expenses, liabilities or claims referred to therein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, expenses, liabilities or claims (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Placement Agent on the other hand from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion

as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the Placement Agent on the other in connection with the statements or omissions which resulted in such losses, expenses, liabilities or claims, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Placement Agent on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of the Placement Agent Fee but before deducting expenses) received by the Company bear to the Placement Agent Fee. The relative fault of the Company on the one hand and of the Placement

Agent on the other shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by the Company or by the Placement Agent and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, expenses, liabilities and claims referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any claim or action.

(d) The Company and the Placement Agent agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in subsection (c) above. Notwithstanding the provisions of this Section 7, the Placement Agent shall not be required to contribute any amount in excess of the amount by which the total price at which the Shares were sold exceeds the amount of any damages which the Placement Agent has otherwise been required to pay by reason of such untrue statement or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The indemnity and contribution agreements contained in this Section 7 and the covenants, warranties and representations of the Company contained in this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of the Placement Agent or any Placement Agent Affiliate, or by or on behalf of the Company or Company Affiliate, and shall survive any termination of this Agreement or the issuance and delivery of the Shares. The Company and the Placement Agent agree promptly to notify the other of the commencement of any litigation or proceeding against it and, in the case of the Company, against any of the Company Affiliates, and in the case of the Placement Agent, any Placement Agent Affiliate, in connection with the issuance and sale of the Shares, or in connection with the Offering Memorandum or Registration Statement.

8. Survival of Certain Provisions. The indemnity and other agreements contained in Section 7 hereof and the representations and warranties and other statements of the Company set forth in this Agreement or made by the Company pursuant to this Agreement shall remain in full force and effect, regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf

of the Placement Agent or any of its controlling persons or by or on behalf of the Company or any of its officers, directors or controlling persons and (iii) acceptance of delivery of and payment for Shares.

9. Effective Time: Termination.

(a) This Agreement shall become effective at the earlier of (i) 10:00 a.m., New York Time, on the first full business day following the execution hereof or (ii) the time of the initial offering of any of the Shares by the Placement Agent after the execution hereof. By giving notice as set forth in Section 10 hereof before the time this Agreement becomes effective, the Placement Agent or the Company may prevent this Agreement from becoming effective without liability of any party to any other party, except that the Company shall remain obligated to pay costs and expenses to the extent provided in Section 4 of this Agreement.

(b) The Placement Agent shall have the right to terminate this Agreement by giving notice as hereinafter specified at any time at or prior to the Closing Date, (i) if the Company shall have failed, refused or been unable at or prior to the Closing Date to perform any agreement on its part to be performed, or because any other condition of the Placement Agent's obligations hereunder required to be fulfilled by the Company is not fulfilled, or (ii) if trading in securities on the New York Stock Exchange shall have been suspended or minimum prices shall have been established on the New York Stock Exchange, by the New York Stock Exchange or by order of

the Commission or any other governmental authority having jurisdiction, or (iii) if a banking moratorium shall have been declared by federal or New York authorities, or (iv) if on or prior to the Closing Date the Company shall have sustained a loss by strike, fire, flood, earthquake, accident or other calamity of such character as to interfere materially with the conduct of the business and operations of the Company regardless of whether or not such loss shall have been insured, or (v) if there shall have been a material adverse change in the general political or economic conditions or financial markets in the United States as in the reasonable judgment of the Placement Agent makes it inadvisable or impracticable to proceed with the offering, sale and delivery of the Shares, or (vi) if on or prior to the Closing Date there shall have been any material outbreak or escalation of hostilities or other national or international calamity or crisis of such magnitude in its effect on the financial markets of the United States as, in the reasonable judgment of the Placement Agent, makes it impracticable or inadvisable to market the Shares. Any such termination shall be without liability of any party to any other party except as provided in Sections 4 and 7 hereof.

If the Placement Agent elects to prevent this Agreement from becoming effective or to terminate this Agreement as provided in this Section 9, it shall promptly notify the Company by telephone, telecopy or telegram, in each case confirmed by letter. If the Company shall elect to prevent this Agreement from becoming effective, the Company shall promptly notify the Placement Agent by telephone, telecopy or telegram, in each case confirmed by letter.

(c) In the event that the Closing shall not have occurred on or before August 31, 1998, this Agreement shall terminate at the close of business on such date. Any such

termination shall be without liability of any party to any other party except as provided in Sections 4, 7 and 9(d) hereof.

(d) In the event of any termination of this Agreement for any reason, if a private placement of securities is consummated following such termination on or before November 30, 1998 by the Company with a party that the Placement Agent has contacted regarding the Company pursuant to and as part of its engagement by the Company and that has been identified to the Company in writing prior to or within ten days following such termination, the Placement Agent shall be entitled to receive a placement agent fee equal to 6% of the gross proceeds received by the Company for such private placement, reimbursement of expenses, and all other amounts provided for in this Agreement, as if this Agreement had not been terminated.

10. Notice. Except as otherwise specifically provided herein, all statements, requests, notices and advice hereunder shall be in writing, or by telephone or telegram if subsequently confirmed in writing, and, if to the Placement Agent, shall be sufficient in all respects if delivered or sent to the Placement Agent at the address set forth in the Offering Memorandum, and, if to the Company, shall be sufficient in all respects if delivered or sent to the Company at the address of its principal place of business set forth in the Offering Memorandum. Notice shall be deemed given upon the date of delivery or the date such notice is sent.

11. Successors and Assigns. This Agreement shall inure solely to the benefit of the Company and the Placement Agent and, to the extent provided in Section 7 hereof, to any person or entity named in such Section. No other person, partnership, association or corporation shall acquire or have any right under or by virtue of this Agreement. The term "successors" shall not include any purchaser of any Shares merely because of such purchase. The respective rights and obligations of the Company and the Placement Agent hereunder may not be assigned, transferred or contracted to another.

12. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, without regard to conflicts of law principles.

13. Entire Agreement. This Agreement is the complete and entire agreement among the parties with respect to the offer and sale of the Shares and

supersedes all prior written and oral communications with respect thereto, specifically including any engagement letter with respect to the matters addressed herein between the Company and the Placement Agent; provided however that the confidentiality agreement contained in the second sentence of Section 3 and in Section 8 of the engagement letter dated May 4, 1998 between the Company and the Placement Agent shall remain in full force and effect in accordance with its terms. This Agreement may be amended only in a writing signed by both parties hereto.

14. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Please confirm that the foregoing correctly sets forth the agreement between us by signing in the space provided below for that purpose.

Very truly yours,

ENZON, INC.

By:/s/ ILLEGIBLEs

Its: Presidenrt and CEO

AGREED AND ACCEPTED:

SBC WARBURG DILLON READ INC.

By: /s/ ILLEGIBLE

Its: Executive Director

By: /s/ ILLEGIBLE

Its: Associate Director

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 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 Statements No. 33-50904, 333-18051 and 33-19933 on Form S-8 and Registration Statements No. 333-32093, 333-46117 and 333-58269 on Form S-3 of Enzon, Inc. of our report dated September 8, 1998, relating to the consolidated balance sheets of Enzon, Inc. and subsidiaries as of June 30, 1998 and 1997, 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, 1998, which report appears in the June 30, 1998 annual report on Form 10-K of Enzon, Inc.

/s/ KPMG Peat Marwick LLP
KPMG Peat Marwick LLP

Short Hills, New Jersey
September __, 1998

<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, 1998 and the Consolidated Statement of Operations for the year ended June 30, 1998 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. 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 its FDA approved products, ADAGEN(R) and ONCASPAR(R); sales of its products for research purposes; contract research and development fees; technology transfer and license fees; and royalty advances. At June 30, 1998, the Company had an accumulated deficit of approximately $116,842,000. The Company expects to incur operating losses for the foreseeable future. To date, ADAGEN and ONCASPAR are the only products of the Company which have been approved for marketing in the United States by the FDA, having been approved in March 1990 and February 1994, respectively. In addition, ONCASPAR has been approved for marketing in Canada, Germany and Russia. In order to achieve profitable operations on a continuing basis, the Company, either alone or through its partners, must successfully manufacture, market and sell its ADAGEN and ONCASPAR products and develop, manufacture and market the Company's products which are under development. These products are in various stages of development, and the period necessary to achieve regulatory approval and market acceptance of any individual product is uncertain and typically lengthy, if achievable at all. 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 achieve profitability.

Raw Materials and Dependence Upon Suppliers. Except for PEG-hemoglobin, the Company purchases the unmodified compounds utilized in its approved products and products under development from outside suppliers. There can be no assurance that the purified bovine hemoglobin used in the manufacture of PEG-hemoglobin can be produced by the Company in the amounts necessary to expand the current clinical trials. The Company may be required to enter into supply contracts with outside suppliers for certain unmodified compounds. The Company does not produce the unmodified adenosine deaminase used in the manufacture of ADAGEN, the unmodified forms of L-asparaginase used in the manufacture of ONCASPAR and the unmodified camptothecin used in the Company's PROTHECAN(TM) product which is under development and has a supply contract with an outside supplier for the supply of each of these unmodified compounds. Delays in obtaining or an inability to obtain any unmodified compound, including unmodified adenosine deaminase, unmodified L-asparaginase, unmodified bovine blood, or unmodified camptothecin on reasonable terms, or at all, could have a material adverse effect on the Company's business, financial condition and results of operations. In the event the Company is required to obtain an alternate source for an unmodified compound utilized in a product which is being sold commercially or which is in clinical development, the FDA and relevant foreign regulatory agencies will likely require the Company to perform additional testing, which would cause delays and additional expenses, to demonstrate that the alternate 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 approved product and cause the Company to incur significant additional expenses. 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 or relevant foreign regulatory agency may require the Company to conduct additional clinical trials with such alternate material.

Recently the Company's quality assurance department has observed increased levels of particulates in certain batches on ONCASPAR which it manufactures. These batches were not shipped and the Company's recent rejection rate for the manufacture of this product is significantly higher than it has been historically. The Company is engaged in an extensive review of its manufacturing

procedures for this product and believes that the problem

may be related to certain materials which are used in the filling process, although this has not yet been determined. The Company has been in discussions with the FDA regarding this problem and expects to have further discussions shortly with the FDA. It is possible that the FDA may not allow the Company to ship ONCASPAR until this problem is resolved. However, it is also possible that the FDA may permit the Company to ship units of ONCASPAR which the Company determines are free from particulates, including units currently on hand. This problem may result in a temporary or extended disruption in the distribution of ONCASPAR. An extended disruption could have a material adverse impact on future ONCASPAR sales.

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 certain protection from competition, 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 scope of patent claims for biotechnological inventions is uncertain and the Company's patents and patent applications are subject to this uncertainty. The Company is aware of certain issued patents and patent applications belonging to third parties, and there may be other patents and patent 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 patents and patent applications will be available on acceptable terms or at all. If the Company does not obtain such licenses, it or its partners could encounter delays in product market introductions while it attempts to design around such patents or could find that the development, manufacture or sale of products requiring such licenses could be foreclosed. If the Company does obtain such licenses it will in all likelihood be required to make royalty and other payments to the licensers, thus reducing the profits realized by the Company from the products covered by such licenses. In certain cases, the Company has obtained opinions of patent counsel that certain of such patents, including patents relevant to PEG- hemoglobin held by Biopure Inc. and patents relevant to PEG-Intron A held by Hoffman La Roche, are not infringed by the products of the Company or its collaborators or would not be held to be valid if litigated. Such opinions have been relied upon by the Company and its collaborators in continuing to pursue development of the subject product. Such opinions are not binding on any court and there can be no assurance that such opinions will prove to be correct and that a court would find any of the claims of such patents to be invalid or that the Company or its collaborators does not infringe such patents. The Company is aware that certain organizations are engaging in activities that infringe certain of the Company's PEG technology and SCA patents. There can be no assurance that the Company will be able to enforce its patent and other rights against such organizations. 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 Company has two research and license agreements with The Green Cross Corporation ("Green Cross") regarding rHSA. The Company and Yoshitomi Pharmaceutical Industries, Ltd. ("Yoshitomi"), the successor to Green Cross' business, are currently in arbitration to resolve the amount of royalties that will be due the Company, if any. Yoshitomi has filed documents in such arbitration seeking a declaratory judgment that under its agreement with the Company no royalties are payable. Any adverse decision from such an arbitration proceeding could result in a material adverse effect to the Company's future business, financial condition and results of operations. Research Corporation Technologies, Inc. ("Research Corporation") held the original patent upon which the PEG Process is based and had granted the Company a license under such patent. Research Corporation's patent for the PEG Process in the United States and its

corresponding foreign patents have expired. Although the Company has obtained several improvement patents in connection with the PEG Process, 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 and other compounds. Based 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. There can be no assurance that the expiration of the Research Corporation patent will not have a material adverse effect on the business, financial condition and results of operations of the Company.

Limited Sales and Marketing Experience; 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 significant sales and marketing experience. 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 exclusive marketing rights in North America and the Pacific Rim to RPR. The Company has also granted exclusive marketing rights in Europe and Russia to Medac Gmbh and in Israel to Tzamal Pharma Ltd.. The Company expects to retain marketing partners to market ONCASPAR in other foreign markets, principally South America, and is currently pursuing arrangements in this regard. There can be no assurance that such efforts 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 licensees or marketing partners may have all or a significant portion of the development and regulatory approval responsibilities. There can be no assurance that the Company will be able to control the amount and timing of resources that any licensee or marketing partner may devote to the Company's products or prevent any licensee or marketing partner from pursuing alternative technologies or products that could result in the development of products that compete with the Company's products and the withdrawal of support for the Company's products. 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, financial condition and results of operations 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 agreements and abandon the applicable products 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. Government and other third-party payors are increasingly sensitive to the containment of health care costs and are limiting both coverage and levels of reimbursement for new therapeutic products approved for marketing, and are refusing, in some cases, to provide any coverage for indications for which the FDA and other national health regulatory authorities have not granted marketing approval. There can be no assurance that such third-party payor 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. Lack of or inadequate reimbursement by government and other third party payors for the Company's products would have a material adverse effect on the Company's business, financial condition and results of operations.

Government Regulation. The manufacturing and marketing of pharmaceutical products in the United States and abroad 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, in Germany in November 1994 and in Canada in 1997 in

each case for patients with acute lymphoblastic leukemia who are hypersensitive to native forms of L-asparaginase. ONCASPAR was approved in Russia 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. In addition, any approved products are subject to continuing regulation, and noncompliance by the Company with applicable requirements can result in criminal penalties, civil penalties, fines, recall or seizure, injunctions requiring suspension of production, orders requiring ongoing supervision by the FDA or refusal by the government to approve marketing or export applications or to allow the Company to enter into supply contracts. Failure to obtain or maintain requisite governmental approvals or failure to obtain or maintain 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 business, financial condition and results of operations.

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 the Company's and may develop products or technologies which compete with those of the Company. The Company is aware that other companies are engaged in utilizing PEG technology in developing drug products. There can be no assurance that the Company's competitors will not successfully develop, manufacture and market competing products utilizing PEG technology or otherwise. 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. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that such competition will not have a material adverse effect on the Company's business, financial condition and results of operations. 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. The Company's success, in large part, depends upon developing and maintaining a competitive position in the development of products and technologies in its area of focus. There can be no assurance that the Company's competitors will not succeed in developing technologies or products that are more effective than any which are being sold or developed by the Company or which would render the Company's technologies or products obsolete or noncompetitive. The Company's failure to develop and maintain a competitive position with respect to its products and/or technologies would have a material adverse effect on its business, financial condition and results of operations.

Uncertainty of Market Acceptance. The Company's products, ONCASPAR and ADAGEN, have been approved by the FDA to treat patients with acute lymphoblastic leukemia and a rare form of severe combined immunodeficiency disease, respectively. Neither product has become widely used due to the small patient population and limited indications approved by the FDA. The Company's current research and development efforts are directed towards developing new

technologies to aid in drug delivery. Assuming that the Company is able to develop such technologies and secure the requisite FDA approvals, the market acceptance of any such products will depend upon the acceptance by the medical community of the use of such technologies. There can be no assurance that any additional products will be approved by the FDA or that, if approved, the medical community will use them. In addition, the use of any such new products will depend upon the extent of third party medical reimbursement, increased awareness of the effectiveness of such technologies and sales efforts by the Company or any marketing partner. The Company's proprietary PEG technology has received only limited market acceptance to date. Failure of the Company to develop new FDA approved products and to achieve market acceptance for such products would have a material adverse effect on the Company's business, financial condition and results of operation.

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 million 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. 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 or that a product liability claim would not have a material adverse effect on the Company's business, financial condition or results of operations.

Future Capital Needs; Uncertainty of Additional Financing. The Company's current sources of liquidity are its cash reserves, and interest earned on such cash reserves, sales of ADAGEN and 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 licensing agreements. Total cash reserves, including short term investments, as of June 30, 1998, were approximately $6,478,000, and after giving effect to the approximately $17,600,000 of net proceeds received by the Company from the private placement completed in July 1998, will be approximately $24,078,000. Based upon its currently planned research and development activities and related costs and its current sources of liquidity, the Company anticipates its current cash reserves will be sufficient to meet its capital and operational requirements for the foreseeable future. The Company's future needs and the adequacy of available funds will depend on numerous factors, including without limitation, the successful commercialization of its products, progress in its product development efforts, the magnitude and scope of such efforts, progress with preclinical studies and clinical trials, progress with regulatory affairs activities, the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights, competing technological and market developments, and the development of strategic alliances for the marketing of its products. There can be no assurance that the Company will not require additional financing for its currently planned capital and operational requirements. In addition, the Company may seek to acquire additional technology, enter into strategic alliances and engage in additional research and development programs, which may require additional financing. The Company does not have any committed sources of additional financing, and there can be no assurance that additional funding, if necessary, will be available on acceptable terms, if at all. To the extent the Company is unable to obtain financing, 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. If adequate funds are not available, the Company's business, financial condition and results of operations will be materially and adversely affected.

Dividend Policy and Restrictions. 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 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.

Possible Volatility of Stock Price. Historically, 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. In addition, due to one or more of the foregoing factors, in one or more future quarters, the Company's results of operations may fall below the expectations of securities analysts and investors. In that event, the market price of the Company's Common Stock could be materially and adversely affected.

Anti-takeover Considerations. The Company has the authority to issue up to 3,000,000 shares of Preferred Stock of the Company in one or more series and to fix the powers, designations, preferences and relative rights thereof without any further vote of shareholders. The issuance of such Preferred Stock could dilute the voting powers of holders of Common Stock and could have the effect of delaying, deferring or preventing a change in control of the Company. Certain provisions of the Company's Articles of Incorporation and By-laws, including those providing for a staggered Board of Directors, as well as Delaware law, may operate in a manner that could discourage or render more difficult a takeover of the Company or the removal of management or may limit the price certain investors may be willing to pay for shares of Common Stock.