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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2004

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ___ to ___

Commission file number 0-12957

ENZON PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	22-2372868
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
685 Route 202/206, Bridgewater, New Jersey	08807
(Address of principal executive offices)	(Zip Code)

(908) 541-8600
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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
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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No
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Shares of Common Stock outstanding as of February 2, 2005: 43,876,159.

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	DECEMBER 31, 2004	JUNE 30, 2004 (*)
ASSETS		
Current assets:		
Cash and cash equivalents	$69,473	$ 91,532
Short-term investments	76,228	27,119
Accounts receivable, net	18,322	25,977
Inventories	14,440	11,215
Deferred tax and other current assets	17,279	12,382
Total current assets	195,742	168,225
Other assets:		
Property and equipment, net	34,152	34,859
Marketable securities	63,389	67,582
Investments in equity securities	26,942	37,906
Amortizable intangible assets, net	185,076	194,067
Goodwill	150,985	150,985
Deferred tax and other assets	66,166	68,786
	526,710	554,185
Total assets	$722,452	$722,410
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,614	$ 8,663
Accrued expenses	23,641	23,001
Total current liabilities	32,255	31,664
Other liabilities	1,153	1,655
Notes payable	400,000	400,000
	401,153	401,655
Commitments and contingencies		
Stockholders' equity:		
Common stock-$.01 par value, authorized 90,000,000 shares; issued and outstanding 43,876,159 shares at December 31, 2004 and 43,750,934 shares at June 30, 2004	439	438
Additional paid-in capital	323,656	322,486
Accumulated other comprehensive loss	(4,543)	(5,035)
Deferred compensation	(4,205)	(3,571)
Accumulated deficit	(26,303)	(25,227)
Total stockholders' equity	289,044	289,091
Total liabilities and stockholders' equity	$722,452	$722,410

(*) Condensed from audited financial statements.

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

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2004	2003	2004	2003
Revenues:				
Product sales, net	$26,962	$27,711	$54,489	$52,672
Manufacturing revenue	5,463	2,187	7,976	3,791
Royalties	10,079	11,547	20,194	25,358
Contract revenue	412	253	711	521
Total revenues	42,916	41,698	83,370	82,342
Costs and expenses:				
Cost of sales and manufacturing revenue	12,381	11,825	23,282	22,737
Research and development	8,887	7,388	18,933	13,939
Selling, general and administrative	13,772	11,478	25,971	22,687

Amortization of acquired intangible assets	3,394	3,358	6,752	6,716
Total costs and expenses	38,434	34,049	74,938	66,079
Operating income	4,482	7,649	8,432	16,263
Other income (expense):				
Investment income, net	973	706	1,743	1,180
Interest expense	(4,957)	(4,957)	(9,914)	(9,914)
Other,net	(1,273)	101	(1,943)	408
	(5,257)	(4,150)	(10,114)	(8,326)
(Loss) income before tax (benefit) provision	(775)	3,499	(1,682)	7,937
Income tax (benefit) provision	(243)	1,180	(606)	2,814
Net (loss) income	$(532)	$2,319	$(1,076)	$5,123
Basic (loss) earnings per common share	$ (0.01)	$0.05	$(0.02)	$0.12
Diluted (loss) earnings per common share	$ (0.01)	$0.05	$(0.02)	$0.12
Weighted average number of common shares outstanding - basic	43,483	43,307	43,476	43,298
Weighted average number of common shares and dilutive potential common shares outstanding	43,483	43,586	43,476	43,591

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

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED DECEMBER 31,	
	2004	2003
Cash flows from operating activities:		
Net (loss) income	$(1,076)	$5,123
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	11,359	10,958
Non-cash expense for issuance of common stock	373	708
Loss on sale of equity investment	1,863	-
Non-cash gain on sale of investments	(355)	-
Non-cash loss (gain) related to equity collar arrangement	575	(401)
Amortization of debt issue costs	914	914
Amortization of bond premium/discount	1,275	(107)
Deferred income taxes	(326)	997
Changes in operating assets and liabilities	3,325	680
Net cash provided by operating activities	17,927	18,872
Cash flows from investing activities:		
Purchase of property and equipment	(1,661)	(2,726)
Proceeds from sale of equity investment	7,510	-
Proceeds from sale of marketable securities	18,330	27,944
Purchase of marketable securities	(64,330)	(21,950)
Net cash (used in) provided by investing activities	(40,151)	3,268
Cash flows from financing activities:		
Proceeds from issuance of common stock	165	272

Net cash provided by financing activities	165	272
Net (decrease) increase in cash and cash equivalents	(22,059)	22,412
Cash and cash equivalents at beginning of period	91,532	66,752
Cash and cash equivalents at end of period	$ 69,473	$89,164

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

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) ORGANIZATION AND BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared from the books and records of Enzon Pharmaceuticals, Inc. and its subsidiaries (the "Company") in accordance with United States generally accepted accounting principles for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete annual financial statements. In the opinion of management, all adjustments (consisting only of normal and recurring adjustments) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for the year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K/A.

(2) MARKETABLE SECURITIES

The Company classifies its investments in debt and marketable equity securities as available-for-sale since the Company does not have the intent to hold them to maturity. Debt and marketable equity securities are carried at fair market value, with the unrealized gains and losses (which are deemed to be temporary), net of related tax effect, included in the determination of comprehensive income and reported in stockholders' equity. The fair value of substantially all securities is determined by quoted market prices.

The cost of the debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization, along with realized gains and losses, is included in interest income. The cost of securities is based on the specific identification method.

A decline in the market value of any security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Dividend and interest income are recognized when earned.

The amortized cost, gross unrealized holding gains or losses, and fair value for the Company's available-for-sale securities by major security type at December 31, 2004 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value*
U.S. Government agency debt	$ 68,981	$ 3	$ (304)	$ 68,680
U.S. corporate debt	71,592	7	(662)	70,937
	$140,573	$10	$ (966)	$139,617

* Included in short-term investments $76,228 and marketable securities

$63,389.

The amortized cost, gross unrealized holding gains or losses, and fair value for the companies available-for-sale securities by major security type at June 30, 2004 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value*
U.S. Government agency debt	$ 24,017	$ 5	$ (351)	$ 23,671
U.S. corporate debt	71,832	6	(808)	71,030
	$ 95,849	$11	$(1,159)	$94,701

* Included in short-term investments $27,119 and marketable securities $67,582.

(3) COMPREHENSIVE INCOME

Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income", requires unrealized gains and losses on the Company's available-for-sale securities to be included in other comprehensive income.

The following table reconciles net (loss) income to comprehensive (loss) income (in thousands):

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2004	2003	2004	2003
Net (loss) income	$(532)	$2,319	$(1,076)	$5,123
Other comprehensive income:				
Unrealized (loss) gain on securities that arose during the period	(361)	(514)	191	(321)
Unrealized (loss) gain on NPS investment arising during the period	(2,059)	-	(1,013)	1,824
Foreign currency translation	8	-	13	-
Reclassification adjustment for loss (gain) included in net income	1,339	(59)	1,301	(449)
Total other comprehensive income	(1,073)	(573)	492	1,054
Comprehensive income	$(1,605)	$1,746	$(584)	$6,177

(4) EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing the net (loss) income by the weighted average number of shares of Common Stock issued and outstanding during the periods. For purposes of calculating diluted earnings per share for the three and six months ended December 31, 2003, the denominator includes both the weighted average number of shares of Common Stock outstanding and the number of dilutive Common Stock equivalents. As of December 31, 2004 and 2003, the Company had 10.1 million and 9.3 million, respectively, dilutive potential common shares outstanding that are excluded from the dilutive earnings per share calculations as they are antidilutive.

The following table reconciles the basic and diluted earnings per share calculations (in thousands):

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2004	2003	2004	2003
Net (loss) income	$(532)	$2,319	$(1,076)	$5,123
Weighted average number of common shares issued and outstanding - basic	43,483	43,307	43,476	43,298
Effect of dilutive common stock equivalents:				
Exercise of stock options	-	279	-	293
	43,483	43,586	43,476	43,591

(5) STOCK BASED COMPENSATION

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation", the Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principals Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation expense for stock options issued to employees is based on the difference on the date of grant between the fair value of the Company's stock and the exercise price of the option. Stock-based compensation reflected in net (loss) income is attributed to restricted stock. No stock-based employee compensation cost is reflected in net (loss) income with respect to all options granted to employees have exercise prices equal to the market value of the underlying Common Stock at the date of grant.

The following table illustrates the effect on net (loss) income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation (in thousands, except per share data):

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2004	2003	2004	2003
Net (loss) income:				
As reported	$(532)	$2,319	$(1,076)	$5,123
Add stock-based employee compensation expense included in reported net income, net of tax (1)	132	237	239	423
Deduct total stock-based employee compensation expense determined under fair-value-based method for all				

awards, net of tax (1)	(3,484)	(2,999)	(6,879)	(5,284)
Pro forma net (loss) income	$(3,884)	$(443)	$(7,716)	$262
Earnings per common share - basic:				
As reported	$(0.01)	$0.05	$(0.02)	$0.12
Pro forma	$(0.09)	($0.01)	$(0.18)	$0.01
Earnings per common share - diluted:				
As reported	$(0.01)	$0.05	$(0.02)	$0.12
Pro forma	$(0.09)	($0.01)	$(0.18)	$0.01

(1) Information for 2004 and 2003 has been adjusted for income taxes using estimated tax rates of 36% and 35%, respectively.

(6) INVENTORIES

Inventories consisted of the following (in thousands):

	DECEMBER 31, 2004	JUNE 30, 2004
Raw materials	$5,283	$3,143
Work in process	4,119	3,716
Finished goods	5,038	4,356
	$14,440	$11,215

(7) INTANGIBLE ASSETS

Intangible assets consisted of the following (in thousands):

	DECEMBER 31, 2004	ESTIMATED USEFUL LIVES
Product Patented Technology	$ 64,400	12 years
Manufacturing Patent	18,300	12 years
NDA Approval	31,100	12 years
Trade name and other product rights	80,000	15 years
Manufacturing Contract	2,200	3 years
Patent	1,906	15 years
Product Acquisition Costs	26,194	10-14 years
	224,100	
Less: Accumulated amortization	39,024	
	$185,076	

Amortization charged to operations relating to intangible assets totaled $4.5 million including $1.1 million which is classified in cost of sales and manufacturing revenue for both the three months ended December 31, 2004 and 2003. For the six months ended December 31, 2004 and 2003 amortization charged to operations relating to intangible assets totaled $9.0 million including $2.2 million which is classified in cost of sales and manufacturing revenue. Amortization expense for these intangibles and certain other product acquisition costs for the next five fiscal years is expected to be approximately $15.5 million per year.

(8) GOODWILL

On November 22, 2002, the Company acquired the North American rights and

operational assets associated with the development, manufacture, sales and marketing of ABELCET(R) (Amphotericin B Lipid Complex Injection) (the "North American ABELCET business") from Elan Corporation, plc ("Elan") for $360.0 million plus acquisition costs of approximately $9.3 million. The acquisition is being accounted for by the purchase method of accounting in accordance with SFAS No. 141 "Business Combinations". The amount assigned to goodwill in connection with the ABELCET product line acquisition was recorded at $151.0 million. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company does not amortize goodwill but rather reviews it at least annually for impairment. For income tax purposes, the entire amount of goodwill is deductible and is being amortized over a 15 year period.

(9) CASH FLOW INFORMATION

The Company considers all highly liquid securities with original maturities of three months or less to be cash equivalents. Cash payments for interest were approximately $9.0 million for the six months ended December 31, 2004 and 2003. Income tax payments for the six months ended December 31, 2004 and 2003, respectively were $366,000 and $3.2 million.

(10) INCOME TAXES

The Company recognized a tax benefit for the six months ended December 31, 2004 at an estimated annual effective tax rate of 36%, which is based on the projected income tax benefit and taxable loss for the fiscal year ending June 30, 2005. During the three and six months ended December 31, 2004 the Company recorded a valuation allowance of $1.3 million and $696,000, respectively, related to capital loss carryforwards generated during the period related to the sale of a portion of its equity investment in NPS Pharmaceuticals, Inc. ("NPS") and certain investments in debt and equity securities.

At December 31, 2004, the Company recognized approximately $68.5 million in net deferred tax assets because management concluded that it is more likely than not that the net deferred tax assets will be realized, including the net operating losses from operating activities and stock option exercises, based on future operations. As of December 31, 2004, the Company carries a valuation allowance of $17.2 million with respect to certain capital loss carryforwards, deductible temporary differences that would result in a capital loss carryforward when realized and federal research and development tax credits, as the ultimate utilization of such losses and credits is not more likely than not. The Company will continue to reassess the need for such valuation allowance based on the future operating performance of the Company.

The tax provision for the three and six months ended December 31, 2003 was based on the Company's then projected income tax benefit and taxable loss for the fiscal year ended June 30, 2004.

(11) BUSINESS SEGMENTS

A single management team that reports to the Chief Executive Officer comprehensively manages the business operations. The Company does not operate separate lines of business or separate business entities with respect to any of its approved products or product candidates or contract manufacturing. In addition, the Company does not conduct any operations outside of the United States and Canada. The Company does not prepare discrete financial statements with respect to separate product or contract manufacturing areas. Accordingly, the Company does not have separately reportable segments as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

(12) DERIVATIVE INSTRUMENTS

In August 2003, the Company entered into a Zero Cost Protective Collar arrangement with a financial institution to reduce the exposure associated with the 1.5 million shares of common stock of NPS the Company received as part of a merger termination agreement with NPS. The termination agreement imposed a limit on the maximum number of shares that can be transferred each month. The terms of the collar arrangement are structured so that the Company's investment in NPS stock, when combined with the value of the collar, should secure ultimate cash

proceeds in the range of 85%-108% of the negotiated fair value per share of $23.47 (representing a 4.85% discount off of the closing price of NPS common stock on the day before the collar was executed). The collar is considered a derivative cash flow hedging instrument under SFAS No. 133, "Accounting For Derivative Instruments and Hedging Activities" and as such, the Company periodically measures its fair value and recognizes the derivative as an asset or a liability. The change in fair value is recorded in other comprehensive income (See Note 3) or in the Consolidated Statement of Operations depending on the portion of the derivative designated and effective as a hedge.

As of December 31, 2004, the market value of NPS common stock was $18.28 per share, which is below the bottom of the collar. When the underlying shares become unrestricted and freely tradable the Company was required to deliver a corresponding number of underlying shares to the financial institution as posted collateral. In order to deliver such shares, during the six months ended December 31, 2004, the Company sold and re-purchased 375,000 shares of common stock of NPS. The unrealized gain previously included in other comprehensive income prior to the sale and re-purchase with respect to these shares aggregating $1.3 million for the six months ended December 31, 2004, was recognized in the Consolidated Statements of Operations and is included in "Other Income". There were no sales and re-purchases of stock for the three months ended December 31, 2004. During the three and six month periods ended December 31, 2003, the Company sold and re-purchased 375,000 shares of common stock of NPS. The unrealized gain previously recognized under other comprehensive income with respect to these shares aggregating $600,000 was recognized in the Consolidated Statements of Operations for the three and six months ended December 31, 2003.

During November 2004, the first portion of the collar agreement matured resulting in the Company receiving net proceeds of $7.5 million, which represented the floor of the collar or $19.95 per share. NPS common stock was trading at $17.13 on the day the first portion of the collar matured. The unrealized loss of approximately $2.0 million dollars previously included in other comprehensive income (loss) was recognized in the Consolidated Statement of Operations and included in Other Income for the three and six months ended December 31, 2004. The change during the period in the time value component of the collar represents a gain of $307,000 and a loss of $822,000 for the three and six months ended December 31, 2004 and a loss of $199,000 and $506,000 for the three and six months ended December 31, 2003. This change is recorded as "Other Income" in the Consolidated Statement of Operations. The remainder of the collar will mature in three separate three-month intervals from February 2005 through August 2005, at which time the Company will receive the proceeds from the sale of the securities. The amount due at each maturity date will be determined based on the market value of NPS' common stock on such maturity date. The contract requires the Company to maintain a minimum cash balance of $30.0 million and additional collateral up to $10.0 million (as defined) under certain circumstances with the financial institution. The strike prices of the put and call options are subject to certain adjustments in the event the Company receives a dividend from NPS.

(13) NEW ACCOUNTING PRONOUNCEMENTS

In response to the enactment of the American Job Creation Act of 2004 (the "Jobs Act") on October 22, 2004 the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, for the Tax Deduction Provided to U.S. Based Manufacturers by the American Job Creation Act of 2004.

FSP No. 109-1 clarifies how to apply SFAS No. 109 to the new law's tax deduction for income attributable to "domestic production activities." The fully phased-in deduction is up to nine percent of the lesser of taxable income or "qualified production activities income." The staff position requires that the deduction be accounted for as a special deduction in the period earned, not as a tax-rate reduction. As a result, the Company will recognize a reduction in its provision for income taxes for domestic production activities in the quarterly periods in which the Company is eligible for the deduction.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs--An Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items

such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by us in the first quarter of fiscal 2006, beginning on July 1, 2005. We are currently evaluating the effect that the adoption of SFAS 151 will have on our consolidated results of operations and financial condition but do not expect SFAS 151 to have a material impact.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. We are required to adopt SFAS 123R no later than July 1, 2005. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. We are evaluating the requirements of SFAS 123R and expect that the adoption of SFAS 123R will have a material impact on our consolidated results of operations and earnings per share. The Company has not yet determined the method of adoption or the effect of adopting SFAS 123R, and have not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets--An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by us in the first quarter of fiscal 2006, beginning on July 1, 2005. We are currently evaluating the effect that the adoption of SFAS 153 will have on our consolidated results of operations and financial condition but does not expect it to have a material impact.

ITEM 2. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

LIQUIDITY AND CAPITAL RESOURCES

Total cash reserves, which include cash, cash equivalents and marketable securities, were $209.1 million as of December 31, 2004, as compared to $186.2 million as of June 30, 2004. The increase is primarily due to net cash provided by operating activities and proceeds from the liquidation of a portion of the shares of NPS Common Stock that we own. We invest our excess cash primarily in United States government-backed securities and investment-grade corporate debt securities.

During the six months ended December 31, 2004, net cash provided by operating activities was $18.0 million, compared to $18.9 million for the six months ended December 31, 2003. Net cash provided by operations was principally due to non-cash charges included in the net loss for the six months ended December 31, 2004. The non-cash charges were depreciation and amortization of $11.4 million and losses on the Company's sales of NPS common stock and related losses on the equity collar agreement totaling $2.4 million.

Cash used in investing activities totaled $40.1 million for the six months ended December 31, 2004 compared to cash provided by investing activities of $3.3 million for the six months ended December 31, 2003. Cash used in investing activities during the six months ended December 31, 2004, consisted of $1.7 of capital expenditures and net purchases of marketable securities of $45.9 million, offset by $7.5 million in proceeds from the liquidation of a portion of our shares of NPS Common Stock.

As of December 31, 2004, we had $400.0 million of 4.5% convertible subordinated notes outstanding. The notes bear interest at an annual rate of 4.5%. Interest is payable on January 1 and July 1 of each year. Accrued interest on the notes was $9.0 million as of December 31, 2004. The holders may convert all or a portion of the notes into common stock at any time on or before July 1, 2008. The notes are convertible into our common stock at a conversion price of $70.98 per share, subject to adjustment in certain events. The notes are subordinated to all existing and future senior indebtedness. We may redeem any or all of the notes at specified redemption prices, plus accrued and unpaid interest to the day preceding the redemption date. The notes will mature on July 1, 2008 unless earlier converted, redeemed at our option or redeemed at the option of the note-holder upon a fundamental change, as described in the indenture for the notes. Neither we nor any of our subsidiaries are subject to any financial covenants under the indenture. In addition, neither we nor any of our subsidiaries are restricted under the indenture from paying dividends, incurring debt, or issuing or repurchasing our securities.

In August 2003, the Company entered into a Zero Cost Protective Collar arrangement with a financial institution to reduce the exposure associated with the 1.5 million shares of common stock of NPS Pharmaceuticals, Inc. ("NPS") the Company received as part of a merger termination agreement with NPS. The first interval of four intervals matured during the three months ended December 31, 2004 and we liquidated that portion of the investment and received proceeds of $7.5 million. The remainder of the collar will mature in three separate three-month intervals from February 2005 through August 2005, at which time the Company will receive the proceeds from the sale of the securities which we estimate with consideration to the collar to be $22.4 million to $28.5 million. The amount due at each maturity date will be determined based on the market value of NPS common stock on such maturity date. The contract requires the Company to maintain a minimum cash balance of $30.0 million and additional collateral up to $10.0 million (as defined) under certain circumstances with the financial institution. The strike prices of the put and call options are subject to certain adjustments in the event the Company receives a dividend from NPS.

Our current sources of liquidity are our cash and cash equivalents, interest earned on such cash and cash equivalents, short-term investments, marketable securities, sales of ADAGEN(R), ONCASPAR(R), DEPOCYT(R) and ABELCET(R), royalties earned, which are primarily related to sales of PEG-INTRON(R) and contract manufacturing revenue. In addition, we intend to sell our positions in NPS and reinvest in marketable securities. Based upon our currently planned research and development activities and related costs and our current sources of liquidity, we anticipate our current cash reserves and expected cash flow from operations will be sufficient to meet our capital, debt service and operational requirements for the foreseeable future.

While we believe that our cash, cash equivalents and investments will be adequate to satisfy our capital needs for the foreseeable future, we may seek additional financing, such as through future offerings of equity or debt securities or agreements with collaborators with respect to the development and commercialization of products, to fund future operations and potential acquisitions. We cannot assure you, however, that we will be able to obtain additional funds on acceptable terms, if at all.

OFF-BALANCE SHEET ARRANGEMENTS

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPE"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow limited purposes. As of December 31, 2004 we are not involved in any SPE transactions.

CONTRACTUAL OBLIGATIONS

Our major outstanding contractual obligations relate to our operating leases, inventory purchase commitments, convertible debt, and license agreements with collaborative partners. Since June 30, 2004, there has been no material changes with respect to our contractual obligations as disclosed under Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations in our annual report on Form 10-K/A for the year ended June 30, 2004.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2004 AND 2003

Revenues. Total revenues for the three months ended December 31, 2004 were $43.0 million, as compared to $41.7 million for the three months ended December 31, 2003. The components of revenues are product sales, contract manufacturing revenue, royalties we earn on the sale of our products by others and contract revenue.

Net product sales decreased by 3% to $27.0 million for the three months ended December 31, 2004, as compared to $27.7 million for the three months ended December 31, 2003. The decrease in sales was due to decreased sales of ABELCET. Sales of ABELCET in North America decreased by 21% to $14.3 million for the three months ended December 31, 2004, as compared to $18.0 million for the three months ended December 31, 2003 as a result of weaker demand for the product due to increased competition in the intravenous antifungal market. Sales of DEPOCYT increased by 23% to $1.6 million for the three months ended December 31, 2004 as compared to $1.3 million for the three months ended December 31, 2003. DEPOCYT's growth over the prior year was primarily attributable to the Company's sales and marketing efforts to support the product. Sales of ONCASPAR increased by 25% to $5.5 million for the three months ended December 31, 2004 from $4.4 million in the corresponding period in the prior year. The increase in sales of ONCASPAR over the prior year was primarily driven by our focused marketing effort and replacement of product that was returned due to the Company's voluntary recall of certain batches of ONCASPAR during the quarter ended September 30, 2004. Sales of ADAGEN increased by 40% for the three months ended December 31, 2004 to $5.6 million as compared to $4.0 million for the three months ended December 31, 2003 due to an increase in the number of patients receiving ADAGEN therapy and the timing of shipments.

Contract manufacturing revenue for the three months ended December 31, 2004 increased to $5.5 million, as compared to $2.2 million for the comparable period of the prior year, due to the timing of orders from our contract manufacturing customers. Contract manufacturing revenue is related to the manufacture and sale of ABELCET for the international market and other contract manufacturing revenue.

Royalties for the three months ended December 31, 2004, decreased to $10.1 million as compared to $11.5 million in the same period in the prior year. The decrease was primarily due to decreased sales of PEG-INTRON by Schering-Plough, our marketing partner, due to competitive pressure from the competing pegylated alpha interferon product, PEGASYS(R), which Hoffmann-La Roche launched in December 2002.

Due to the competitive pressure and contracting market conditions, we believe royalties from sales of PEG-INTRON in the United States and Europe may continue to decrease in the near term. This decrease may be offset by the ongoing launch of PEG-INTRON in combination with REBETOL(R) in Japan. Schering-Plough began selling PEG-INTRON in Japan during December 2004. Since its launch in the United States and Europe, the competing product has taken market share away from PEG-INTRON and the overall market for pegylated alpha interferon in the treatment of hepatitis C has not increased enough to offset the effect this competition has had on sales of PEG-INTRON. As a result, quarterly sales of PEG-INTRON and the royalties we receive on those sales have declined in recent quarters. We cannot assure you that the competing product will not continue to gain market share at the expense of PEG-INTRON, which could result in lower PEG-INTRON sales and royalties to us.

Based on competitive pressure from the introduction of new products in the antifungal market, namely Pfizer's VFEND(R) and Merck's CANCIDAS(R) and more recent pricing pressure in the market for lipid formulations of amphotericin B, we believe ABELCET may continue to be negatively impacted over the next year.

We expect ADAGEN sales to grow over the next year at similar levels to those achieved for the year ended June 30, 2004. Assuming we are able to successfully address certain manufacturing and product stability problems we have experienced with ONCASPAR, which have resulted in the recent recalls mentioned above, we expect ONCASPAR sales to continue to grow, but at a pace slower then the growth achieved in fiscal 2004. ONCASPAR sales may decline, however, if we are unable to correct these manufacturing and product stability problems. We expect DEPOCYT sales to gain modestly from the current sales levels. However, we cannot assure you that any particular sales levels of ABELCET, ADAGEN, ONCASPAR, DEPOCYT or PEG-INTRON will be achieved or maintained.

Contract revenues for the three months ended December 31, 2004 were $412,000 as compared to $253,000 for the three months ended December 31, 2003. The increase was due to revenue related to a development agreement we entered into with Pharmagene plc.

During the three months ended December 31, 2004, we had export sales and royalties on export sales of $11.7 million, of which $9.3 million were in Europe. Export sales and royalties recognized on export sales for the prior year quarter were $9.1 million, of which $7.7 million were in Europe.

Cost of Sales and Manufacturing Revenue. Cost of sales and manufacturing revenue, as a percentage of net sales and manufacturing revenue, decreased to 38% for the three months ended December 31, 2004 as compared to 40% for the same period last year. The decrease was principally due to lower manufacturing cost for ABELCET. Included with cost of sales is $1.1 million for the three months ended December 31, 2004 and 2003 related to amortization of intangible assets acquired in connection with the ABELCET acquisition during November 2002.

Research and Development. Research and development expenses increased by 20% to $8.9 million for the three months ended December 31, 2004 from $7.4 million for the same period last year. The increase was primarily due to spending of approximately $1.5 million related to our strategic partnership with Inex Pharmaceuticals Corporation on Inex's proprietary oncology product MARQIBO. In January 2005, the United States Food and Drug Administration (FDA) provided an action letter to the company's partner, Inex, detailing that MARQIBO is "not approvable" under the FDA's accelerated approval regulations based on the Phase 2b clinical-trial data submitted.

Selling, General and Administrative. Selling, general and administrative expenses for the three months ended December 31, 2004 increased by 20% to $13.8 million, as compared to $11.5 million for the same period last year. The increase was primarily due to increased sales and marketing expense of approximately $2.0 million and increased accounting and auditing fees of approximately $300,000.

Amortization. Amortization expense remained unchanged at $3.4 million for the three months ended December 31, 2004 and 2003. Amortization expense for both periods related to intangible assets acquired in connection with the ABELCET acquisition during November 2002. In addition, a portion of amortization is classified in cost of sales and manufacturing revenue. Amortization of intangible assets is calculated on a straight-line basis over the estimated lives of the assets, which range from 3 to 15 years.

Other income (expense). Other income (expense) for the three months ended December 31, 2004 was an expense of $5.3 million, as compared to an expense of $4.2 million for the three months ended December 31, 2003. Other income (expense) includes: net investment income, interest expense, and other income.

Net investment income for the three months ended December 31, 2004 increased to $973,000 from $706,000 for the three months ended December 31, 2003 due to an increase in our interest bearing investments and higher interest rates.

Interest expense was $5.0 million for each of the three months ended December 31, 2004 and 2003. Interest expense is related to $400.0 million in 4.5% convertible subordinated notes, which were outstanding for each of the periods.

Other income (expense) decreased to an expense of $1.3 million for the three months ended December 31, 2004, as compared to income of $101,000 for the three months ended December 31, 2003. The decrease in other income was related to the loss on the liquidation of a portion of our investment in NPS common stock and a loss on the derivative instrument we formed as a protective collar arrangement to reduce our exposure associated with changes in the fair value of these shares.

Income Taxes. During the three months ended December 31, 2004 we recognized a tax benefit of approximately $243,000 compared to tax expense of $1.2 million, for the three months ended December 31, 2003. We recognized a tax benefit for the three months ended December 31, 2004 at an estimated annual effective tax rate of 36%, which is based on the projected income tax benefit and taxable loss for the fiscal year ending June 30, 2005. The tax provision for the three months ended December 31, 2003 was based on the Company's projected income tax expense and taxable income for the fiscal year ended June 30, 2004.

SIX MONTHS ENDED DECEMBER 31, 2004 AND 2003

Revenues. Total revenues for the six months ended December 31, 2004 were $83.4 million, as compared to $82.3 million for the six months ended December 31, 2003. The components of revenues are product sales, contract manufacturing revenue, royalties we earn on the sale of our products by others and contract revenues.

Net product sales increased by 3% to $54.5 million for the six months ended December 31, 2004, as compared to $52.7 million for the six months ended December 31, 2003. The increase in sales was due to increased sales of three of our internally marketed products: ADAGEN(R), DEPOCYT(R), and ONCASPAR(R). Sales of ABELCET in North America decreased by 7% to $30.8 million for the six months ended December 31, 2004, as compared to $33.0 million for the six months ended December 31, 2003 as a result of weaker demand for the product due to increased competition in the intravenous antifungal market. Sales of DEPOCYT increased by 54% to $4.0 million for the six months ended December 31, 2004 as compared to $2.6 million for the six months ended December 31, 2003. Sales of ONCASPAR increased by 17% to $9.8 million for the six months ended December 31, 2004, as compared to $8.4 million in the corresponding period in the prior year. These increased product sales resulted in large part from our focused sales and marketing efforts to support ONCASPAR and DEPOCYT. Sales of ADAGEN increased by 14% for the six months ended December 31, 2004 to $9.9 million as compared to $8.7 million for the six months ended December 31, 2003 due to an increase in the number of patients receiving ADAGEN therapy and the timing of shipments.

Contract manufacturing revenue for the six months ended December 31, 2004 increased to $8.0 million, as compared to $3.8 million for the comparable period of the prior year due to the timing of orders from our contract manufacturing customers. Contract manufacturing revenue is related to the manufacture and sale of ABELCET for the international market and other contract manufacturing revenue.

Royalties for the six months ended December 31, 2004, decreased to $20.2 million as compared to $25.3 million in the same period in the prior year. The decrease was primarily due to decreased sales of PEG-INTRON by Schering-Plough, our marketing partner, due to competitive pressure from the competing pegylated alpha interferon product, PEGASYS(R), which Hoffmann-La Rouche launched in December 2002.

Contract revenues for the six months ended December 31, 2004 increased to $711,000 as compared to $521,000 in the previous year, due to revenue related to the co-development agreement we entered into with Pharmagene plc.

During the six months ended December 31, 2004, we had export sales and royalties on export sales of $22.5 million, of which $17.2 million were in Europe. Export sales and royalties recognized on export sales for the prior year were $19.1 million, of which $16.2 million were in Europe.

Cost of Sales and Manufacturing Revenue. Cost of sales and manufacturing revenue, as a percentage of net sales and manufacturing revenue, decreased to 37% for the six months ended December 31, 2004 compared to 40% for the six months ended December 31, 2003 due to lower manufacturing cost for ABELCET. Included with costs of sales is $2.2 million for the six months ended December 31, 2004 and 2003 related to amortization of intangible assets

acquired in connection with the ABELCET acquisition during November 2002.

Research and Development. Research and development expenses increased by 36% to $18.9 million for the six months ended December 31, 2004 from $13.9 million for the same period last year. The increase was primarily due to increased spending of approximately $2.7 million related to our strategic partnership with Inex on Inex's proprietary oncology product, MARQIBO, and increased personnel-related expenses of approximately $2.3 million. In January 2005, the FDA provided an action letter to the company's partner, Inex, detailing that MARQIBO is "not approvable" under the FDA's accelerated approval regulations based on the Phase 2b clinical-trial data submitted.

Selling, General and Administrative. Selling, general and administrative expenses for the six months ended December 31, 2004 increased by 15% to $26.0 million, as compared to $22.7 million in the same period last year. The increase was primarily due to increased sales and marketing expense of approximately $3.7 million which includes expenses associated with the potential launch of MARQIBO. This increase was offset in part by a decrease in general and administrative personnel and other related costs of approximately $414,000.

Amortization. Amortization expense remained unchanged at $6.7 million for the six months ended December 31, 2004 and 2003. Amortization expense for both periods relates to intangible assets acquired in connection with the ABELCET acquisition during November 2002. In addition, a portion of amortization is classified in cost of sales and manufacturing revenue. Amortization of intangible assets is calculated on a straight line basis over the estimated lives of the assets, which range from 3 to 5 years.

Other income (expense). Other income (expense) for the six months ended December 31, 2004 was an expense of $10.1 million, as compared to an expense of $8.3 million for the six months ended December 31, 2003. Other income (expense) includes: net investment income, interest expense, and other income.

Net investment income for the six months ended December 31, 2004 increased to $1.7 million from $1.2 million for the six months ended December 31, 2003, due to an increase in our interest bearing investments, along with higher interest rates.

Interest expense was $9.9 million for each of the six months ended December 31, 2004 and 2003. Interest expense is related to $400.0 million in 4.5% convertible subordinated notes, which were outstanding for each of the periods.

Other income (expense) decreased to an expense of $1.9 million for the six months ended December 31, 2004, as compared to income of $408,000 for the six months ended December 31, 2003. The decrease in other income was related to the loss on the liquidation of a portion of our investment in NPS common stock and a loss on the derivative instrument we formed as a protective collar arrangement to reduce our exposure associated with changes in the fair value of these shares.

Income Taxes. During the six months ended December 31, 2004 we recognized a tax benefit of approximately $606,000 compared to tax expense $2.8 million, for the six months ended December 31, 2003. We recognized a tax provision for the three months ended December 31, 2004 at an estimated annual effective tax rate of 36%, which is based on the projected income tax benefit and taxable loss for the fiscal year ending June 30, 2005. The tax provision for the six months ended December 31, 2003 was recorded based on an estimated annual effective tax rate of 35% which represented our anticipated Alternative Minimum Tax Liability based on the anticipated taxable income for the full fiscal year.

CRITICAL ACCOUNTING POLICIES

In December 2001, the U.S. Securities and Exchange Commission ("SEC") requested that all registrants discuss their most "critical accounting policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of a company's financial condition and results of operations and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Our consolidated financial statements are presented in accordance with accounting principles that are generally accepted in the United States. All professional accounting standards effective as of December 31, 2004 have been taken into consideration in preparing the consolidated financial statements. The preparation of the consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Some of those estimates are subjective and complex, and, consequently, actual results could differ from those estimates. The following accounting policies have been highlighted as significant because changes to certain judgments and assumptions inherent in these policies could affect our consolidated financial statements.

Revenue from product sales and manufacturing revenue is recognized upon passage of title and risk of loss to customers. This is generally at the time products are shipped to customers. Provisions for discounts or chargebacks, rebates and sales incentives to customers, and returns and other adjustments are provided for in the period the related sales are recorded. Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales.

The majority of our net products sales are to distributors who resell the products to the end customers. We provide rebates or chargebacks to members of buying groups who purchase from our distributors that sell to their customers at prices determined under a contract between Enzon and the customer. In addition, state agencies, which administer various programs such as the U.S. Medicaid and Medicare program also receive rebates or Medicaid rebates and administrative fees. Chargeback amounts are usually based upon the volume of purchases or by reference to a specific price for a product. Factors that complicate the rebate calculations are which customer or government price terms apply, and the estimated lag time between sale and payment of a rebate. Using historical trends, adjusted for current changes, we estimate the amount of the chargeback that will be paid, and record the amounts as a reduction to accounts receivable and a reduction of gross sales when we record the sale of the product. Settlement of the chargebacks generally occur from three to nine months after sale. We regularly analyze the historical chargebacks trends and makes adjustments to recorded reserves for changes in trends.

Medicaid rebates and administrative fees are recorded as a liability and a reduction of gross sales when we record the sale of the product. Medicaid rebates are typically paid up to six months later. In determining the appropriate accrual amount we consider our historical Medicaid rebate and administration fee payments by product as a percentage of our historical sales as well as any significant changes in sales trend, an evaluation of the current Medicaid rebate laws and interpretations and the percentage of our products that are sold to Medicaid patients.

The following is a summary of reductions of gross sales accrued as of June 30, 2004 (the end of our last fiscal year) and December 31, 2004:

	December 31, 2004	June 30, 2004
Accounts Receivable Reductions		
Chargebacks	$9,479	$7,802
Cash Discounts	318	414
Other (including returns)	1,241	1,323
Total	$11,038	$9,539
Accrued Liabilities		
Medicaid Rebates	$ 2,354	$2,011
Administrative Fees	605	640
Total	$2,959	$2,651

There were no revisions to the estimates for gross to net sales adjustment that would be material to income from operations for the three and six months ended December 31, 2004 and 2003.

Royalties under our license agreements with third parties are recognized when earned through the sale of the product by the licensee net of any estimated future credits, chargebacks, sales discount rebates and refunds.

Contract revenues are recorded as the earnings process is completed. Non-refundable milestone payments that represent the completion of a separate earnings process are recognized as revenue when earned, upon the occurrence of contract-specified events and when the milestone has substance. Non-refundable payments received upon entering into license and other collaborative agreements where we have continuing involvement are recorded as deferred revenue and recognized ratably over the estimated service period.

Under the asset and liability method of Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes", 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. A valuation allowance on net deferred tax assets is provided for when it is more likely than not that some portion or all of the deferred tax assets will not be realized. We have significant net deferred tax assets, primarily related to net operating loss and other carryforwards, and continue to analyze what level of the valuation allowance is needed taking into consideration the expected future performance of the Company.

We assess the carrying value of our cost method investments in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity" and SEC Staff Accounting Bulletin ("SAB") No. 59 "Accounting for Non-current Marketable Equity Securities". An impairment write-down is recorded when a decline in the value of an investment is determined to be other-than-temporary. These determinations involve a significant degree of judgment and are subject to change as facts and circumstances change.

In accordance with the provisions of SFAS No. 142 "Goodwill and other Intangible Assets", goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination, are not subject to amortization, are tested at least annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. We completed our annual goodwill impairment test on May 31, 2004, which indicated that goodwill was not impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the Company level because the Company is in one reporting unit and consists of two steps. First, we determine the fair value of our reporting unit and compare it to its carrying amount. Second, if the carrying amount of its reporting unit exceeds our fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, "Business Combinations". The residual fair value after this allocation is the implied fair value of our goodwill. Recoverability of amortizable intangible assets is determined by comparing the carrying amount of the asset to the future undiscounted net cash flow to be generated by the asset. The evaluations involve amounts that are based on management's best estimate and judgment. Actual results may differ from these estimates. If recorded values are less than the fair values, no impairment is indicated. SFAS No. 142 also requires that intangible assets with estimated useful lives be amortized over their respective estimated useful lives.

We apply the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for our fixed plan stock options. As such, compensation expense would be recorded on the date of grant of options to employees and members of the Board of Directors only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation", established accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, we have elected to continue to apply the intrinsic value-based method of accounting described above, and have adopted the disclosure requirements of SFAS No. 123,

as amended in December 2004.

When the exercise price of employee or director stock options is less than the fair value of the underlying stock on the grant date, we record deferred compensation for the difference and amortize this amount to expense over the vesting period of the options. Options or stock awards issued to non-employees and consultants are recorded at their fair value as determined in accordance with SFAS No. 123 and EITF No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services", and recognized over the related vesting period.

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS (CAUTIONARY STATEMENTS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995)

Management's Discussion and Analysis of Financial Condition and Results of Operations contains "forward-looking statements" within the meaning of the Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations or forecasts of future events. These statements use words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "project," "intend," "plan," "potential," "will," and other words and terms of similar meaning in connection with a discussion of potential future events or circumstances or future operating or financial performance. You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts.

Specific examples of such forward looking statements in this report include statements relating to the potential impact on our revenues of Schering-Plough's launch of PEG-INTRON in Japan, the potential impact on our ability to sustain or grow our ABELCET revenues in light of continuing competitive and pricing pressure in the intravenous antifungal market, the future sales performance of our other products, the potential impact of the manufacturing and stability problems with ONCASPAR we continue to experience, the performance of our protective collar arrangement relating to the shares of NPS common stock we hold, the continued sufficiency of our capital resources and our ability to access the capital markets in the future. This is not necessarily inclusive of all examples of forward looking statements that are or may be contained in this report.

Any or all forward-looking statements contained in this discussion may turn out to be wrong. Actual results may vary materially, and there are no guarantees about our financial and operating performance or the performance of our stock. All statements are made as of the date of signing of this report and we do not assume any obligation to update any forward-looking statement.

Many factors could cause actual results to differ from the results or developments discussed or predicted in the forward looking statements made in this report. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. Although it is not possible to predict or identify all such factors, many of them are described under the caption "Risk Factors" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K/A for the fiscal year ended June 30, 2004, which we filed with the SEC and which is incorporated herein by reference. Readers of this report are advised to read such Risk Factors in connection with this report. The following information supplements and updates such Risk Factors:

- Although Schering-Plough has received approval for PEG-INTRON in Japan in combination with REBETOL for the treatment of hepatitis C, there can be no assurance that Schering-Plough will successfully market PEG-INTRON in Japan. It is anticipated that Hoffmann-La Roche will obtain marketing approval in Japan for a competing pegylated interferon-based combination therapy for hepatitis C in the next one or two years. Hoffmann-La Roche's subsidiary (Chugai Pharmaceutical Co. LTD) currently markets other pharmaceutical products in Japan. Even if Schering-Plough is successful in launching PEG-INTRON in Japan, it is likely that the future launch in Japan of Hoffmann-La Roche's competing pegylated interferon-based combination therapy will have a negative impact on PEG-INTRON's Japanese market share and sales.

- We have begun to experience increasing pricing pressure with respect to

ABELCET. In particular, Fujisawa Healthcare Inc. and Gilead Sciences, Inc., which jointly market a competing liposomal amphotericin B product, have aggressively lowered the price of their product in certain regions and for certain customers in the U.S. This has resulted in the shrinkage or loss of certain of our customer accounts. We are developing strategies to address this competitive threat, but there can be no assurance as to when or whether we will be successful in stopping or reversing this trend.

- We have received a notice from Bristol-Myers Squibb Company ("BMS") terminating our amphotericin B supply agreement with BMS effective March 1, 2006. We currently have an alternative source of supply of amphotericin B and are seeking to qualify at least one additional source of supply. The termination by BMS may give rise to future increased costs for the acquisition of amphotericin B as well as increased capital expenditures related to readying a new supplier's facilities for cGMP production and regulatory approval of ABELCET incorporating the alternative amphotericin B. Although there can be no assurance as to the timing of these increased costs and additional capital expenditures, we anticipate that these may be incurred beginning in calendar 2007.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about our exposure to market risk of financial instruments contains forward-looking statements. Actual results may differ materially from those described.

Our holdings of financial instruments are comprised of debt securities and time deposits. All such instruments are classified as securities available-for-sale. In August 2003, we entered into a Zero Cost Protective Collar arrangement with a financial institution to reduce the exposure associated with the 1.5 million shares of common stock of NPS we received as part of the merger termination agreement with NPS. The terms of the collar arrangement are structured so that our investment in NPS stock, when combined with the value of the collar, should secure ultimate cash proceeds in the range of 85% - 108% of the negotiated fair value per share of $23.47 (representing a 4.85% discount off the closing price of NPS common stock on the day before the collar was executed) (See Note 12). We do not invest in portfolio equity securities or commodities or use financial derivatives for trading purposes. Our debt security portfolio represents funds held temporarily pending use in our business and operations. We manage these funds accordingly. We seek reasonable assuredness of the safety of principal and market liquidity by investing in rated fixed income securities while at the same time seeking to achieve a favorable rate of return. Our market risk exposure consists principally of exposure to changes in interest rates. Our holdings are also exposed to the risks of changes in the credit quality of issuers. We typically invest the majority of our investments in the shorter-end of the maturity spectrum, and at December 31, 2004 all of our holdings were in instruments maturing in four years or less.

The table below presents the principal amounts and related weighted average interest rates by year of maturity for our investment portfolio as of December 31, 2004 (in thousands):

	2005	2006	2007	2008	TOTAL	FAIR VALUE
Fixed Rate	$76,521	$38,425	$20,627	$5,000	$140,573	$139,617
Average Interest Rate	0.89%	2.32%	2.69%	2.73%	1.61%	-
Variable Rate	-	-	-	-	-	-
Average Interest Rate	-	-	-	-	-	-
	$76,521	$38,425	$20,627	$5,000	$140,573	$139,617

Our 4.5% convertible subordinated notes in the principal amount of $400.0 million due July 1, 2008 have fixed interest rates. The fair value of the notes was approximately $377.0 million at December 31, 2004. The fair value of fixed interest rate convertible notes is affected by changes in interest rates and by changes in the price of our common stock.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2004, the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information required to be included in our periodic SEC filings.

CHANGES IN INTERNAL CONTROLS

During the quarter ended December 31, 2004, we made changes in our internal controls over financial reporting that are likely to materially affect our internal control over financial reporting. The changes comprised the institution of more comprehensive review and monitoring procedures to mitigate the risk of certain errors of the type described below.

During the quarter ended December 31, 2004, in connection with the preparation of our quarterly report for the quarter ended September 30, 2004, we detected previous errors related to (i) accounting for our derivative hedging instrument and (ii) assessing the realizeability of deferred tax assets related to the unrealized loss on available-for-sale securities included in accumulated other comprehensive loss.

One error related to the hedging instrument resulted in a misallocation between other income and accumulated other comprehensive loss as of and for the quarter and year ended June 30, 2004. The other error related to the assessment of the realizeability of the deferred tax assets resulted in a decrease to deferred tax assets and an increase to accumulated other comprehensive loss as of June 30, 2004. Executive management and the Finance and Audit Committee determined that there was a material weakness to our internal control over financial reporting relating to the timely review and monitoring of certain account analyses, including the derivative hedging instrument and the assessment of the realizeability of deferred tax assets established through accumulated other comprehensive loss. As mentioned above, we have instituted more comprehensive review and monitoring procedures to mitigate the risk of errors in these particular areas occurring in the future.

PART II OTHER INFORMATION

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

(a) An annual meeting of stockholders was held on December 7, 2004.

(b) The directors elected at the annual meeting were Rolf A. Classon and Robert LeBuhn, Jr. The term of office as a director for each of Dr. Goran Ando, Jeffrey H. Buchalter, Dr. Rosina Dixon and Victor P. Micati continued after the annual meeting.

(c) The matters voted upon at the annual meeting and the results of the voting, including broker non-votes where applicable, are set forth below:

(i) The stockholders voted 35,210,091 shares in favor and 2,081,559 shares withheld with respect to the election of Rolf A. Classon as a Class II director of the Company, and 35,203,652 shares in favor and 2,087,998 shares withheld with respect to the election of Robert LeBuhn as a Class II director of the Company. Broker non-votes were not applicable.

(ii) The stockholders voted 35,915,099 shares in favor and

1,372,561 shares against and 3,990 shares abstained with respect to a proposal to ratify the selection of KPMG LLP to audit our consolidated financial statements for the fiscal year ending June 30, 2005. Broker non-votes were not applicable.

ITEM 6. EXHIBITS

(a) Exhibits required by Item 601 of Regulation S-K.

EXHIBIT NUMBER	DESCRIPTION
3.1	Certificate of Incorporation, as amended (previously filed as as an exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 2002 and incorporated herein by reference thereto)
3.2	Amendment to Certificate of Incorporation (previously filed as an exhibit to the Company's Current Report on Form 8-K filed on December 10, 2002 and incorporated herein by reference thereto)
3.3	By laws, as amended (previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 22, 2002 and incorporated herein by reference thereto)
4.1	Indenture dated as of June 26, 2001, between the Company and Wilmington Trust Company, as trustee, including the form of 4 1/2% Convertible Subordinated Notes due 2008 attached as exhibit A thereto (previously filed as an exhibit to the Company's Registration Statement on Form S-3 (File No. 333-67509) filed with the Commission and incorporated herein by reference thereto)
4.2	Rights Agreement dated May 17, 2002 between the Company and Continental Stock Transfer Trust Company, as rights agent (previously filed as an exhibit to the Company's Form 8-A (File No. 000-12957) filed with the Commission on May 22, 2002 and incorporated herein by reference thereto)
4.3	First Amendment to Rights Agreement, dated as of February 19, 2003 (previously filed as an exhibit to the Company's Form 8-A12 G/A (File No. 000-12957) filed with the Commission on February 20, 2003 and incorporated herein by reference thereto)
10.1	Employment Agreement with Jeffrey H. Buchalter dated December 22, 2004*
10.2	Employment Agreement with Craig A. Tooman dated January 5, 2005*
10.3	Form of Non-Qualified Stock Option Agreement for Executive Officers*
10.4	Form of Restricted Stock Award Agreement for Executive Officers*
10.5	Separation Agreement with Dr. Ulrich Grau dated November 24, 2004*
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act.*
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	Certification of Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act.*

* Filed herewith.

SIGNATURES

Pursuant to the requirements 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 PHARMACEUTICALS, INC.

(Registrant)

By: /s/Jeffrey H. Buchalter

President and Chief Executive Officer
(Principal Executive Officer)

Date: February 9, 2005

By: /s/Kenneth J. Zuerblis

Executive Vice President Finance,
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT 10.1

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "Agreement") dated as of December 22, 2004 (the "Effective Date" or "Commencement Date"), between Enzon Pharmaceuticals, Inc. (the "Company"), a Delaware corporation with offices in Bridgewater, New Jersey, and Jeffrey H. Buchalter (the "Executive"), a resident of San Antonio, Texas.

WHEREAS, the Company is a biopharmaceutical company engaged in developing advanced therapeutics for life threatening diseases; and

WHEREAS, Executive has extensive experience as an executive of a pharmaceutical company; and

WHEREAS, the Company wishes to employ the Executive to render services for the Company on the terms and conditions set forth in this Agreement, and the Executive wishes to be retained and employed by the Company on such terms and conditions;

NOW, THEREFORE, in consideration of the premises, the mutual agreements set forth below and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Employment. The Company hereby employs the Executive, and the Executive accepts such employment and agrees to perform services for the Company, for the period and upon the other terms and conditions set forth in this Agreement.

2. Term. The term of the Executive's employment hereunder shall commence on the Effective Date, and unless terminated at an earlier date in accordance with Section 9 hereof, shall extend through such date, not earlier than December 31, 2009, which is twelve (12) months following the date on which either party hereto receives written notice (a "notice of non-renewal") from the other party that such other party does not wish for the term hereof to continue beyond such twelve (12) month period (the "Term"). Subject to possible earlier termination in accordance with Section 9 hereof, unless and until a notice of non-renewal is given by a party, the Term shall always have at least twelve (12) months remaining, and all of the provisions of this Agreement shall continue in full force and effect during such period.

3. Position and Duties.

(a) Service with Company. During the term of the Executive's employment, the Executive shall serve in the positions of President and Chief Executive Officer of the Company and the chairman of the Company's Board of Directors (the "Board") (the "Chairman of the Board"), and Executive shall have the authority, duties and responsibilities associated with those positions, including, without limitation, the authority and duty generally to supervise and direct the business of the Company, subject to the control and direction of the Board and of any duly authorized Committee of the Board.

(b) Performance of Duties.

(i) Subject to the provisions hereof, the Executive agrees to serve the Company faithfully and to the best of his ability and to devote his full time, attention and efforts to the business and affairs of the Company during his employment by the Company.

(ii) Executive has provided the Company with: 1) a draft of a Consulting Agreement between Executive and Genzyme Corporation ("Genzyme") (such draft substantially in the form as previously sent to the Company being the "Consulting Agreement"); and 2) the Employment Agreement, dated as of January 1, 2002, agreed to by Executive and Executive's former employer (the "Employee Agreement") which, to the best of Executive's knowledge, are the only agreements which could arguably restrict or interfere with his employment activities subsequent to the termination of his employment with such former employer. Company agrees that the execution by Executive of and the performance by Executive of his obligations under the Consulting Agreement shall not constitute a breach of this Agreement, and Company

specifically authorizes Executive to fulfill the terms of the Consulting Agreement. Further, in the event that Genzyme elects not to execute the Consulting Agreement or in the event the Consulting Agreement is terminated (other than termination by or at the behest of the Executive or as a result of Executive's refusal to perform the services required of him under the Consulting Agreement, provided such refusal to perform is not related to Executive's employment pursuant to this Agreement) then the Company shall pay to Executive an amount which is equal to 50% of the payments which would have been payable to Executive under the Consulting Agreement and were not paid by Genzyme (such payments by the Company being referred to herein as "Consulting Agreement Payments"). Any Consulting Agreement Payments made by the Company to Executive shall be made at the same time (the "Consulting Agreement Payment Date") and subject to the same conditions as the corresponding payments which would have been made to Executive under the Consulting Agreement. In no event shall the Consulting Agreement Payments made by the Company exceed $750,000. The Company and the Executive agree that any Consulting Agreement Payments required to be made by the Company pursuant to this 3(b)(ii) shall be in the form of shares of the Company's common stock (the "Common Stock") issued pursuant to the Company's 2001 Incentive Stock Plan, as amended (the "Stock Plan") and the number of shares of Common Stock to be issued to the Executive as a Consulting Agreement Payment shall be determined by dividing the amount of the Consulting Agreement Payment by the last reported sale price of a share of Common Stock as reported by the Nasdaq Stock Market on any such Consulting Agreement Payment Date or, if the Nasdaq Stock Market is not open on such Consulting Agreement Payment Date, on the day next preceding such Consulting Agreement Payment Date on which the Nasdaq Stock Market is open. Any tranche of shares of Common Stock issued to the Executive pursuant to this Section 3(b)(ii) shall vest in three equal amounts on each of the first three anniversary dates of the Consulting Agreement Payment Date on which they were issued. Executive shall pay to the Company an amount equal to the aggregate par value of any such Common Stock issued pursuant to this Section 3(b)(ii) at the time of issuance. The grant of such Common Stock shall be represented by, and subject to, the terms of a restricted stock agreement substantially similar to the agreement annexed hereto as Exhibit B. If the number of shares of Common Stock available for issuance under the Stock Plan on any Consulting Agreement Payment Date is not sufficient to enable the Company to meet its obligations under this Paragraph, then the Company shall cover any deficiency in the required payment amount by making an additional payment in the form of cash or, at the Company's sole option, shares of Common Stock issued outside of the Stock Plan. Prior to the issuance of any Common Stock pursuant to this Section 3(b)(ii) to the Executive, the Company shall cause such issuance to be registered under the Securities Act of 1933, as amended (the "1933 Act"), such that Executive will be able to sell such common stock without complying with the holding period required under Rule 144 promulgated under the 1933 Act.

(iii) Executive agrees that he will not use on behalf, or for the benefit, of the Company or disclose to the Company any confidential information of or concerning his former employer or, to the extent prohibited by the Consulting Agreement, Genzyme. It is the Company's intention that Executive not breach any confidentiality agreement he may have with his former employer or Genzyme. Based on his knowledge of his former employer's business and confidential information and the information concerning the Company's business heretofore provided to Executive by the Company or publicly available, to the best of Executive's knowledge, his entering into and performing this Agreement will not constitute a breach of the Employee Agreement or the Consulting Agreement as same may be executed by Executive and Genzyme or any other obligation of the Executive. Executive will not render or perform services for any other corporation, firm, entity or person which are inconsistent with the provisions of this Agreement other than pursuant to the terms of the Consulting Agreement.

(iv) While he remains employed by the Company, the Executive may participate in reasonable charitable activities and personal investment activities so long as such activities do not conflict or interfere with the performance of his obligations under this Agreement.

Subject to the prior approval of the Board, which will not be unreasonably withheld, subsequent to the first anniversary of the Commencement Date Executive may join and serve on the board of directors of one other company, provided that such other company is not a competitor of the Company and such service would not interfere with Executive's obligations to the Company hereunder or involve or potentially involve a conflict of interest, as determined by the Board.

4. Compensation.

(a) Base Salary. The Company shall pay to the Executive, less applicable deductions and withholdings, base salary (the "Base Salary") at an annual rate of Five Hundred Fifty Thousand Dollars ($550,000) per year, which Base Salary shall be paid in accordance with the Company's normal payroll procedures and policies for its senior management. The compensation payable to Executive during each fiscal year of the Company beginning after the Commencement Date shall be established by the Board or the Compensation Committee thereof following an annual performance review, but in no event shall the annual rate of Base Salary for any successive year of the Term be less than the highest annual rate of Base Salary in effect during the previous year of the Term.

(b) Annual Bonus. Commencing with the fiscal year ending June 30, 2005, Executive shall be entitled to participate in the Company's bonus plan for management and any successor bonus plan covering management (the "Bonus Plan"). Under the Bonus Plan, the Executive shall be eligible to receive a performance-based cash bonus for each year of employment (commencing July 1, 2004) in an amount, and based on individual and/or corporate objectives, targets and factors (and evaluation as to the extent of achievement thereof), to be established and determined by the Board in its discretion following consultation between the Board and Executive prior to, or within sixty (60) days after the commencement of, each fiscal year (the "Performance Criteria"). Under the Bonus Plan for Executive, (i) the minimum cash bonus shall be zero (0), (ii) the target cash bonus shall equal 100% of the Base Salary (the "Target Bonus"), and (iii) the maximum cash bonus shall equal 200% of Base Salary. Notwithstanding the foregoing, and subject to the provisions of Section 10 hereof Executive shall be entitled to receive a guaranteed minimum cash bonus in the amount of Four Hundred Twelve Thousand Five Hundred Dollars ($412,500) for the fiscal year ending June 30, 2005, which bonus shall be payable in July 2005 (the "2005 Bonus"). Within sixty (60) days after the end of each fiscal year, the Board, based upon its evaluation as to the extent of Executive's achievement of the Performance Criteria, shall award Executive his performance-based cash bonus, if any, hereinafter referred to as the "Earned Bonus."

(c) Participation in Benefit Plans; Indemnification. While he is employed by the Company, Executive shall also be eligible to participate in any incentive and employee benefit plans or programs which may be offered by the Company to the extent that Executive meets the requirements for each individual plan and in all other plans in which Company executives participate. The Company provides no assurance as to the adoption or continuance of any particular employee benefit plan or program, and Executive's participation in any such plan or program shall be subject to the provisions, rules and regulations applicable thereto. To the extent the Company's group life insurance plan available for Executive provides for a death benefit of less than $3 million and the Company's long-term disability insurance policy provides for an annual disability benefit to Executive of less than $500,000, the Company shall reimburse Executive for an aggregate of up to $15,000 per year to cover Executive's cost of acquiring supplemental group term life insurance and supplemental long-term disability insurance to provide benefits that cover the foregoing deficiencies in coverage under the Company's policies. The Company shall indemnify Executive and hold him harmless from and against any claim, liability and expense (including, without limitation, reasonable attorney fees) made against or incurred by him in connection with his employment by the Company or his membership on the Board, in a manner and to an extent that is not less favorable to the Executive as the indemnification protection that is afforded by the Company to any other senior officer or director and that is consistent with industry custom and standards.

(d) Expenses.

(i) The Company will pay or reimburse Executive for all reasonable and necessary out-of-pocket expenses incurred by him in the performance of his duties under this Agreement, subject to the

Company's normal policies for expense verification. The Company shall also reimburse Employee for the reasonable and necessary costs of relocating his household goods from San Antonio and other reasonable and necessary moving and interim housing expenses incurred in connection with the move of Employee and his family from San Antonio, Texas to the New Jersey area. Such reasonable and necessary moving and interim housing expenses shall include, but not be limited to (1) realtor commissions and customary closing costs in connection with the sale of his home in Texas and interim loan closing costs and permanent loan closing costs relating to the acquisition of his home in the New Jersey area, (2) interest payments on the mortgage loan relating to his home in Texas until such time as his home in Texas shall have been sold and (3) extra or redundant costs (other than the principal payments on his mortgage loan relating to his home in Texas) associated with, or incurred in connection with, the continued ownership of his home in Texas pending its sale. In addition, the Company shall provide an additional payment to Executive such that after taking into account any taxes on such payment, Executive shall retain a sufficient amount equal to any income tax liability incurred by Executive in connection with the foregoing payments and reimbursements under this subparagraph (d)(i).

(ii) The Company will also bear the cost of a corporate country club membership, at Fiddler's Elbow Country Club, for use by Executive during the Term. Subject to the accuracy of the representations by Executive in Section 3(b) hereof, the Company shall reimburse Executive for all reasonable costs incurred by Executive in defending any action by Executive's prior employer or Genzyme which seeks to prevent or restrict Executive from performing his duties and obligations to the Company hereunder.

(e) Stock Options.

(i) Subject to Executive commencing his employment hereunder as the Company's President and Chief Executive Officer on the Commencement Date, Executive shall be granted an option to purchase 725,000 shares of Common Stock (the "Option") pursuant to the Stock Plan and the form of Non-Qualified Stock Option Agreement attached hereto as Exhibit A (the "Option Agreement") with an exercise price per share equal to the last reported sale price of a share of Common Stock as reported by the Nasdaq Stock Market on the Commencement Date or, if the Nasdaq Stock Market is not open on the Commencement Date, on the day next preceding the Commencement Date on which the Nasdaq Stock Market is open. The Option shall vest and be exercisable as to 225,000 shares on the Commencement Date, and as to an additional 125,000 shares on each of the first four anniversaries of the Commencement Date. In addition, at the discretion of the Board of Directors (or its applicable committee), Executive shall be entitled to receive further grants of stock options, subject to the terms of the Stock Plan.

(ii) The Option shall immediately and fully vest and become exercisable when the last reported sale price of a share of the Common Stock is at least one hundred dollars ($100.00) as reported on the Nasdaq Stock Market for at least twenty (20) consecutive trading days, provided that, except as otherwise provided in Section 10 hereof, Executive is then employed by the Company. Except as otherwise provided in Section 10 hereof, once the Option becomes exercisable it shall remain exercisable until 5:00 p.m. New York City time on the tenth (10th) anniversary of the Commencement Date. Except as otherwise provided in this Agreement, the Option Agreement, a copy of which Executive has received and reviewed, shall govern the terms of the Option.

(f) Restricted Stock. Subject to Executive commencing his employment hereunder as the Company's President and Chief Executive Officer, no later than ten (10) days after the Commencement Date, Executive shall be issued 75,000 shares of Common Stock (the "Restricted Stock") pursuant to the Stock Plan, which shares shall vest as to 22,500 shares on each of the third and fourth anniversaries of the Commencement Date and as to 30,000 shares on the fifth anniversary of the Commencement Date. Executive shall pay $750 to the Company for the Restricted Stock. The grant of the Restricted Stock shall be represented by, and subject to, the terms of the Restricted Stock Agreement annexed hereto

as Exhibit B. Prior to the issuance of the Restricted Stock to the Executive, the Company shall cause such issuance to be registered under the Securities Act of 1933, as amended (the "1933 Act"), such that Executive will be able to sell the Restricted Stock without complying with the holding period required under Rule 144 promulgated under the 1933 Act.

(g) Vacation. Executive shall be entitled to vacations in accordance with the policy of the Company with respect to its senior management, in effect from time to time.

(h) Tax and Financial Planning Services. During each year of the term of this Agreement, Company agrees to reimburse Executive, up to $10,000 per fiscal year, for the costs of all tax return preparation, including any United States, state, or local returns, as well as for professional estate and financial planning services, if any, with Executive choosing the tax and other professionals who will provide such services. In addition, the Company shall pay or reimburse the Executive for reasonable legal fees incurred in connection with this Agreement.

5. Noncompetition and Confidentiality Covenant.

(a) Noncompetition. The "Noncompete Period" shall be (i) the period of Executive's employment with the Company, and (ii) (A) the two (2) year period immediately following termination of Executive's employment with the Company in the event the Company terminates Executive's employment for Cause pursuant to Section 9(a)(iii) hereof, Executive voluntarily terminates his employment (but not any termination by Executive for Good Reason pursuant to Section 9(c) hereof) or Executive's employment is terminated in a manner which entitles him to severance payments under Section 10 hereof or (B) the one (1) year period following termination of Executive's employment with the Company if the Term ends as a result of a notice of non-renewal under Section 2 hereof. In consideration for the compensation payable to Executive pursuant to this Agreement, including without limitation the Option and Restricted Stock granted to Executive hereunder, during the Noncompete Period, Executive will not directly, or indirectly, whether as an officer, director, stockholder, partner, proprietor, associate, employee, consultant, representative or otherwise, become, or be interested in or associated with any other person, corporation, firm, partnership or entity, engaged to a significant degree in (x) developing, manufacturing, marketing or selling enzymes, protein-based biopharmaceuticals or other pharmaceuticals that are modified using polyethylene glycol ("PEG"), (y) developing, marketing or selling single-chain antigen-binding proteins or (z) any technology or area of business in which the Company becomes involved to a significant degree during the period of Executive's employment with the Company. For purposes of the preceding sentence, to determine whether any entity is engaged in such activities to a "significant degree", comparison will be made to the Company's operations at that time. In other words, an entity will be deemed to be engaged in an activity to a significant degree if the number of employees and/or amount of funds devoted by such entity to such activity would be material to the Company's operations at that time. Notwithstanding anything to the contrary contained herein, Executive shall be entitled to work with or for (i) an entity that is developing, marketing or manufacturing monoclonal antibodies, (ii) a licensee of the Company if the only activities conducted by such licensee that would be covered by the restrictions in this Section 5(a) are conducted pursuant to, and covered by, the license granted by the Company and (iii) an entity that is engaged in a research project that would be covered by the restrictions in this Section 5(a) if such research project is not material to such entity and Executive would have no direct involvement in such research project; provided in the case of employment covered by clauses (ii) and (iii) Executive shall have provided the Board with a detailed description of the proposed employment and obtained the written consent of the Board (which consent will not be unreasonably withheld) prior to commencing any such employment. Executive is hereby prohibited from ever using any of the Company's proprietary information or trade secrets to conduct any business, except for the Company's business while Executive is employed by the Company as provided in Section 5(b) hereof. The provisions contained in this Section 5(a) shall survive the termination of Executive's employment pursuant to Section 9 hereof or otherwise. In the event Executive breaches any of the covenants set forth in this Section 5(a), the running of the period of restriction set forth herein shall be tolled for the period during which the breach exists and recommence upon Executive's compliance with the terms of this Section 5(a).

(b) Confidentiality.

(i) Executive acknowledges that, by reason of his employment by the Company, he will have access to confidential information of the Company, including, but not limited to, information and knowledge pertaining to products, inventions, discoveries, improvements, innovations, designs, ideas, trade secrets, proprietary information, manufacturing, packaging, advertising, marketing, distribution and sales methods, sales and profit figures, customer and vendor lists and relationships between the Company and dealers, distributors, sales representatives, wholesalers, customers, suppliers and others who have business dealings with them ("Confidential Information"). The Executive acknowledges that such Confidential Information is a valuable and unique asset of the Company and covenants that, both during and after the Term, he will not disclose any Confidential Information to any person or entity, nor use the Confidential Information for any purpose, except as his duties as an employee of the Company may require, without the prior written authorization of the Board. The obligation of confidentiality imposed by this Section 5(b) shall not apply to Confidential Information that otherwise becomes generally known to the public through no act of the Employee in breach of this Agreement or any other party in violation of an existing confidentiality agreement with the Company or which is required to be disclosed by court order or applicable law.

(ii) All records, designs, patents, business plans, financial statements, manuals, memoranda, lists, research and development plans and products, and other property delivered to or compiled by Executive for or on behalf of the Company or its vendors or customers that pertain to the business of the Company shall be and remain the property of the Company, and be subject at all times to its discretion and control. Likewise, all formulae, correspondence, reports, records, charts, advertising materials and other similar data pertaining to the business, activities or future plans of the Company (and all copies thereof) that are collected by Executive shall be delivered promptly to the Company without request by it upon termination of Executive's employment.

(c) Nonsolicitation of Employees. During the Noncompete Period, Executive shall not, directly or indirectly, personally or through others, encourage to leave employment with the Company, solicit for employment, or advise or recommend to any other person, firm, business, or entity that they employ or solicit for employment, any employee of the Company or of any parent, subsidiary, or affiliate of the Company.

6. Ventures. If, during the term of his employment, the Executive is engaged in or associated with the planning or implementing of any project, program, venture or relationship involving the Company and a third party or parties, all rights in such project, program, venture or relationship shall belong to the Company. Except as approved by the Board, the Executive shall not be entitled to any interest in such project, program, venture or relationship or to any commission, finder's fee or other compensation in connection therewith other than the compensation to be paid to the Executive as provided in this Agreement.

7. Acknowledgment. Executive agrees that the covenants and agreements contained in Section 5 hereof are material to this Agreement; that each of such covenants is reasonable and necessary to protect and preserve the Company's interests, properties and business; that irreparable loss and damage will be suffered by the Company should Executive breach any of such covenants and agreements; that each of such covenants and agreements is separate, distinct and severable not only from the other of such covenants and agreements but also from the other and remaining provisions of this Agreement; that the unenforceability or breach of any such covenants or agreement shall not affect the validity or enforceability of any other such covenant or agreement or any other provision of this Agreement; and that, in addition to other remedies available to it, the Company shall be entitled to both temporary and permanent injunctions and any other rights or remedies it may have, at law or in equity, to end or prevent a breach or contemplated breach by Executive of any such covenants or agreements.

(a) Geographic Extent of Executive's Obligations Concerning Section 5.

The restrictions contained in Section 5 are limited to the United States. Given the nature of the Company's business, the restrictions contained in Section 5 cannot be limited to any particular geographic region within the United States. Therefore, the obligations of Executive under Section 5 shall apply to any geographic area in which the Company (i) has engaged in business during the period of Executive's employment with the Company through its investment or trading activities or otherwise, or (ii) has otherwise established during the period of Executive's employment with the Company its goodwill, business reputation or any customer or vendor relations.

(b) Limitation of Covenant. Ownership by Executive, as a passive investment, of less than five percent of the outstanding shares of capital stock or equity of any corporation or other entity that is publicly traded shall not constitute a breach of Section 5.

(c) Blue Pencil Doctrine. The restrictions contained in Section 5 are limited to the United States. If the duration or geographical extent of, or business activities covered by, Section 5 are in excess of what is valid and enforceable under applicable law, then such provision shall be construed to cover only that duration, geographical extent or activities that are valid and enforceable. Executive acknowledges the uncertainty of the law in this respect and expressly stipulates that this Agreement be given the construction which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable law.

(d) Disclosure. Executive shall disclose to any prospective employer, prior to accepting or continuing employment, the existence of Section 5 of this Agreement and shall provide such prospective employer with a copy of Section 5 of this Agreement. The obligation imposed by this subsection 7(d) shall terminate two years after the termination of Executive's employment with the Company.

8. Intellectual Property and Related Matters.

(a) Disclosure and Assignment. Executive will promptly disclose in writing to the Company complete information concerning each and every product, invention, discovery, practice, process or method, whether patentable or not, made, developed, perfected, devised, conceived or first reduced to practice by Executive, either solely or in collaboration with others, during the Term, or within six months thereafter, whether or not during regular working hours, relating either directly or indirectly to the business, products, practices or techniques of the Company ("Developments"). Executive, to the extent that he has the legal right to do so, hereby acknowledges that any and all of the Developments are the property of the Company and hereby assigns and agrees to assign to the Company any and all of Executive's right, title and interest in and to any and all of the Developments. At the request of the Company, Executive will confer with the Company and its representatives for the purpose of disclosing all Developments to the Company, as the Company shall reasonably request during the period ending one year after the Term.

(b) Limitation on Section 8(a). The provisions of Section 8(a) shall not apply to any Development meeting the following conditions:

(i) such Development was developed entirely on the Executive's own time;

(ii) such Development was made without the use of any Company equipment, supplies, facility or trade secret or customer information;

(iii) such Development does not relate (A) directly to the business of the Company or (B) to the Company's actual or demonstrably anticipated research or product or customer development; and

(iv) such Development does not result from any work performed by the Executive for the Company.

(c) Assistance of Executive. Upon request and without further compensation therefor, but at no expense to Executive, Executive will do all lawful acts, including but not limited to, the execution of papers and lawful oaths and the giving of testimony, that in the opinion of the Company, may be necessary or desirable in enforcing the Company's intellectual property and trade secret rights, and for perfecting, affirming and recording the Company's

complete ownership and title thereto.

(d) Records. Executive will keep complete, accurate and authentic accounts, notes, data and records of the Developments in the manner and form requested by the Company. Such accounts, notes, data and records shall be the property of the Company, and, upon the earlier of the Company's request or the conclusion of his employment, Executive will promptly surrender same to the Company.

(e) Copyrightable Material. All right, title and interest in all copyrightable material that Executive shall conceive or originate, either individually or jointly with others, and which arise out of the performance of this Agreement, will be the property of the Company and are by this Agreement assigned to the Company along with ownership of any and all copyrights in the copyrightable material. Upon request and without further compensation therefor, but at no expense to Executive, Executive shall execute all papers and perform all other acts necessary to assist the Company to obtain and register copyrights on such materials in any and all countries. Where applicable, works of authorship created by Executive for the Company in performing his responsibilities under this Agreement shall be considered "works made for hire," as defined in the U.S. Copyright Act.

(f) Know-How and Trade Secrets. All know-how and trade secret information conceived or originated by Executive that arises out of the performance of his obligations or responsibilities under this Agreement or any related material or information shall be the property of the Company, and all rights therein are by this Agreement assigned to the Company.

9. Termination of Employment.

(a) Grounds for Termination. Executive's employment pursuant to this Agreement shall terminate prior to the expiration of the Term in the event that at any time:

(i) Executive dies,

(ii) Executive becomes disabled (as defined below), so that he cannot perform the essential functions of his position with or without reasonable accommodation,

(iii) The Board elects to terminate Executive's employment for "Cause" and notifies Executive in writing of such election, or

(iv) The Board elects to terminate Executive's employment without "Cause" and notifies Executive in writing of such election.

If Executive's employment is terminated pursuant to clause (i), (ii) or (iii) of this Section 9(a), such termination shall be effective immediately. If Executive's employment is terminated pursuant to subsection (iv) of this Section 9(a), such termination shall be effective 30 days after delivery of the notice of termination.

(b) "Cause" Defined. "Cause" shall mean (i) the willful engaging by Executive in illegal conduct or gross misconduct which is demonstrably and materially injurious to the Company, (ii) Executive's refusal to attempt to perform his obligations to the Company hereunder (other than any such failure resulting from illness or incapacity), which refusal is demonstrably and materially injurious to the Company, but only after Executive has first received prior written notice of such alleged refusal, and fifteen (15) days thereafter to perform his obligations to the Company, or (iii) Executive's breach of his obligations under this Agreement, which breach is demonstrably and materially injurious to the Company, but only after Executive has first received prior written notice of such alleged breach and fifteen (15) days thereafter to perform his obligations to the Company For purposes of this Section 9(b), no act or failure to act on Executive's part shall be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that Executive's action of omission was in the best interest of the Company. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until the Company delivers to Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board (not including Executive) at a meeting of the Board called and held for such purpose (after reasonable

notice to Executive and an opportunity for Executive, together with counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, Executive engaged in conduct set forth above and specifying the particulars thereof in reasonable detail.

(c) Termination by Executive for Good Reason. Executive's employment pursuant to this Agreement may be terminated by Executive prior to the expiration of the Term in the event Executive has a "Good Reason" to terminate his employment, which shall mean the following:

(i) Any material adverse change in Executive's status or position, including, without limitation, any material adverse change in Executive's status or position as a result of a diminution in Executive's position, duties, responsibilities or authority or the assignment to Executive of any duties or responsibilities which are inconsistent with Executive's status or position, or any removal of Executive from or any failure to reappoint or reelect Executive to such positions, it being understood that Executive's not holding the positions of President, Chief Executive Officer and Chairman of the Board, at any time and for any reason without the Executive's written consent will constitute Good Reason hereunder; or

(ii) The failure of the Board to continue to maintain Executive as Chairman of the Board at all times during the Term; or

(iii) The failure of the Board to nominate Executive for reelection to the Board and recommend to the Company's stockholders that they vote in favor of Executive's reelection to the Board upon expiration of Executive's term on the Board at any time during the Term; or

(iv) A reduction in Executive's annual Base Salary as the same may be increased from time to time or failure to pay same; or

(v) A reduction in the Target Bonus which could be paid to Executive under the Bonus Plan below 100% of Executive's Base Salary or a failure to pay when due any Earned Bonus (including, without limitation, the guaranteed bonus for the fiscal year ending June 30, 2005 under Section 4(c) hereof), provided however, that the Company's failure to actually award any bonus to Executive, or the Company's actually awarding a bonus to Executive which is less than the Target Bonus, shall not constitute Good Reason; or

(vi) The breach by the Company of any of its material obligations under this Agreement; or

(vii) The relocation of the Company's principal executive offices to a location more than thirty-five (35) miles from the location of such offices or the Company requiring Executive to be based anywhere other than the Company's principal executive offices, except for required travel substantially consistent with Executive's business obligations.

Prior to the Executive being permitted to terminate his employment for Good Reason, the Company shall have sixty (60) days to cure any such alleged breach, assignment, reduction or requirement, after Executive provides the Company written notice of the actions or omissions constituting such breach, assignment, reduction or requirement.

(d) "Change of Control" Defined. Change of Control means the following:

(i) "Board Change" which, for purposes of this Agreement, shall have occurred if, over any twenty-four month period, a majority of the seats (other than vacant seats) on the Company's Board were to be occupied by individuals who were neither (A) nominated by at least one-half (1/2) of the directors then in office (but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on

behalf of a Person (as defined herein) other than the Board) nor (B) appointed by directors so nominated, or

(ii) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act"), (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of a majority of the then outstanding voting securities of the Company (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change of Control: (A) any acquisition by the Company, or (B) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (C) any public offering or private placement by the Company of its voting securities; or

(iii) a consolidation of the Company with another entity or a merger of the Company with another entity in which neither the Company nor a corporation that, prior to the merger or consolidation, was a subsidiary of the Company, shall be the surviving entity; or

(iv) a merger or consolidation of the Company following which either the Company or a corporation that, prior to the merger or consolidation, was a subsidiary of the Company, shall be the surviving entity and a majority of the Outstanding Company Voting Securities is owned by a Person or Persons who were not "beneficial owners" of a majority of the Outstanding Company Voting Securities immediately prior to such merger or consolidation; or

(v) a voluntary or involuntary liquidation of the Company; or

(vi) a sale or disposition by the Company of at least 80% of its assets in a single transaction or a series of transactions (other than a sale or disposition of assets to a subsidiary of the Company in a transaction not involving a Change of Control or a change in control of such subsidiary).

(e) "Disabled" Defined. As used in this Agreement, the term "disabled" means any mental or physical condition that renders Executive unable to perform the essential functions of his position, with or without reasonable accommodation, for a period in excess of 180 days.

(f) Surrender of Records and Property. Upon termination of his employment with the Company, Executive shall deliver promptly to the Company all records, manuals, books, lists, blank forms, documents, letters, memoranda, notes, notebooks, reports, data, tables, calculations or copies thereof that relate in any way to the business, products, practices or techniques of the Company, and all other property, trade secrets and confidential information of the Company, including, but not limited to, all documents that in whole or in part contain any trade secrets or confidential information of the Company, which in any of these cases are in his possession or under his control.

10. Effect of Termination.

(a) Termination Without Cause or for Good Reason .

In the event the Company terminates Executive's employment as the Company's President and Chief Executive Officer without Cause pursuant to Section 9(a)(iv) hereof or Executive terminates such employment for Good Reason pursuant to Section 9(c) hereof,

(i) Executive shall receive a lump sum cash payment equal to the sum of (1) any Base Salary payable through the date of termination and any Earned Bonus which remains unpaid as of the date of termination; (2) an amount equal to 400% of the Executive's Base Salary in effect at the time of his termination (or, if greater, the highest Base Salary in effect for any prior year); and (3) the pro rata portion of the Target Bonus (based on the Base Salary described in (i)(2) above) for the period worked during the fiscal year in which his termination occurs;

(ii) if Executive, and any spouse and/or dependents ("Family Members") has medical and dental coverage on the date of such

termination under a group health plan sponsored by the Company, then, for the first 18 months following the date of such termination, the Company will pay the full cost of continuing medical and dental coverage for the Executive and his covered family members under the Consolidated Omnibus Budget Reconciliation Act of 1986, 29 U.S.C. Sections 1161-1168; 26 U.S.C. Section 4980B(f), as amended, and all applicable regulations (referred to collectively as "COBRA"), provided, that the Company shall have no obligation to pay for such COBRA coverage if and to the extent the Executive and his Family Members become entitled to receive comparable benefits from and at the expense of a subsequent employer;

(iii) the restricted stock (and/or cash equivalent, if any) granted to Executive pursuant to Section 3(b)(ii) and the Restricted Stock granted pursuant to Section 4(f) hereof shall vest immediately upon termination;

(iv) to the extent the Option granted to Executive pursuant to Section 4(e) hereof has not vested at the time of such termination the Option will vest immediately upon termination;

(v) the Option granted to Executive pursuant to Section 4(e) hereof which has vested or become vested at the time or as a result of such termination will remain exercisable until its expiration date; and

(vi) Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to or as a result of Executive's termination.

(b) Termination For Cause. In the event the Company terminates Executive's employment as the Company's President and Chief Executive Officer for Cause pursuant to Section 9(a)(iii) hereof, (i) Executive shall be entitled to receive payment of any Base Salary payable through the date of termination and any Earned Bonus which remains unpaid as of the date of termination, (ii) Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to Executive's termination, (iii) to the extent the Option granted to Executive pursuant to Section 4(e) hereof has vested prior to the date of Executive's termination the Option shall remain exercisable with respect to such vested portion of the Option for a period of six months following Executive's termination, (iv) to the extent the Option granted to Executive pursuant to Section 4(e) hereof has not vested prior to the date of Executive's termination the Option will terminate with respect to such unvested portion of the Option as of the date of such termination and will be of no further force and effect, and (v) Executive will forfeit all unvested restricted stock (and/or cash equivalent, if any) granted to Executive pursuant to Section 3(b)(ii) and the Restricted Stock granted pursuant to Section 4(f) hereof.

(c) Death. In the event Executive's employment as the Company's President and Chief Executive Officer is terminated as a result of Executive's death, (i) Executive's estate or Executive's duly designated beneficiaries shall be entitled to payment of any Base Salary payable through the date of Executive's death and any Earned Bonus which remains unpaid as of the date of Executive's death, (ii) Executive's estate or Executive's duly designated beneficiaries shall be entitled to a pro rata amount of the Target Bonus (based on the Base Salary at the time of death) for the fiscal year in which he dies, (iii) the Option granted under Section 4(e) hereof and the restricted stock (and/or cash equivalent, if any) granted under Section 3(b)(ii) and the Restricted Stock granted pursuant to Section 4(f) hereof shall become fully vested and, if applicable, exercisable, with the Option remaining exercisable until the earlier of (A) three years from the date of death and (B) the end of the remaining stated exercise term of the Option, and (iv) Executive's estate or Executive's duly designated beneficiaries shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to Executive's death. If Executive's Family Members have medical and dental coverage on the date of such termination under a group health plan sponsored by the Company, the Company will reimburse such Family Member for the total applicable premium cost for medical and dental coverage under COBRA for such Family Members for a period of up to thirty-six (36) months commencing on the date of such termination; provided the Company shall have no obligation to reimburse such Family Members for the premium cost of COBRA coverage as of the date they become eligible to obtain comparable benefits from another employer.

(d) Disability. Upon termination of Executive's employment as the Company's President and Chief Executive Officer on account of Executive's disability pursuant to Section 9(a)(ii) hereof, (i) Executive shall be entitled to payment of any Base Salary payable through the commencement of long term disability payments to Executive under any plan provided or paid for by the Company and any Earned Bonus which remains unpaid as of the date of the termination of employment, (ii) Executive shall be entitled to a pro rata amount of the Target Bonus (based on the Base Salary at the time of such termination) for the fiscal year in which his employment is terminated, (iii) Executive shall be entitled to all compensation and benefits to which Executive is entitled pursuant to the Company's disability policies in effect as of the date of Executive's termination, (iv) the Option granted under Section 4(e) hereof and the restricted stock (and/or cash equivalent, if any) granted under Section 3(b)(ii) and the Restricted Stock granted pursuant to Section 4(f) hereof shall become fully vested and, if applicable, exercisable, with the Option remaining exercisable until the earlier of (A) three years from the date of such termination of Executive's employment on account of Executive's disability and (B) the end of the remaining stated exercise term of the Option; and (v) Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to or as a result of Executive's termination. If Executive and his Family Members have medical and dental coverage on the date of such termination under a group health plan sponsored by the Company, the Company will reimburse Executive for the total applicable premium cost for medical and dental coverage under COBRA for Executive and his Family Members for a period of up to eighteen (18) months commencing on the date of such termination; provided the Company shall have no obligation to reimburse Executive and his Family Members for the premium cost of COBRA coverage as of the date they become eligible to obtain comparable benefits from another employer.

(e) Voluntary Resignation. In the event Executive voluntarily terminates his employment as the Company's President and Chief Executive Officer, other than for Good Reason, or delivers to the Company a notice of non-renewal of this Agreement pursuant to Section 2 hereof, (i) Executive shall be entitled to receive payment of any Base Salary payable through the date of termination and any Earned Bonus which remains unpaid as of the date of termination, (ii) Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to Executive's termination, (iii) to the extent the Option granted to Executive pursuant to Section 4(e) hereof has vested prior to the date of such termination the Option shall remain exercisable with respect to such vested portion of the Option for a period of twelve months following such termination, (iv) to the extent the Option granted to Executive pursuant to Section 4(e) hereof has not vested prior to the date of such termination the Option will terminate with respect to such unvested portion of the Option as of the date of such termination and will be of no further force and effect, and (v) Executive will forfeit all unvested restricted stock (and/or cash equivalent, if any) granted to Executive pursuant to Section 3(b)(ii) and all unvested Restricted Stock granted pursuant to Section 4(f) hereof.

(f) Termination Without Cause or For Good Reason In Connection With A Change in Control. In the event the Company terminates Executive's employment as the Company's President and Chief Executive Officer without Cause pursuant to Section 9(a)(iv) hereof or Executive terminates such employment for Good Reason pursuant to Section 9(c) hereof within the period which commences ninety (90) days before and ends two (2) years following a Change in Control, in lieu of the provisions of Section 10(a) hereof,

(i) Executive shall receive a lump sum cash payment equal to the sum of (1) any Base Salary payable through the date of termination and any Earned Bonus which remains unpaid as of the date of termination, (2) the pro rated portion of the Target Bonus (based on the Base Salary at the time of such termination or, if higher, at the time during the 12 months preceding the Change in Control) for the period worked during the fiscal year in which such termination occurs, and (3) the product of 6 and Executive's annual rate of Base Salary at the time of such termination (or, if higher, at any time during the 12 months preceding the Change in Control);

(ii) if Executive and his Family Members have medical and dental coverage on the date of such termination under a group health

plan sponsored by the Company, then, for the first 18 months following the date of such termination, the Company will pay the full cost of continuing medical and dental coverage for the Executive and his covered family members under COBRA; provided, that the Company shall have no obligation to pay for COBRA coverage if and to the extent the Executive and his Family Members become entitled to receive comparable benefits from and at the expense of a subsequent employer; and

(iii) Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to Executive's termination.

In the event the Executive becomes entitled to payments and/or the accelerated vesting of the Option and/or restricted stock under this Section 10(f) or Section 10(h) or any other payments or benefits which are deemed to contingent upon a change in ownership or control pursuant to Section 280G of the Internal Revenue Code ("Code"), the Company shall cause its independent auditors promptly to review, at the Company's expense, the applicability of Section 4999 of the Code to such payments and/or vesting. If such auditors shall determine that any payment or distribution of any type by the Company to Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional cash payment (a "Gross-Up Payment") within 30 days of such determination equal to an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive would retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Total Payments. For purposes of the foregoing determination, Executive's tax rate shall be deemed to be the highest statutory marginal state and Federal tax rate (on a combined basis) (including his share of F.I.C.A. and Medicare taxes) then in effect. If no determination by the Company's auditors is made prior to the time a tax return reflecting the Total Payments is required to be filed by Executive, Executive will be entitled to receive a Gross-Up Payment calculated on the basis of the Total Payments reported by Executive in such tax return, within 30 days of the filing of such tax return. In all events, if any tax authority determines that a greater Excise Tax should be imposed upon the Total Payments than is determined by the Company's independent auditors or reflected in Executive's tax return pursuant to this Section 10(f), the Executive shall be entitled to receive the full Gross-Up Payment calculated on the basis of the amount of Excise Tax determined to be payable by such tax authority from the Company within 30 days of such determination.

(g) All payments made to Executive under any of the subsections of this Section 10 which are based upon Executive's salary or Bonus shall be made at or as soon as practicable after the termination of Executive's employment.

(h) Notwithstanding anything to the contrary contained herein or in any other agreement or plan, immediately prior to the occurrence of a Change of Control, the Option granted under Section 4(e) hereof and the restricted stock (and/or cash equivalent, if any) granted under Section 3(b)(ii) and the Restricted Stock granted pursuant to Section 4(f) hereof shall become fully vested and, if applicable, exercisable, it being understood that Executive will be entitled to participate in such transaction with respect to all of the shares covered by such awards.

(i) Notwithstanding anything to the contrary contained herein, if Executive's employment with the Company terminates or is deemed terminated before the payment in full of the $412,500 guaranteed minimum bonus for 2005 (described in Section 4(b) hereof) and the Consulting Agreement Payments (determined under Section 3(b) hereof), then, unless Executive's employment is terminated by him voluntarily without Good Reason or by the Company for Cause, the Executive shall be entitled to receive from the Company (1) the full amount of the guaranteed minimum bonus promptly after the termination of his employment, and (2) the balance of the Consulting Agreement Payments as and when they would have been payable if Executive's employment with the Company had continued.

11. Miscellaneous.

(a) Entire Agreement. This Agreement (including the exhibits, schedules and other documents referred to herein) contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes any prior understandings, agreements or representations, written or oral, relating to the subject matter hereof.

(b) Counterparts. This Agreement may be executed in separate counterparts, each of which will be an original and all of which taken together shall constitute one and the same agreement, and any party hereto may execute this Agreement by signing any such counterpart.

(c) Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law but if any provision of this Agreement is held to be invalid, illegal or unenforceable under any applicable law or rule, the validity, legality and enforceability of the other provision of this Agreement will not be affected or impaired thereby.

(d) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives and, to the extent permitted by subsection (e), successors and assigns. The Company will require its successors to expressly assume its obligations under this Agreement.

(e) Assignability. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable (including by operation of law) by either party without the prior written consent of the other party to this Agreement, except that the Company may, without the consent of the Executive, assign its rights and obligations under this Agreement to any corporation, firm or other business entity with or into which the Company may merge or consolidate, or to which the Company may sell or transfer all or substantially all of its assets, or of which 50% or more of the equity investment and of the voting control is owned, directly or indirectly, by, or is under common ownership with, the Company. After any such assignment by the Company, and provided that such assignment arises by operation of law or involves an express written assumption by the assignee, the Company shall be immediately released and discharged from all further liability hereunder and such assignee shall thereafter be deemed to be the Company for the purposes of all provisions of this Agreement.

(f) Modification, Amendment, Waiver or Termination. No provision of this Agreement may be modified, amended, waived or terminated except by an instrument in writing signed by the parties to this Agreement. No course of dealing between the parties will modify, amend, waive or terminate any provision of this Agreement or any rights or obligations of any party under or by reason of this Agreement. No delay on the part of the Company in exercising any right hereunder shall operate as a waiver of such right. No waiver, express or implied, by the Company of any right or any breach by Executive shall constitute a waiver of any other right or breach by Executive.

(g) Notices. All notices, consents, requests, instructions, approvals or other communications provided for herein shall be in writing and delivered by personal delivery, overnight courier, mail, electronic facsimile or e-mail addressed to the receiving party at the address set forth herein. All such communications shall be effective when received.

Address for the Executive:

Jeffrey H. Buchalter
150 Manchester Way
San Antonio, Texas 78249

or his home address subsequent to his relocation to the New Jersey area in connection with his duties under this Agreement.

Address for the Company:

Enzon Pharmaceuticals, Inc.
685 Route 202/206
Bridgewater, New Jersey 08807
Attn: General Counsel

Any party may change the address set forth above by notice to each other party given as provided herein.

(h) Headings. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

(i) Governing Law. ALL MATTERS RELATING TO THE INTERPRETATION, CONSTRUCTION, VALIDITY AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW JERSEY, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW PROVISIONS THEREOF.

(j) Resolution of Certain Claims - Injunctive Relief. The Executive acknowledges that it would be difficult to fully compensate the Company for damages resulting from any breach by him of the provisions of this Agreement. Accordingly, the Executive agrees that, in addition to, but not to the exclusion of any other available remedy, the Company shall have the right to enforce the provisions of Sections 5 through 8 or 9(f) by applying for and obtaining temporary and permanent restraining orders or injunctions from a court of competent jurisdiction without the necessity of filing a bond therefor, and without the necessity of proving actual damages, and the Company shall be entitled to recover from the Executive its reasonable attorneys' fees and costs in enforcing the provisions of Sections 5 through 8 or 9(f).

(k) Arbitration. Except as otherwise specifically provided for hereunder, any claim or controversy arising out of or relating to this Agreement or the breach hereof shall be settled by arbitration in accordance with the laws of the State of New Jersey. Such arbitration shall be conducted in the State and City of New Jersey in accordance with the rules then existing of the American Arbitration Association which pertain to employment disputes. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event of any dispute arising under this Agreement, the respective parties shall be responsible for the payment of their own legal fees and disbursements.

(l) Board Approval. On or prior to the Effective Date, the Company shall provide Executive with a copy of the duly adopted resolutions of its Board approving the terms of this Agreement, electing the Executive to the positions of President and Chief Executive Officer effective as of the Commencement Date and (if not already effected) electing Executive to the Board effective as of the Commencement Date.

(m) Third-Party Benefit. Nothing in this Agreement, express or implied, is intended to confer upon any other person any rights, remedies, obligations or liabilities of any nature whatsoever.

(n) Withholding Taxes. The Company may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement as of the Effective Date.

ENZON PHARMACEUTICALS, INC.

By: /s/ Kenneth J. Zuerblis

Kenneth J. Zuerblis
Chief Financial Officer

EXECUTIVE

/s/ Jeffrey H. Buchalter

Jeffrey H. Buchalter

EXHIBIT 10.2

EXECUTION COPY

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "Agreement") dated as of January 5, 2005 (the "Effective Date"), between ENZON PHARMACEUTICALS, INC. (the "Company"), a Delaware corporation with offices in Bridgewater, New Jersey, and CRAIG A. TOOMAN (the "Executive"), a resident of Texas.

BACKGROUND

A. The Company is a biopharmaceutical company engaged in developing advanced therapeutics for life threatening diseases.

B. The Executive has experience as an executive in the biopharmaceutical industry.

C. The Company wishes to employ the Executive to render services for the Company on the terms and conditions set forth in this Agreement, and the Executive wishes to be retained and employed by the Company on such terms and conditions.

TERMS

In consideration of the foregoing premises, the mutual agreements set forth below and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Employment. The Company hereby employs the Executive, and the Executive accepts such employment and agrees to perform services for the Company, for the period and upon the other terms and conditions set forth in this Agreement.

2. Term. The term of the Executive's employment hereunder (the "Term") shall commence on the Effective Date, and unless terminated at an earlier date in accordance with Section 9 hereof, and shall extend through the third anniversary of the Effective Date, subject to automatic renewal for an additional twenty-four (24) months, unless either party hereto receives written notice from the other party no later than ninety (90) days prior to the third anniversary of the Effective Date (a "first term notice of non-renewal") that such other party does not wish for the term hereof to continue beyond the third anniversary of the Effective Date, in which event the term hereof and the Executive's employment shall end at 5:00 PM on the third anniversary of the Effective Date. If neither party provides a first term notice of non-renewal prior to the third anniversary of the Effective Date, then the Term and the Executive's employment shall extend until 5:00 PM Eastern Time on the earlier of (a) the fifth (5th) anniversary of the Effective Date and (b) the date that is twelve (12) months following the date on which either party hereto receives written notice (an "extension term notice of non-renewal") from the other party that such other party does not wish for the term hereof to continue beyond such twelve (12) month notice period. For the purposes of this Agreement, a "first term notice of non-renewal" and an "extension term notice of non-renewal" shall be referred to collectively as a "notice of non-renewal."

3. Position and Duties.

(a) Service with Company. During the Term, the Executive agrees to perform such employment duties for the Company in an executive and managerial capacity commensurate with the position of Executive Vice President of Strategic Planning and Corporate Communications of the Company. As Executive Vice President of Strategic Planning and Corporate Communications, the Executive shall have the authority, duties and responsibilities associated with this position, including, without limitation, the authority and duty generally to supervise and direct the strategic planning, investor and public relations business of the Company as well as such additional duties consistent with his position as assigned by the Chief Executive Officer, reporting to the Chief Executive Officer, and subject to the control and direction of the Chief Executive Officer of the Company, the Board of Directors of the Company (the "Board"), or any duly authorized Committee of the Board.

(b) Performance of Duties.

(i) The Executive agrees to serve the Company faithfully and to the best of his ability and to devote his full time, attention and efforts to the business and affairs of the Company during his employment by the Company.

(ii) The Executive has provided the Company with a draft of a Consulting Agreement between the Executive and Genzyme Oncology ("Genzyme") (such draft substantially in the form as previously sent to the Company being the "Consulting Agreement"), which, to the best of the Executive's knowledge, is the only agreement that could arguably restrict or interfere with his employment activities subsequent to the termination of his employment with his former employer. Company agrees that the execution by the Executive of and the performance by the Executive of his obligations under the Consulting Agreement shall not constitute a breach of this Agreement, and Company specifically authorizes the Executive to fulfill the terms of the Consulting Agreement.

(iii) The Executive agrees that he will not use on behalf, or for the benefit, of the Company, or disclose to the Company, any confidential information of or concerning his former employer or Genzyme. It is the Company's intention that the Executive not breach any confidentiality agreement to which he is party, including, without limitation, any such agreement he may have with his former employer or Genzyme. The Executive will not render or perform services for any other corporation, firm, entity or person which are inconsistent with the provisions of this Agreement other than pursuant to the terms of the Consulting Agreement.

(iv) While he remains employed by the Company, the Executive may participate in reasonable charitable activities and personal investment activities so long as such activities do not conflict or interfere with the performance of his obligations under this Agreement.

(c) The Executive's Representations and Warranties. The Executive represents and warrants to the Company that his entering into and performing this Agreement will not constitute a breach of any employment, consulting, non-competition or other agreement to which he is a party or any other obligation of the Executive (including, without limitation, the Consulting Agreement). The Executive represents and warrants to the Company that he has not been debarred under the Generic Drug Enforcement Act of 1992 (Sections 306-308 of the Federal Food, Drug and Cosmetic Act) nor has the Executive received notice of action or threat of action of debarment. The Executive shall comply with the Company's material policies governing the conduct of senior executives, including, without limitation, its Substance Abuse Policy, during the Term.

4. Compensation.

(a) Base Salary. The Company shall pay to the Executive, less applicable deductions and withholdings, base salary (the "Base Salary") at an annual rate of Three Hundred Fifteen Thousand Dollars ($315,000) per year, which Base Salary shall be paid in accordance with the Company's normal payroll procedures and policies for its senior management. The compensation payable to the Executive during each fiscal year of the Company beginning after the Effective Date shall be established by the Board or the Compensation Committee thereof following an annual performance review, but in no event shall the annual rate of Base Salary for any successive year of the Term be less than the highest annual rate of Base Salary in effect during the previous year of the Term.

(b) Annual Bonus. The Executive shall be entitled to participate in the Company's bonus plan for management and any successor bonus plan covering management with respect to each fiscal year of the Company ending during the Term (the "Bonus Plan"). Under the Bonus Plan, the Executive shall be eligible to receive a performance-based cash bonus for each fiscal year ending during the Term in an amount, and based on objective individual and/or corporate objectives, targets and factors (and evaluation as to the extent of achievement thereof), to be established and determined by the Board in its discretion following consultation between the Chief Executive Officer and the Executive prior to, or within sixty (60) days after the commencement of, each fiscal year. Under the Bonus Plan for the Executive, (i) the minimum cash bonus shall be zero

(0), (ii) the target cash bonus shall equal 50% of the Base Salary (the "Target Bonus"), and (iii) the maximum cash bonus shall equal 82.5% of Base Salary. In addition to the foregoing amounts, within five (5) days after Executive's first day of employment, the Company shall pay to Executive a bonus in cash in the amount of $125,000.

(c) Participation in Benefit Plans; Indemnification. While he is employed by the Company, the Executive shall also be eligible to participate in any incentive and employee benefit plans or programs which may be offered by the Company to the extent that the Executive meets the requirements for each individual plan and in all other plans in which Company executives participate. The Company provides no assurance as to the adoption or continuance of any particular employee benefit plan or program, and, except as provided at Section 10 hereof, the Executive's participation in any such plan or program shall be subject to the provisions, rules and regulations applicable thereto. During the Executive's employment with the Company, and thereafter, the Company shall indemnify the Executive and hold him harmless from and against any claim, liability and expense (including, without limitation, reasonable attorney fees) made against or incurred by him in connection with his employment by the Company, and cover him under a policy of directors and officers liability insurance, in a manner and to an extent that is not less favorable to the Executive as the indemnification protection, and liability insurance coverage, that is afforded by the Company to any other senior officer or director.

(d) Expenses. The Company will pay or reimburse the Executive for all reasonable and necessary out-of-pocket expenses incurred by him in the performance of his duties under this Agreement, subject to the Company's normal policies for expense verification.

(i) The Company shall also reimburse Executive for the reasonable and necessary costs of relocating his household goods and vehicles and personal effects from San Antonio and other reasonable and necessary moving and interim housing expenses incurred in connection with the move of Executive and his family from San Antonio, Texas to the New Jersey area. Such reasonable and necessary moving and interim housing expenses shall include, but not be limited to (1) realtor commissions and customary closing costs in connection with the sale of his home in Texas and interim loan closing costs and permanent loan closing costs relating to the acquisition of his home in the New Jersey area, (2) interest payments on the mortgage loan relating to his home in Texas until his home in Texas shall have been sold and (3) extra or redundant costs (other than the principal payments on his mortgage loan relating to his home in Texas) associated with, or incurred in connection with, the continued ownership of his home in Texas pending its sale. In addition, the Company shall provide an additional payment to Executive such that after taking into account any taxes on such payment, Executive shall retain a sufficient amount equal to any income tax liability incurred by Executive in connection with the foregoing payments and reimbursements under this subparagraph (d)(i). If the Executive voluntarily terminates his employment for Good Reason (defined below), he shall not be obligated to repay any amount provided to the Executive under this Section 4(d)(i). In the event of any inconsistency between this Agreement and the Company's relocation policy, this Agreement shall control.

(e) Stock Options. Subject to the Executive commencing his employment hereunder as the Company's Executive Vice President of Strategic Planning and Corporate Communications on the Effective Date, the Executive shall be granted options to purchase shares of common stock of the Company ("Common Stock") pursuant to the Company's 2001 Incentive Stock Plan, as amended (the "Stock Plan") and the form of Non-Qualified Stock Option Certificate and Agreement attached hereto as Exhibit A (the "Option Agreement"). Such options (the "Option") will cover 125,000 (One Hundred Twenty Five Thousand) shares of Common Stock at an exercise price per share equal to the last reported sale price of a share of Common Stock as reported by the Nasdaq Stock Market on the Effective Date or, if the Nasdaq Stock Market is not open on the Effective Date, on the day next preceding the Effective Date on which the Nasdaq Stock Market is open. The Option shall vest and be exercisable as to 31,250 shares on each of the first four anniversaries of the Effective Date. Except as otherwise provided in Section 10 hereof, once such options become exercisable, they shall remain exercisable until 5:00 PM Eastern Time on the tenth (10th) anniversary of the Effective Date. Except as otherwise provided in this Agreement, the Option

Agreement, a copy of which the Executive has received and reviewed, shall govern the terms of the options granted hereunder. In addition, at the discretion of the Board of Directors (or its applicable committee), the Executive shall be entitled to receive further grants of stock options, subject to the terms of the Option Plan.

(f) Restricted Stock. Upon execution of this Agreement, the Executive shall be granted 25,000 (Twenty Five Thousand) shares of restricted stock, subject to the terms of the Restricted Stock Award Agreement attached hereto as Exhibit B and the 2001 Incentive Stock Plan. The restricted stock shall vest 7,500 shares on each of the third and fourth anniversaries of the Effective Date and 10,000 shares on the fifth anniversary of the Effective Date. The Executive acknowledges that he has received and reviewed a copy of the 2001 Incentive Stock Plan. At the discretion of the Board of Directors (or its applicable committee), the Executive shall be entitled to receive additional grants of restricted stock, subject to the terms of the 2001 Incentive Stock Plan or such other equity compensation plans that may be adopted by the Company from time to time. Nothing contained herein shall be deemed to guarantee the Executive any additional grants of options, restricted stock, other equity awards or securities of the Company.

(g) Vacation. The Executive shall be entitled to vacations in accordance with the policy of the Company with respect to its senior management, in effect from time to time.

(h) Tax and Financial Planning Services. During each year of the term of this Agreement, Company agrees to reimburse Executive, up to $7,500 per fiscal year, for the costs of all tax return preparation, including any United States, state, or local returns, as well as for professional estate and financial planning services, if any, with Executive choosing the tax and other professionals who will provide such services. The Company will pay Executive's professional fees incurred to negotiate and prepare this Agreement and related agreements, in an amount not to exceed $7,500.

(i) Certain Legal Expenses. In the event of any legal proceedings, including without limitation arbitration, between the Company and Executive with respect to any dispute hereunder in which Executive prevails over the Company, the Company shall pay Executive's reasonable legal fees and expenses incurred in connection with such proceedings.

5. Noncompetition and Confidentiality Covenant.

(a) Noncompetition. The "Noncompete Period" shall be the Term plus the one (1) year period immediately following termination of the Executive's employment with the Company irrespective of the reason for, or circumstances surrounding, such termination. In consideration for the compensation payable to the Executive pursuant to this Agreement, including without limitation the stock options and Restricted Stock granted to the Executive hereunder, during the Noncompete Period, the Executive will not directly, or indirectly, whether as an officer, director, stockholder, partner, proprietor, associate, employee, consultant, representative or otherwise, become, or be interested in or associated with any other person, corporation, firm, partnership or entity, engaged to a significant degree in (x) developing, manufacturing, marketing or selling enzymes, protein-based biopharmaceuticals or other pharmaceuticals that are modified using polyethylene glycol ("PEG"), (y) developing, marketing or selling single-chain antigen-binding proteins or (z) any specific technology or specific area of business in which the Company becomes involved to a significant degree during the Term. For purposes of the preceding sentence, to determine whether any entity is engaged in such activities to a "significant degree", comparison will be made to the Company's operations at that time. In other words, an entity will be deemed to be engaged in an activity to a significant degree if the number of employees and/or amount of funds devoted by such entity to such activity would be material to the Company's operations at that time. The Executive is hereby prohibited from ever using any of the Company's proprietary information or trade secrets to conduct any business, except for the Company's business while the Executive is employed by the Company as provided in Section 5(b) hereof. The provisions contained in this Section 5(a) shall survive the termination of the Executive's employment pursuant to Section 9 hereof or otherwise. In the event the Executive breaches any of the covenants set forth in this Section 5(a), the running of the period of restriction set forth herein shall be tolled for the period during which the breach exists and recommence upon the Executive's compliance with the terms of this Section 5(a).

(b) Confidentiality.

(i) The Executive acknowledges that, by reason of his employment by the Company, he will have access to confidential information of the Company, including, but not limited to, information and knowledge pertaining to products, inventions, discoveries, improvements, innovations, designs, ideas, trade secrets, proprietary information, manufacturing, packaging, advertising, marketing, distribution and sales methods, sales and profit figures, customer and vendor lists and relationships between the Company and dealers, distributors, sales representatives, wholesalers, customers, suppliers and others who have business dealings with them (collectively, "Confidential Information"). The Executive acknowledges that such Confidential Information is a valuable and unique asset of the Company and covenants that, both during and after the Term, he will not disclose any Confidential Information to any person or entity, nor use the Confidential Information for any purpose, except as his duties as an employee of the Company may require, without the prior written authorization of the Board. The obligation of confidentiality imposed by this Section 5(b) shall not apply to Confidential Information that otherwise becomes generally known to the public through no act of the Employee in breach of this Agreement or any other party in violation of an existing confidentiality agreement with the Company or which is required to be disclosed by a specific order of a court or governmental agency.

(ii) All Confidential Information, as well as any other records, designs, patents, business plans, financial statements, manuals, memoranda, lists, research and development plans and products, and other property delivered to or compiled by the Executive for or on behalf of the Company or its vendors or customers that pertain to the business of the Company shall be and remain the property of the Company, and be subject at all times to its discretion and control. Likewise, all Confidential Information, as well as any other formulae, correspondence, reports, records, charts, advertising materials and other similar data pertaining to the business, activities or future plans of the Company (and all copies thereof) that are collected by the Executive shall be delivered promptly to the Company without request by it upon termination of the Executive's employment.

(c) Nonsolicitation of Employees. During the Noncompete Period, the Executive shall not, directly or indirectly, personally or through others, encourage to leave employment with the Company, solicit for employment, or advise or recommend to any other person, firm, business, or entity that they employ or solicit for employment, any employee of the Company or of any parent, subsidiary, or affiliate of the Company.

6. Ventures. If, during the term of his employment, the Executive is engaged in or associated with the planning or implementing of any project, program, venture or relationship involving the Company and a third party or parties, all rights in such project, program, venture or relationship shall belong to the Company. Except as approved by the Board, the Executive shall not be entitled to any interest in such project, program, venture or relationship or to any commission, finder's fee or other compensation in connection therewith other than the compensation to be paid to the Executive as provided in this Agreement.

7. Acknowledgment. The Executive agrees that the covenants and agreements contained in Section 5 hereof are material to this Agreement; that each of such covenants is reasonable and necessary to protect and preserve the Company's interests, properties and business; that irreparable loss and damage will be suffered by the Company should the Executive breach any of such covenants and agreements; that each of such covenants and agreements is separate, distinct and severable not only from the other of such covenants and agreements but also from the other and remaining provisions of this Agreement; that the unenforceability or breach of any such covenants or agreement shall not affect the validity or enforceability of any other such covenant or agreement or any other provision of this Agreement; and that, in addition to other remedies

available to it, the Company shall be entitled to both temporary and permanent injunctions and any other rights or remedies it may have, at law or in equity, to end or prevent a breach or contemplated breach by the Executive of any such covenants or agreements.

(a) Geographic Extent of the Executive's Obligations Concerning Section 5. The restrictions contained in Section 5 are limited to the United States. Given the nature of the Company's business, the restrictions contained in Section 5 cannot be limited to any particular geographic region within the United States. Therefore, the obligations of the Executive under Section 5 shall apply to any geographic area in which the Company (i) has engaged in business during the period of the Executive's employment with the Company or (ii) has otherwise established during the period of the Executive's employment with the Company its goodwill, business reputation or any customer or vendor relations.

(b) Limitation of Covenant. Ownership by the Executive, as a passive investment, of less than five percent (5%) of the outstanding shares of capital stock or equity of any corporation or other entity that is publicly traded shall not constitute a breach of Section 5.

(c) Blue Pencil Doctrine. The restrictions contained in Section 5 are limited to the United States. If the duration or geographical extent of, or business activities covered by, Section 5 are in excess of what is valid and enforceable under applicable law, then such provision shall be construed to cover only that duration, geographical extent or activities that are valid and enforceable. The Executive acknowledges the uncertainty of the law in this respect and expressly stipulates that this Agreement be given the construction which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable law.

(d) Disclosure. The Executive shall disclose to any prospective employer, prior to accepting or continuing employment, the existence of Section 5 of this Agreement and shall provide such prospective employer with a copy of Section 5 of this Agreement. The obligation imposed by this subsection 7(d) shall terminate one year after the termination of the Executive's employment with the Company.

8. Intellectual Property and Related Matters.

(a) Disclosure and Assignment. The Executive will promptly disclose in writing to the Company complete information concerning each and every product, invention, discovery, practice, process or method, whether patentable or not, made, developed, perfected, devised, conceived or first reduced to practice by the Executive, either solely or in collaboration with others, during the Term, or within six months thereafter, whether or not during regular working hours, relating either directly or indirectly to the business, products, practices or techniques of the Company ("Developments"). The Executive hereby acknowledges that any and all of the Developments are the property of the Company and hereby assigns and agrees to assign to the Company any and all of the Executive's right, title and interest in and to any and all of the Developments. At the request of the Company, the Executive will confer with the Company and its representatives for the purpose of disclosing all Developments to the Company, as the Company shall reasonably request during the period ending three (3) years after the end of the Term.

(b) Limitation on Section 8(a). The provisions of Section 8(a) shall not apply to any Development meeting the following conditions:

(i) such Development was developed entirely on the Executive's own time;

(ii) such Development was made without the use of any Company equipment, supplies, facility or trade secret or customer information;

(iii) such Development does not relate (A) directly to the business of the Company or (B) to the Company's actual or demonstrably anticipated research or product or customer development; and

(iv) such Development does not result from any work performed by the Executive for the Company.

(c) Assistance of the Executive. Upon request and without further

compensation therefor, but at no expense to the Executive, the Executive will do all lawful acts, including but not limited to, the execution of papers and lawful oaths and the giving of testimony, that in the opinion of the Company, may be necessary or desirable in enforcing the Company's intellectual property and trade secret rights, and for perfecting, affirming and recording the Company's complete ownership and title thereto.

(d) Records. The Executive will keep complete, accurate and authentic accounts, notes, data and records of the Developments in the manner and form requested by the Company. Such accounts, notes, data and records shall be the property of the Company, and, upon the earlier of the Company's request or the conclusion of his employment, the Executive will promptly surrender same to the Company.

(e) Copyrightable Material. All right, title and interest in all copyrightable material that the Executive shall conceive or originate, either individually or jointly with others, and which arise out of the performance of his duties under this Agreement or otherwise as an employee of the Company, will be the property of the Company and are by this Agreement assigned to the Company along with ownership of any and all copyrights in the copyrightable material. Upon request and without further compensation therefor, but at no expense to the Executive, the Executive shall execute all papers and perform all other acts necessary to assist the Company to obtain and register copyrights on such materials in any and all countries. Where applicable, works of authorship created by the Executive for the Company in performing his responsibilities under this Agreement shall be considered "works made for hire," as defined in the U.S. Copyright Act.

(f) Know-How and Trade Secrets. All know-how and trade secret information conceived or originated by the Executive that arises out of the performance of his obligations or responsibilities under this Agreement or any related material or information shall be the property of the Company, and all rights therein are by this Agreement assigned to the Company.

9. Termination of Employment.

(a) Grounds for Termination. The Executive's employment pursuant to this Agreement shall terminate prior to the expiration of the Term in the event that at any time:

(i) the Executive dies,

(ii) the Executive becomes disabled (as defined below), so that he cannot perform the essential functions of his position with or without reasonable accommodation,

(iii) The Board elects to terminate the Executive's employment for "Cause" and notifies the Executive in writing of such election,

(iv) The Board elects to terminate the Executive's employment without "Cause" and notifies the Executive in writing of such election, or

(v) The Executive elects to terminate his employment, without Good Reason and without liability, and notifies the Board in writing of such election.

If the Executive's employment is terminated pursuant to clause (i), (ii) or (iii) of this Section 9(a), such termination shall be effective immediately. If the Executive's employment is terminated pursuant to subsection (iv) of this Section 9(a), such termination shall be effective 30 days after receipt of the notice of termination, and if pursuant to subsection (v) of this Section 9(a), such termination shall be effective 15 days after receipt of such notice.

(b) "Cause" Defined. "Cause" shall mean (i) the willful engaging by the Executive in illegal conduct or gross misconduct that is demonstrably and materially injurious to the Company, (ii) the Executive's willful refusal to perform his duties hereunder (other than any such failure resulting from illness or incapacity) which refusal is demonstrably and materially injurious to the Company, but only after the Executive has first received written notice of such alleged refusal, and such refusal shall have continued for fifteen (15) days

after such notice without cure by the Executive, or (iii) the Executive's material breach of his obligations under this Agreement which breach is demonstrably and materially injurious to the Company, but only after the Executive has first received written notice of such alleged breach and has failed to cure such breach within fifteen (15) days after such notice; provided, however, that if the breach is not one that can be reasonably cured, then the foregoing requirement in this Clause (iii) for notice and opportunity to cure shall not apply. For purposes of this Section 9(b), no act or failure to act on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's action or omission was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until the Company delivers to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the Board (not including the Executive, if he is then on the Board) at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive engaged in conduct set forth above and specifying the particulars thereof in reasonable detail.

(c) Termination by the Executive for Good Reason. The Executive's employment pursuant to this Agreement may be terminated by the Executive prior to the expiration of the Term in the event the Executive has "Good Reason" to terminate his employment, which shall mean the following:

(i) Any material adverse change in the Executive's status or position, including, without limitation, any material diminution in the Executive's position, duties, responsibilities or authority or the assignment to the Executive of any duties or responsibilities that are inconsistent with the Executive's status or position as of the Effective Date; or

(ii) A reduction in the Executive's annual Base Salary as the same may be increased from time to time or failure to pay same; or

(iii) A reduction in the Target Bonus which could be paid to the Executive under the Bonus Plan below 50% of the Executive's Base Salary or a failure to pay when due any bonus earned for a completed performance period in accordance with the applicable bonus plan ("Earned Bonus"), provided however, that the Company's failure to actually award any bonus to the Executive, or the Company's actually awarding a bonus to the Executive which is less than the Target Bonus in each case in accordance with the applicable bonus plan, shall not constitute Good Reason; or

(iv) The breach by the Company of any of its material obligations under this Agreement;

(v) The relocation of the Company's principal executive offices to a location that increases the Executive's commuting distance by more than thirty-five (35) miles or the Company requiring the Executive to be based anywhere other than the Company's principal executive offices, except for required travel substantially consistent with the Executive's business obligations;

(vi) The Company provides the Executive a notice of non-renewal of the Term under Section 2(b) hereof; or

(vii) Jeffrey Buchalter ceases to be the Chief Executive Officer of the Company for any reason.

Prior to the Executive being permitted to terminate his employment for Good Reason, the Company shall have sixty (60) days to cure any such alleged breach, assignment, reduction or requirement, after the Executive provides the Company written notice of the actions or omissions constituting such breach, assignment, reduction or requirement.

(d) "Change of Control" Defined. Change of Control means the following:

(i) "Board Change" which, for purposes of this Agreement,

shall have occurred if, over any twenty-four month period, a majority of the seats (other than vacant seats) on the Company's Board were to be occupied by individuals who were neither (A) nominated by at least one-half (1/2) of the directors then in office (but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a Person (as defined herein) other than the Board) nor (B) appointed by directors so nominated, or

(ii) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act") (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of a majority of the then outstanding voting securities of the Company (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change of Control: (A) any acquisition by the Company, or (B) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (C) any public offering or private placement by the Company of its voting securities; or

(iii) a consolidation of the Company with another entity or a merger of the Company with another entity in which neither the Company nor a corporation that, prior to the merger or consolidation, was a subsidiary of the Company, shall be the surviving entity; or

(iv) a merger or consolidation of the Company following which either the Company or a corporation that, prior to the merger or consolidation, was a subsidiary of the Company, shall be the surviving entity, but a majority of the Outstanding Company Voting Securities is then owned by a Person or Persons who were not "beneficial owners" of a majority of the Outstanding Company Voting Securities immediately prior to such merger or consolidation; or

(v) a voluntary or involuntary liquidation of the Company; or

(vi) a sale or disposition by the Company of at least 80% of its assets in a single transaction or a series of transactions (other than a sale or disposition of assets to a subsidiary of the Company in a transaction not involving a Change of Control or a change in control of such subsidiary).

Transactions in which the Executive is part of the acquiring group do not constitute a Change of Control.

(e) "Disabled" Defined. As used in this Agreement, the term "disabled" means any mental or physical condition that renders the Executive unable to perform the essential functions of his position, with or without reasonable accommodation, for a period in excess of 180 days.

(f) Surrender of Records and Property. Upon termination of his employment with the Company, the Executive shall deliver promptly to the Company all records, manuals, books, lists, blank forms, documents, letters, memoranda, notes, notebooks, reports, data, tables, calculations or copies thereof that relate in any way to the business, products, practices or techniques of the Company, and all other property, trade secrets and confidential information of the Company, including, but not limited to, all documents that in whole or in part contain any trade secrets or confidential information of the Company, which in any of these cases are in his possession or under his control.

10. Effect of Termination.

(a) Termination Without Cause or for Good Reason or Upon the Company's Notice of Non-Renewal.

In the event the Company terminates the Executive's employment as the Company's Executive Vice President of Strategic Planning and Corporate

Communications without Cause pursuant to Section 9(a)(iv) hereof, the Executive terminates his employment for Good Reason pursuant to Section 9(c) hereof, or the Company fails to renew the Term upon the expiration thereof under Section 2(a) or the Company provides a notice of non-renewal under Section 2 hereof, then

(i) the Executive shall receive lump sum cash payment within ten (10) days after the date of termination of employment in an amount equal to one (1) year of his annual Base Salary at the time of such termination;

(ii) the Executive shall receive a lump sum cash payment within ten (10) days after the date of termination of employment in an amount equal to the Target Bonus (based on the Base Salary at the time of such termination) which would have been payable for the fiscal year which commences immediately following the date of termination;

(iii) if the Executive, and any spouse and/or dependents ("Family Members") has medical and dental coverage on the date of such termination under a group health plan sponsored by the Company, the Company will reimburse the Executive for the total applicable premium cost for medical and dental coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986, 29 U.S.C. Sections 1161-1168; 26 U.S.C. Section 4980B(f), as amended, and all applicable regulations (referred to collectively as "COBRA") for the Executive and his Family Members for a period of up to eighteen (18) months commencing on the date of such termination; provided, that the Company shall have no obligation to reimburse the Executive for the premium cost of COBRA coverage as of the date the Executive and his Family Members become eligible to obtain comparable benefits from a subsequent employer;

(iv) the Executive shall receive a lump sum cash payment within ten (10) days after the date of termination of employment in an amount equal to ("Accrued Obligations"): (1) any unpaid Base Salary through the date of termination, (2) any unpaid Earned Bonus for a performance period ending prior to the date of termination, (3) accrued and unpaid vacation and (4) incurred and unreimbursed business expenses;

(v) the Executive shall receive a lump sum cash payment within ten (10) days after the date of termination of employment in an amount equal to a pro rata amount of the Target Bonus (based on the Base Salary at the time of such termination) for the fiscal year during which termination occurs;

(vi) all options granted to the Executive pursuant to Section 4(e) hereof that have not vested at the time of such termination shall vest immediately upon termination;

(vii) all options granted to the Executive pursuant to Section 4(e) hereof that have vested or become vested at the time or as a result of such termination will remain exercisable until their expiration dates;

(viii) all shares of restricted stock granted to the Executive pursuant to Section 4(f) hereof that have not vested at the time of such termination shall vest immediately upon such termination; and

(ix) the Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to or as a result of the Executive's termination.

(b) Termination For Cause. In the event the Company terminates the Executive's employment as the Company's Executive Vice President of Strategic Planning and Corporate Communications for Cause pursuant to Section 9(a)(iii) hereof, (i) the Executive shall be entitled to receive payment of his Accrued Obligations, (ii) the Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to the Executive's termination, (iii) all options to acquire shares in the Company held by the Executive which have vested prior to the date of the Executive's termination of employment shall remain exercisable after such termination in accordance with the terms of the relevant plans and granting instruments, (iv)

all options granted to the Executive that have not vested prior to the date of the Executive's termination of employment will terminate as of the date of such termination and will be of no further force and effect; and (v) all shares of restricted stock awarded to the Executive that have not vested prior to the date of the Executive's termination of employment shall be forfeited.

(c) Death. In the event the Executive's employment with the Company is terminated as a result of the Executive's death, (i) the Executive's estate or the Executive's duly designated beneficiaries shall be entitled to payment of his Accrued Obligations; (ii) the Executive's estate or the Executive's duly designated beneficiaries shall be entitled to a pro rata amount of the Target Bonus (based on the Base Salary at the time of death) for the fiscal year in which he dies; (iii) all options to acquire shares in the Company held by the Executive which have not vested at the time of the Executive's death will continue to vest in accordance with their terms and shall remain exercisable (together with any options which had previously vested), until the earlier of (A) one year from the date of death and (B) the end of the remaining exercise term of such options; (iv) all shares of restricted stock awarded to the Executive shall fully vest; and (v) the Executive's estate or the Executive's duly designated beneficiaries shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to the Executive's death. If the Executive's Family Members have medical and dental coverage on the date of such termination under a group health plan sponsored by the Company, the Company will reimburse such Family Members for the total applicable premium cost for medical and dental coverage under COBRA for such Family Members for a period of up to twenty-four (24) months commencing on the date of such termination; provided the Company shall have no obligation to reimburse such Family Members for the premium cost of COBRA coverage as of the date they become eligible to obtain comparable benefits from another employer.

(d) Disability. Upon termination of the Executive's employment as the Company's Executive Vice President of Strategic Planning and Corporate Communications on account of the Executive's disability pursuant to Section 9(a)(ii) hereof, (i) the Executive shall be entitled to payment of his Base Salary through the commencement of long term disability payments to the Executive under any plan provided or paid for by the Company and other Accrued Obligations, (ii) the Executive shall be entitled to a pro rata amount of the Target Bonus (based on the Base Salary at the time of such termination) for the fiscal year in which his employment is terminated, (iii) the Executive shall be entitled to all compensation and benefits to which the Executive is entitled pursuant to the Company's disability policies in effect as of the date of the Executive's termination, (iv) all options to acquire shares of the Company held by the Executive which have not vested at the date of termination of employment will continue to vest in accordance with their terms, and shall remain exercisable (together with any options which had previously vested), until the earlier of (A) one year from the date of such termination of the Executive's employment and (B) the end of the remaining exercise term of such options, (v) all shares of restricted stock awarded to the Executive shall fully vest; and (vi) the Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to the Executive's termination. If the Executive and his Family Members have medical and dental coverage on the date of such termination under a group health plan sponsored by the Company, the Company will reimburse the Executive for the total applicable premium cost for medical and dental coverage under COBRA for the Executive and his Family Members for a period of up to eighteen (18) months commencing on the date of such termination; provided the Company shall have no obligation to reimburse the Executive and his Family Members for the premium cost of COBRA coverage as of the date they become eligible to obtain comparable benefits from another employer.

(e) Voluntary Resignation Without Good Reason or upon the Executive's Notice of Non-Renewal. In the event the Executive voluntarily terminates his employment with the Company without Good Reason, or the Executive's employment terminates following the Executive having provided the Company with a notice of non-renewal of the Term under Section 2 hereof, (i) the Executive shall be entitled to receive payment of his Accrued Obligations, (ii) the Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to the Executive's termination, (iii) all options to acquire shares of the Company held by the Executive which have vested prior to the date of such termination shall remain exercisable after such termination in accordance with the terms of the relevant plans and granting instruments, (iv) all options to acquire shares of the Company held by the

Executive which have not vested prior to the date of such termination will terminate as of the date of such termination and will be of no further force and effect, and (v) all shares of restricted stock awarded to the Executive that have not vested prior to the date of the Executive's termination of employment shall be forfeited.

(f) Termination Without Cause or For Good Reason In Connection With A Change in Control. In the event the Company terminates Executive's employment as the Company's Executive Vice President of Strategic Planning and Corporate Communications without Cause pursuant to Section 9(a)(iv) hereof or Executive terminates such employment for Good Reason pursuant to Section 9(c) hereof within the period which commences ninety (90) days before and ends one (1) year following a Change in Control, in lieu of the provisions of Section 10(a) or 10(e) above,

(i) Executive shall receive a lump sum cash payment within ten (10) days after the date of termination of employment in an amount equal to his Accrued Obligations plus an amount equal to the pro rated portion of the Target Bonus (based on the Base Salary at the time of such termination) which would have been payable to Executive for the fiscal year during which such termination occurs;

(ii) Executive shall receive a lump sum cash payment within ten (10) days after the date of termination in an amount equal to two (2) times the sum of the following: (1) his Base Salary at the time of such termination and (2) the Target Bonus (based on the Base Salary at the time of such termination) for the fiscal year in which such termination occurs;

(iii) if Executive and his Family Members have medical and dental coverage on the date of such termination under a group health plan sponsored by the Company, the Company will reimburse Executive for the total applicable premium cost for medical and dental coverage under COBRA for Executive and his Family Members for a period of up to eighteen (18) months commencing on the date of such termination and will continue to pay Executive an amount equal to such COBRA reimbursement during the six (6) month period following such initial eighteen (18) month period after such termination; provided, that the Company shall have no obligation to reimburse Executive for the premium cost of COBRA coverage as of the date Executive and his Family Members become eligible to obtain comparable benefits from a subsequent employer;

(iv) Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to Executive's termination.

(g) Except as otherwise specifically provided under Section 10, all payments made to the Executive under any of the subsections of this Section 10 that are based upon the Executive's salary or bonus shall be made at times and in a manner that is in accordance with the Company's standard payroll practices for senior management.

(h) Notwithstanding anything else herein to the contrary, the Executive shall not be entitled to realize or receive any termination related benefits provided for in this Section 10, including, without limitation, all post-termination payments and the acceleration of option or restricted stock or restricted stock unit vesting schedules unless the Executive shall have executed and delivered to the Company a full release (reasonably satisfactory to the Company's counsel) of all claims against the Company and its affiliates, successors and assigns.

(i) Nothing in this Agreement or in any other plan, award or agreement of the Company applicable to the Executive shall result in the reduction or limitation of (i) any payments under Section 10(f) and/or (ii) the accelerated vesting of options to acquire common stock and/or (iii) shares of restricted stock and/or restricted stock units under Section 11 or (iv) any other payments or benefits (the "Total Payments") that may be deemed to be contingent upon a change in ownership or control pursuant to Section 280G of the Internal Revenue Code ("Code"), regardless of whether the Total Payments would be subject to the excise tax imposed by Section 4999 of the Code. If the Executive does become liable for any excise tax under Section 4999 of the Code, such liability shall

not entitle the Executive to any additional payments from the Company to reimburse the Executive for such tax liability. The Company shall be entitled to withhold from payments due to the Executive an amount equal to the actual amount of any excise tax under Section 4999 of the Code to which the Executive is subject, as determined by the Company's independent auditors.

(j) If and when during the Term, the Company shall adopt (or amend) a severance plan generally applicable to its executive officers (other than the Chief Executive Officer), which provides for payments and benefits upon certain events of termination of employment in connection with a change in control of the Company at levels that are greater than those provided herein under Section 10(f) or 10(i) (or provide in connection with a change in control of the Company, for lump sum or otherwise more accelerated payments than those provided for under Section 10(f)), then promptly following adoption (or amendment) of such a plan, the Company and Executive agree to negotiate in good faith an amendment to the provisions of Sections 10(f) or 10(i) to provide Executive with comparable payments and benefits upon certain events of termination or otherwise in connection with a change of control of the Company to those provided to other senior executive officers covered by such plan with the same line of reporting to the Chief Executive Officer as Executive. Notwithstanding the foregoing, it is understood that the Company may enter into individual contractual arrangements with other executives for benefits, and nothing herein shall require the Company to provide the same benefits or level of benefits to the Executive.

11. Effect of Change of Control. In the event of a Change of Control, in addition to any other consequences provided for in this Agreement:

(a) all shares of restricted stock and restricted stock units awarded to the Executive shall fully vest immediately prior to the Change of Control; and

(b) all options to acquire shares of common stock of the Company held by the Executive shall become fully vested immediately prior to the effective date of the Change of Control.

The Executive shall have a reasonable opportunity to exercise all or any portion of such options prior to the effective date of the Change of Control, and any options not exercised prior to the effective date of the Change of Control shall terminate as of the effective date of the Change of Control and will be of no further force or effect. To the extent that this Section 11 is inconsistent with the provisions of the relevant plan and granting instruments under which such options were issued, the Company and the Executive agree that such inconsistent provisions are hereby superceded and the provisions of this Section 11 shall govern.

12. Miscellaneous.

(a) Entire Agreement. This Agreement (including the exhibits, schedules and other documents referred to herein) contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes any prior understandings, agreements or representations, written or oral, relating to the subject matter hereof.

(b) Counterparts. This Agreement may be executed in separate counterparts, each of which will be an original and all of which taken together shall constitute one and the same agreement, and any party hereto may execute this Agreement by signing any such counterpart.

(c) Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law but if any provision of this Agreement is held to be invalid, illegal or unenforceable under any applicable law or rule, the validity, legality and enforceability of the other provision of this Agreement will not be affected or impaired thereby.

(d) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives and, to the extent permitted by subsection (e), successors and

assigns. The Company will require its successors to expressly assume its obligations under this Agreement.

(e) Assignability. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable (including by operation of law) by either party without the prior written consent of the other party to this Agreement, except that the Company may, without the consent of the Executive, assign its rights and obligations under this Agreement to any corporation, firm or other business entity with or into which the Company may merge or consolidate, or to which the Company may sell or transfer all or substantially all of its assets, or of which 50% or more of the equity investment and of the voting control is owned, directly or indirectly, by, or is under common ownership with, the Company. After any such assignment by the Company, and provided that such assignment arises by operation of law or involves an express written assumption by the assignee, the Company shall be immediately released and discharged from all further liability hereunder and such assignee shall thereafter be deemed to be the Company for the purposes of all provisions of this Agreement.

(f) Modification, Amendment, Waiver or Termination. No provision of this Agreement may be modified, amended, waived or terminated except by an instrument in writing signed by the parties to this Agreement. No course of dealing between the parties will modify, amend, waive or terminate any provision of this Agreement or any rights or obligations of any party under or by reason of this Agreement. No delay on the part of the Company in exercising any right hereunder shall operate as a waiver of such right. No waiver, express or implied, by the Company of any right or any breach by the Executive shall constitute a waiver of any other right or breach by the Executive.

(g) Notices. All notices, consents, requests, instructions, approvals or other communications provided for herein shall be in writing and delivered by personal delivery, overnight courier, mail, electronic facsimile or e-mail addressed to the receiving party at the address set forth herein. All such communications shall be effective when received.

Address for the Executive:

Mr. Craig Tooman
c/o: Enzon Pharmaceuticals, Inc.
Attn: Senior Vice President of Human Resources
685 U.S. Highway 202/206
Bridgewater, NJ 08807

Address for the Company:

Enzon Pharmaceuticals, Inc.
685 Route 202/206
Bridgewater, New Jersey 08807
Attn: Vice President & General Counsel

Any party may change the address set forth above by notice to each other party given as provided herein.

(h) Headings. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

(i) Governing Law. ALL MATTERS RELATING TO THE INTERPRETATION, CONSTRUCTION, VALIDITY AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW JERSEY, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW PROVISIONS THEREOF.

(j) Resolution of Certain Claims - Injunctive Relief. The Executive acknowledges that it would be difficult to fully compensate the Company for damages resulting from any breach by him of the provisions of this Agreement. Accordingly, the Executive agrees that, in addition to, but not to the exclusion of any other available remedy, the Company shall have the right to enforce the provisions of Sections 5 through 8 or 9(f) by applying for and obtaining temporary and permanent restraining orders or injunctions from a court of competent jurisdiction without the necessity of filing a bond therefor, and without the necessity of proving actual damages, and the Company shall be entitled to recover from the Executive its reasonable attorneys' fees and costs

in enforcing the provisions of Sections 5 through 8 or 9(f).

(k) Third-Party Benefit. Nothing in this Agreement, express or implied, is intended to confer upon any other person any rights, remedies, obligations or liabilities of any nature whatsoever.

(l) Withholding Taxes. The Company may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

(m) Survival. The provisions of Section 4(c), 4(i) and Section 10 shall survive the termination of the Executive's employment and the termination of the Agreement.

(m) Counterparts. This agreement may be executed in separate counterparts, all of which taken together shall constitute one and the same agreement.

Signatures on following page

IN WITNESS WHEREOF, the parties hereto have executed, or caused to be executed by a duly authorized representative, this Employment Agreement as of the Effective Date.

ENZON PHARMACEUTICALS, INC.

By: /s/ Jeffrey H. Buchalter

Name:
Title:

THE EXECUTIVE

/s/ Craig A. Tooman

CRAIG A. TOOMAN

Exhibit 10.3

ENZON PHARMACEUTICALS, INC.
NON-QUALIFIED STOCK OPTION CERTIFICATE & AGREEMENT

Grant Date:

Certificate No.:

SUMMARY GRANT INFORMATION	
EMPLOYEE:	
NUMBER OF SHARES:	
EXERCISE PRICE:	
PLAN:	2001 Incentive Stock Plan
TERMINATION DATE:	_____ (subject to earlier termination, as set forth below)

VESTING INFORMATION	
Date	Number of Shares at to which the Option Becomes Exercisable
January 5, 2006	
January 5, 2007	
January 5, 2008	
January 5, 2009	

In accordance with the terms and conditions of the Plan and the Employment Agreement between Employee and the Company of even date herewith (the "Employment Agreement") and the mutual promises and undertakings contained in the attached pages, intending to be legally bound, the parties hereto agree to the provisions set forth in the Option Terms attached hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above.

ENZON PHARMACEUTICALS, INC.

By:_____

EMPLOYEE

_____
Signature

Option Terms

1. Grant of Option. The Company hereby grants Employee the right and option (the "Option") to purchase all or any part of an aggregate of the number of shares of the Company's common stock, par value $0.01 per share (the "Common Stock") set forth above, at the price per share set forth above (the "Exercise Price") on the terms and conditions set forth in this Agreement, in the Plan and in the Employment Agreement. It is understood and agreed that the Exercise Price is the per share Fair Market Value (as defined in the Plan) of such shares on the date of this Agreement. The Option is not intended to be an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). The Option is issued pursuant to the Plan and is subject to its terms. A copy of the Plan has been furnished to Employee. Employee hereby confirms he/she has received and thoroughly read the Plan. The Company invites and encourages Employee to contact any member of the Company's Human Resources Department with any questions he/she may have regarding the Plan or this Agreement.

2. Expiration. The Option shall terminate at the close of business on the termination date set forth above or earlier as is prescribed herein. Employee shall not have any of the rights of a shareholder with respect to the shares subject to the Option until such shares shall be issued to Employee upon the proper exercise of the Option.

3. Vesting of Option Rights. Except as otherwise provided in Section 5 of this Agreement, the Option shall become exercisable in portions in accordance with the schedule set forth above.

4. Exercise of Option after Termination of Employment. 5. The exercisability of this Option after termination of Employee's employment with the Company shall be as set forth in the Employment Agreement.

5. Acceleration of Exercisability. The acceleration of the exercisability of this Option shall be as set forth in the Employment Agreement.

6. Definitions. All capitalized terms used, but not defined herein, if any, shall have the meanings given them in the Employment Agreement.

7. Transfer and Assignment. The Option may only be transferred or assigned in accordance with subsection 10(d) of this Agreement.

8. Method of Exercise of Option. Subject to the foregoing and the other terms and conditions hereof, and provided that the sale of the Company's shares pursuant to such exercise will not violate any state or federal securities or other laws, the Option may be exercised in whole or in part from time to time by Employee or other proper party serving written notice of exercise on the Company at its principal office within the period during which the Option is exercisable as provided in this Agreement. The notice shall state the number of shares as to which the Option is being exercised and shall be accompanied by payment in full of the Exercise Price for all shares designated in the notice. Payment of the Exercise Price shall be made in cash (including bank check, personal check or money order payable to the Company), or, with the approval of the Company (which may be given in its sole discretion), by delivering to the Company for cancellation shares of the Company's Common Stock already owned by Employee having a Fair Market Value equal to the full purchase price of the shares being acquired or a combination of cash and such shares.

9. Miscellaneous.

(a) In the event that any provision of this Agreement conflicts with or is inconsistent in any respect with the terms of the Plan, the terms of the Plan shall control. To the extent there is any conflict among the provisions of this Agreement and those of the Employment Agreement, the Employment Agreement shall take precedence. To the extent there is any conflict among the provisions of this Agreement and those of the Plan, this Agreement shall take precedence.

(b) Neither the Plan nor this Agreement shall (i) be deemed to give any individual a right to remain an employee of the Company, (ii) restrict the right of the Company to discharge any employee, with or

without cause, or (iii) be deemed to be a written contract of employment.

(c) The exercise of all or any parts of the Option shall only be effective at such time that the sale of shares of Common Stock pursuant to such exercise will not violate any state or federal securities or other laws.

(d) The Option shall not be transferred, except by will or the laws of descent and distribution to the extent provided in Section 4(c), and, except for as provided in the Plan or this Agreement, during the Employee's lifetime the Option is exercisable only by the Employee. Notwithstanding the foregoing, Employee may transfer the Option to any Family Member, provided, however, that (i) Employee may not receive any consideration for such transfer, (ii) the Family Member must agree in writing not to make any subsequent transfers of the Option other than by will or the laws of the descent and distribution and (iii) the Company receives prior written notice of such transfer. For purposes of this Section 10(d), the definition of Family Member shall be the definition adopted by the Committee administering the Plan as of the date of the attempted transfer of the Option.

(e) If there shall be any change in the Common Stock subject to the Option through merger, consolidation, reorganization, recapitalization, dividend or other distribution, stock split or other similar corporate transaction or event of the Company, appropriate adjustments shall be made by the Company in the number and type of shares (or other securities or other property) and the price per share of the shares subject to the Option in order to prevent dilution or enlargement of the Option rights granted hereunder; provided, however, that the number of shares subject to the Option shall always be a whole number.

(f) The Company shall at all times during the term of the Option reserve and keep available such number of shares of the Company's Common Stock as will be sufficient to satisfy the requirements of this agreement.

(g) In order to provide the Company with the opportunity to claim the benefit of any income tax deduction which may be available to it upon the exercise of the Option and in order to comply with all applicable federal or state income tax laws or regulations, the Company may take such action as it deems appropriate to insure that, if necessary, all applicable federal or state payroll, withholding, income or other taxes are withheld or collected from Employee.

(h) The Company, in its sole and absolute discretion, may allow Employee to satisfy Employee's federal and state income tax withholding obligations upon exercise of the Option by (i) having the Company withhold a portion of the shares of Common Stock otherwise to be delivered upon exercise of the Option having a Fair Market Value equal to the amount of federal and state income tax required to be withheld upon such exercise, in accordance with such rules as the Company may from time to time establish, or (ii) delivering to the Company shares of its Common Stock other than the shares issuable upon exercise of the Option with a Fair Market Value equal to such taxes, in accordance with such rules.

Exhibit 10.4

ENZON PHARMACEUTICALS, INC.

RESTRICTED STOCK AWARD AGREEMENT

THIS AGREEMENT, made as of January 5, 2005, by and between ENZON PHARMACEUTICALS, INC., a Delaware corporation (the "Company"), and _____ ("Executive").

BACKGROUND

The Company wishes to grant a restricted stock award to Executive in connection with the execution by Executive of his Employment Agreement.

TERMS

In consideration of the premises and mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Award

The Company, effective as of the date of this Agreement, hereby grants to Executive a restricted stock award of _____ shares (the "Shares") of common stock of the Company (the "Common Stock") pursuant to the Company's 2001 Incentive Stock Plan subject to the terms and conditions set forth herein and to the terms of the Employment Agreement between the Company and Executive, dated as of the date hereof (the "Employment Agreement"), which are specifically referenced herein. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Employment Agreement.

2. Vesting

Subject to the terms and conditions of this Agreement, the Executive's Shares shall vest according to the following schedule:

Date	Number of Shares that Vest on such Date

3. Restriction on Transfer

Until any group of Shares vests pursuant to Sections 2 or 4 hereof, none of such unvested Shares may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered, and no attempt to transfer such unvested Shares, whether voluntary or involuntary, by operation of law or otherwise, shall vest the transferee with any interest or right in or with respect to such Shares.

4. Early Vesting; Forfeiture

(a) All of the Shares shall be subject to immediate vesting in accordance with Section 10(a)(viii) of the Employment Agreement.

(b) In the event the Company terminates Executive's employment as the Company's _____ _____ for Cause pursuant to Section 9(a)(iii) of the Employment Agreement, Executive will forfeit all unvested Shares granted to Executive pursuant to Section 1 hereof.

(c) In the event Executive's employment as the Company's _____ is terminated as a result of Executive's death, all unvested Shares granted to Executive pursuant to Section 1 hereof shall vest immediately upon Executive's death.

(d) Upon termination of Executive's employment as the Company's _____

_____ on account of Executive's disability pursuant to Section 9(a)(ii) of the Employment Agreement, all unvested Shares granted to Executive pursuant to Section 1 hereof shall vest immediately upon such termination.

(e) In the event Executive voluntarily terminates his employment as the Company's _____ _____, other than for Good Reason pursuant to Section 9(c) of the Employment Agreement, Executive will forfeit all unvested Shares granted to Executive pursuant to Section 1 hereof.

(f) Notwithstanding anything to the contrary in this Agreement or the Employment Agreement, the Compensation Committee of the Board of Directors of the Company (the "Committee") or the Board of Directors of the Company (the "Board"), in its sole discretion, may waive any of the forfeiture requirements in this Section 4 or may accelerate the vesting of all or a portion of the Shares as the Committee or the Board so determines.

(g) In accordance with Section 11 of the Executive's Employment Agreement, in the event of a Change in Control (within the meaning of the Employment Agreement), all unvested Shares granted to Executive under Section 1 hereof shall become fully vested immediately prior to such Change in Control.

5. Issuance and Custody of Certificate

(a) The Company shall cause to be issued one or more stock certificates, registered in the name of Executive, evidencing the Shares. Each such certificate shall bear the following legends:

"The shares of common stock represented by this certificate are subject to forfeiture, and the transferability of this certificate and the shares of stock represented hereby are subject to the restrictions, terms and conditions (including restrictions against transfer) contained in a Restricted Stock Award Agreement entered into between Enzon Pharmaceuticals, Inc. (formerly known as Enzon, Inc.) and the registered owner of such shares dated _____. A Copy of the Restricted Stock Award Agreement is on file in the office of Enzon Pharmaceuticals, Inc."

(b) Contemporaneous with the execution hereof, Executive shall cause stock powers relating to the Shares executed by Executive to be delivered to the Company.

(c) Each certificate issued pursuant to Section 5(a) hereof, together with the stock powers relating to the Shares, shall be deposited by the Company with the Secretary of the Company or a custodian designated by the Secretary. The Secretary or such custodian shall issue a receipt to Executive evidencing the certificate or certificates held which are registered in the name of Executive.

(d) After any Shares subject to this Agreement vest pursuant to Sections 2 or 4(b) hereof, the Company shall promptly cause a certificate or certificates evidencing such vested Shares without the legal legend called for in Section 5(a) (together with the stock powers relating to the Shares) to be released and delivered to Executive or Executive's legal representatives, beneficiaries or heirs.

(e) Prior to issuance of the Shares, the Company shall have caused such issuance to be registered under the Securities Act of 1933, as amended.

6. Distributions and Adjustments

(a) In the event of a merger, consolidation, reorganization, recapitalization, stock dividend or other event, the number and character of the Shares shall be adjusted at the same time and to the same extent as other shares of Common Stock are adjusted as a result of any such event. If all or any portion of the Shares vest in Executive subsequent to any such change in the number or character of the shares of Common Stock, Executive shall then receive upon such vesting the number and type of securities or other consideration which Participant would have received if the Shares had vested prior to the event changing the number or character of outstanding shares of Common Stock.

(b) Any additional shares of Common Stock, any other securities of the Company and any other property (except for cash dividends) distributed with respect to the Shares prior to the date the Shares vest shall be subject to the same restrictions, terms and conditions as the Shares. Any cash dividends payable with respect to the Shares shall be distributed to Executive at the same time cash dividends are distributed to stockholders of the Company generally.

(c) Any additional shares of Common Stock, any securities and any other property (except for cash dividends) distributed with respect to the Shares prior to the date such Shares vest shall be promptly deposited with the Secretary or the custodian designated by the Secretary to be held in custody in accordance with Section 5(c) hereof for Executive's benefit and shall be distributed to Executive as provided in Section 6(b) when the Shares vest.

7. Taxes

(a) The issuance of the Shares to Executive pursuant to this Agreement involves complex and substantial tax considerations, including, without limitation, consideration of the advisability of Executive making an election under Section 83(b) of the Internal Revenue Code. The Executive is urged to consult his own tax advisor with respect to the transactions described in this Agreement. The Company makes no warranties or representations whatsoever to the Executive regarding the tax consequences of the grant to the Executive of the Shares or this Agreement. Executive acknowledges that the making of any Section 83(b) election shall be his personal responsibility.

(b) In order to provide the Company with the opportunity to claim the benefit of any income tax deduction which may be available to it in connection with this restricted stock award, and in order to comply with all applicable federal or state tax laws or regulations, the Company may take such action as it deems appropriate to insure that, if necessary, all applicable federal or state income and social security taxes, which are the sole and absolute responsibility of Executive, are withheld or collected from Executive.

(c) Executive may elect to satisfy his federal and state income tax withholding obligations arising from the receipt of, or the lapse of restrictions relating to, the Shares by (i) delivering cash, check (bank check, certified check or personal check) or money order payable to the order of the Company, (ii) having the Company withhold a portion of the Shares otherwise to be delivered having a fair market value based on the last reported sale price of a share of Common Stock on the Nasdaq Stock Market (or if the Shares no longer trade on the Nasdaq Stock Market, the closing or last reported price on the principal exchange or system on which they trade) (the "Fair Market Value") equal to the amount of such taxes, or (iii) delivering to the Company Common Stock having a Fair Market Value equal to the amount of such taxes. The Company will not deliver any fractional Share but will pay, in lieu thereof, the Fair Market Value of such fractional Share. The Participant's election must be made on or before the date that the amount of tax to be withheld is determined. Otherwise, the Company shall be entitled to withhold taxes due in such manner as the Company determines in its discretion.

8. Miscellaneous

(a) Executive shall be entitled at all times to all of the rights of a stockholder with respect to the Shares, including without limitation the right to vote and tender such Shares and to receive dividends and other distributions as provided in and subject to the provisions of Section 6.

(b) Executive hereby acknowledges receipt of a copy of the Employment Agreement. The Employment Agreement is also available for inspection during business hours at the principal office of the Company.

(c) This Agreement shall not confer on Executive any right with respect to continuance of employment by the Company.

(d) This Agreement shall inure to the benefit of, and be binding upon, the Company, its successors and assigns, and upon Executive, his administrator, executor, personal representative, successors and heirs.

(e) Except as provided in Section 4(f), no change to or modification of this Agreement shall be valid unless it is in writing and signed by the Company and Executive. .

IN WITNESS WHEREOF, The parties hereto have caused this Restricted Stock Award Agreement to be executed on the day and year first above written.

ENZON PHARMACEUTICALS, INC.

By:_____

EXECUTIVE

EXHIBIT 10.5

November 22, 2004

SEPARATION AGREEMENT AND GENERAL RELEASE

This Separation Agreement and General Release ("Agreement") is made as of the 24th day of November 2004, between ENZON PHARMACEUTICALS, INC., a Delaware corporation, with offices in Bridgewater, New Jersey ("Enzon"), and ULRICH M. GRAU, PH.D. ("Executive"), a resident of New York.

BACKGROUND

A. Executive is an Enzon employee who is voluntarily resigning from his employment with Enzon; and

B. Enzon desires to recognize Executive's material contributions during his employment; and

C. Executive and Enzon desire to resolve any potential claims or disputes arising from Executive's employment with Enzon or his voluntary resignation from employment;

TERMS

In consideration of the mutual covenants and undertakings contained herein, Executive and Enzon agree as follows:

1. Executive hereby resigns from his employment with Enzon, effective March 31, 2005 (the "Separation Date"). Enzon agrees to pay Executive's regular salary and benefits through the Separation Date, all Compensated Time Off accrued but not taken (in accordance with Enzon's compensated time off policy) as of the Separation Date, and any outstanding expense reimbursement consistent with Enzon policy. Notwithstanding the above Separation Date, effective as of January 15, 2005, Executive shall be on paid leave with his sole obligation to provide reasonable assistance in the transition by communicating at reasonable and mutually convenient times and frequencies with persons designated by Enzon for this purposed with respect to the transfer of duties and information. These obligations can be performed off-site and not require the personal attendance of Executive except in unusual circumstances requiring Executive's personal assistance which shall be given on reasonable notice at mutually convenience times.

2. (a) In addition, subject to Section 2(b) hereof, Executive shall receive cash payments as follows: (i) nine months of his Base Salary as of the Separation Date; plus (ii) a bonus payment equal to Executive's annual bonus target for fiscal year 2005 (50% of base salary) payable in August 2005 in accordance with Enzon's current annual incentive payout process and as adjusted for actual performance (based on performance goals already submitted to the Board), provided that Executive shall receive no less than 90% of Executive's target bonus for fiscal year 2005; plus (iii) a recognition bonus of $150,000 (One Hundred Fifty Thousand Dollars) if Marqibo is fully approved in January 2005 by the FDA (subject only to post-approval commitments), which, if earned, shall be payable on March 31, 2005. If Marqibo is not fully approved in January 2005, but the Food and Drug Administration issues an "approvable" letter that does not require the conduct of any clinical studies prior to the launch of Marqibo and Enzon does launch Marqibo by June 30, 2005, then the recognition bonus described in the preceding sentence shall be deemed earned and shall be payable within 30 days after the launch of Marqibo. For purposes of this Agreement, the term "launch" shall be deemed to mean the time at which Marqibo can be legally marketed by Enzon regardless of when any actual sales or marketing commences.

(b) All payments made to Executive under these Sections1 and 2 that are based upon Executive's salary (not including bonus) shall be made without deduction or offset (except for customary income tax withholding and the like in accordance with Enzon's normal payroll practices consistent with the manner in which such practices have been applied to Executive in the past) and at times and in a manner which is in accordance with Enzon's standard payroll

practices for senior management; provided that such payments will cease on December 31, 2005; provided however that if the salary and bonus payments under this Agreement are not paid timely in accordance with this Agreement and then within ten days of demand therefor, then Executive shall be have the right to accelerate payment of the moneys due hereunder, including salary and unpaid bonus, shall be reimbursed the cost and expense of collection of such moneys, including reasonable attorneys fees and court costs.

(c) The Company shall pay reimburse Executive upon execution of this Agreement Executive's reasonable legal fees and expenses incurred in connection with the preparation and review of this Agreement up to a maximum of $20,000 (Twenty Thousand Dollars). Enzon acknowledges that the flat fee agreement of $ 20,000 paid to Rabner, Allcorn, Baumgart & Ben-Asher, P.C. in connection with the negotiation of, and advice respecting, this agreement is reasonable.

3. Executive's health coverage under Enzon's health care plans will end effective as of the end of the month in which the Separation Date occurs. Executive will then be eligible for COBRA continuation of medical and dental coverage for a period of eighteen months. If Executive elects to obtain COBRA coverage, Enzon will reimburse Executive for the total applicable premium cost for a period the earlier of: (a) the date that is nine months from the Separation Date, or (b) the date upon which Executive becomes eligible for comparable benefit coverage through another employer. If Executive obtains comparable benefit coverage at any time during this nine-month period, he will immediately provide written notice to that effect to Enzon at the address set forth in Paragraph 14 below.

4. Executive's eligibility for any other Enzon benefits of any kind will end effective as of the Separation Date. Those portions of the stock options to purchase Enzon common stock granted to Executive that will have vested as of the Separation Date in accordance with the original and non-accelerated vesting schedules set forth in the relevant Enzon stock option plans and the relevant grant agreements, will remain outstanding and exercisable after the Separation Date in accordance with their terms. None of the shares of restricted stock or restricted stock units granted to Executive will have vested as of the Separation Date, and they will be forfeited as of the Separation Date.

5. As of the Separation Date, the Amended and Restated Employment Agreement dated December 5, 2003 between Executive and Enzon (the "Employment Agreement") shall be amended by deleting Sections 5(a) and 5(e) in their entirety. As of the Separation Date, the Executive shall be subject to, and shall abide by and adhere to the following restrictive covenants (in addition to any obligations to which the Executive is otherwise subject after the Separation Date under the Employment Agreement):

(a) Noncompetition.

(i) The "Noncompete Period" shall be (A) with respect to any activity covered by clause (x) below, the two (2) year period commencing on the Separation Date and (B) with respect to any activity covered by clauses (y) or (z) below, the one (1) year period commencing on the Separation Date.

(ii) Attached as Schedule A hereto is a complete listing of technologies and compounds being utilized, pursued or developed by Enzon and the classes into which such technologies or compounds fall or the indications for which they are being utilized, pursued or developed (hereinafter "Technology Listing"). During the Noncompete Period, Executive will not directly, or indirectly, whether as an officer, director, stockholder, partner, proprietor, associate, employee, consultant, representative or otherwise, become, or be interested in or associated with any other person, corporation, firm, partnership or entity (collectively, "entity") developing, manufacturing, marketing or selling protein-based biopharmaceuticals or other pharmaceuticals (collectively, "products") (x) where a significant business of the entity is to develop, manufacture, market, or sell (for its own account or for others) products that are modified using PEGylation technology for the classes and indications as referred to in Item 1 on the Technology Listing; or (y) where

a significant business of the entity is to develop, manufacture, market or sell (for its own account or for others) single chain antibodies for the classes and indications, as referred to in Item 2 on the Technology Listing, or (z) where a significant business of the entity relates to a project involving a compound or technology that is within any class listed in items 3-20 of the Technology Listing and that is being utilized, pursued or developed for any indication listed in items 3-20 of the Technology Listing; notwithstanding anything set forth above, for the compounds set forth as Items 9,18, 19 and 20, subsection (z) shall be applicable only if Enzon licenses the respective compound (s) within six months of the Effective Date. Enzon agrees to advice Executive in writing as to which, if any, of such compounds have been the subject of a written license agreement within those period within ten days of the end of such six months period, and, in absence of such notice Executive can assume that no such licensing has occurred.

For purposes of this Agreement the term "significant business" of the entity shall mean an activity with respect to which at least 20% of the entity's gross revenues are attributable or at least 20% of the entity's research and development budget is allocated or 20% of its research and development resources are allocable.

(b) Nonsolicitation of Employees. During the Noncompete Period (specified in Section 5(a)(i)(B) hereof), Executive shall not, directly or indirectly, personally or through others, encourage to leave employment with the Company, employ or solicit for employment, or advise or recommend to any other person, firm, business, or entity that they employ or solicit for employment, any employee of the Company or of any parent, subsidiary, or affiliate of the Company; provided that the restriction contained in this Section 5(b) shall not apply with respect to Mr. A. Clarke Atwell and Dr. Eddy Anglade.

6. Executive agrees that no additional compensation or benefits of any kind shall be paid to him, and the compensation and benefits provided to him under this Agreement shall be in full payment and satisfaction of any and all financial obligations due to him from Enzon. Executive further acknowledges that in consideration for his execution of this Agreement, he is receiving significant consideration under this Agreement in addition to that to which he was previously entitled.

7. (a) It is understood and agreed that, by this Agreement, Executive and Enzon intend to settle any and all claims which Executive has or may have against Enzon or Enzon has against Executive arising out of or resulting from, among other things, Executive's employment at Enzon and his resignation from such employment. Accordingly, in exchange for the benefits provided to Executive by this Agreement, Executive, for himself, his heirs, successors and assigns, and Enzon hereby voluntarily discharge and release each other and their respective affiliates, parent and subsidiary companies, and their respective officers, directors, employees, agents, representatives, successors and assigns of the respective parties (the "Releasees") from any and all claims or liabilities of any kind or description, known or unknown, suspected or unsuspected, fixed or contingent, which Executive or Enzon ever had, now has or hereafter may have against each other or any of the Releasees by reason of any matter whatsoever arising out of or resulting from Executive's employment at Enzon and/or his separation from such employment. The release of claims specifically includes, but is not limited to, claims arising under or based upon, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Family and Medical Leave Act of 1993, the Employee Retirement Income Security Act, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the New Jersey Law Against Discrimination, the New Jersey Family Leave Act, the New Jersey Conscientious Employee Protection Act, the Fair Labor Standards Act, the New Jersey Wage and Hour Act, and/or any other state, federal, or municipal employment discrimination statutes (including without limitation claims based on age, sex, attainment of benefit plan rights, race, national origin, religion, handicap, sexual orientation, sexual harassment, family or marital status, retaliation, and veteran status), and/or

any other federal, state, or local statute, law, ordinance, or regulation and/or pursuant to any other theory whatsoever, including without limitation claims related to breach of implied or express employment contracts, breach of the implied covenant of good faith and fair dealing, defamation, wrongful discharge, constructive discharge, negligence of any kind, intentional infliction of emotional distress, whistle-blowing, estoppel or detrimental reliance, public policy, constitutional or tort claims, violation of the penal statutes and common law claims, or pursuant to any other theory or claim whatsoever, including claims for attorneys' fees, arising out of or related to Executive's employment at Enzon and/or his resignation from such employment and/or any other occurrence from the beginning of time to the date of this Agreement.

(b) Notwithstanding the above, Enzon recognizes that Executive does not release Enzon or its respective releasees from any: (i) claim for indemnification which Executive has against Enzon and its releasees arising out of claims by third parties for actions or omissions of Executive arising out of his duties for Enzon; or (ii) claims against Enzon by releasees who have not signed this Agreement and bring claims against Executive. In connection with (b)(i)and b (ii) above, Enzon recognizes Executive's continuing right to coverage under any errors or omissions or insurance coverage, and, indemnification against such third party claims and expenses (including legal fees and court costs) to the fullest extent permitted by law for claims made against him, including those covered by the certificate or incorporation, by-laws, resolutions, or otherwise required by law, such indemnification to include the cost and expense of defending any such claim in any forum including the costs of enforcing the indemnity hereunder, including reasonable attorneys fees.

8. Each party agrees to reasonably cooperate with the other with respect to transition matters. With respect to Executive, this will include but not be limited to: (a) responding to reasonable telephonic inquiries from Enzon management concerning the transition of matters that Executive worked on during his employ and (b) promptly notifying within a reasonable time Gary Arlen Smith, Vice President and General Counsel, or his successor or designee, if Executive receives any legal notices, subpoenas or requests for information from any person or entity, other than a representative of Enzon, concerning matters which arose during the period of his employment with Enzon.

9. (a) Enzon shall issue a press release announcing the resignation hereunder, which press release shall be mutually agreed upon by the parties. In the event that inquiries are made of Enzon or its agents or representatives concerning Executive's employment with Enzon, Enzon will direct all such inquiries to Human Resources and advise only that the Executive voluntarily left employment in good standing and the position which he held with Enzon and Executive will make a similar statement concerning the reasons for termination. Notwithstanding the foregoing, Enzon's authorized spokespersons for disclosure purposes shall be permitted to respond in a limited fashion to questions proffered by investors or securities analysts regarding the resignation hereunder; provided, however, that neither party shall be permitted to make any disparaging, untrue or defamatory communication about the other.

(b) Executive shall not notify any party with whom Enzon has entered into any research or development or licensing agreement about his resignation hereunder until Enzon has discussed such resignation with such party. Enzon shall exercise commercially reasonable efforts to have engaged in such discussions with all such entities no later than three business days after the issuance of the press release referred to in Section 9(a).

10. Both parties agree that they will keep the specific terms of this Agreement strictly confidential with the sole exceptions of Executive's spouse, either party's attorney(s) or tax advisor(s), Enzon's independent auditors (all of whom agree to keep the terms confidential), or as may be required by law, including disclosure requirements under applicable securities laws and other laws , including tax laws, or as necessary in any legal proceeding to enforce or prosecute a party's rights.

11. Executive agrees that, no later than January 15, 2005, he shall deliver to Enzon all books, records, notes, documents and other written or

computer generated materials of any nature whatsoever relating to Enzon's business and any other Enzon property in his possession or within his control (e.g., credit cards, equipment, office keys). Executive agrees that he shall not keep in his possession or control any of Enzon's property of any kind.

12. Both parties acknowledge and represent that they fully understand this Agreement, that they have had adequate and reasonable opportunity to review the Agreement, that they were advised to consult with, and have, in fact, consulted with, independent counsel of their choice before signing it, and that they are signing it voluntarily.

13. Executive acknowledges that the terms of this Agreement shall be open for acceptance by him for a period of twenty-one (21) days during which time he may consider whether to accept this Agreement.

14. Executive further acknowledges and agrees that he may cancel or revoke this Agreement within seven (7) days after signing it. To be effective, any notice of cancellation or revocation must be in writing and delivered either by hand or mail within such seven (7) day period to Mr. Paul S. Davit at Enzon. If delivered by mail, the notice of cancellation or revocation must be (a) post-marked within the seven (7) day period; (b) properly addressed to Mr. Paul S. Davit, Enzon Pharmaceuticals, Inc., 685 Route 202/206, Bridgewater, New Jersey 08807; and (c) sent by certified mail, return receipt requested. Executive acknowledges and agrees that if he exercises his right of cancellation or revocation, Enzon shall be relieved of all obligations undertaken in this Agreement.

15. The terms and conditions of this Agreement may not be altered, amended or modified except by a writing duly executed by both Executive and Enzon.

16. Except as otherwise stated herein, this Agreement contains the entire understanding between Executive and Enzon with respect to the termination of Executive's employment at Enzon. There are no covenants, representations or undertakings with respect to such termination other than those expressly set forth or referenced in this Agreement.

17. If any portion of this Agreement is found by a court of competent jurisdiction to be void and unenforceable, such portions shall be deemed to be severable from the Agreement and shall have no effect on the remaining sections of this Agreement.

18. This Agreement shall be governed and construed in accordance with the laws of the State of New Jersey without regard to its choice of law or conflicts of law rules. In the event of any proceedings arising out of this Agreement, the prevailing party shall be entitled to reasonable attorneys fees and costs.

19. This Agreement has been reviewed and negotiated by both Executive and Enzon, and no provision of this Agreement shall be construed against either party on the ground that such party was the drafter of that provision or the Agreement.

20. This Agreement shall be binding upon Executive and Enzon upon its execution by them and shall inure to the benefit of their respective heirs, successors and permitted assigns.

IN WITNESS WHEREOF, the parties have duly executed this Separation Agreement and General Release or caused it to be executed by duly authorized representatives as of the dates set forth below.

ENZON PHARMACEUTICALS, INC.

By: Chief Scientific Officer	/s/ Ulrich M. Grau
Name:	Ulrich M. Grau, Ph.D.
Title:	
Date:_____	Date:_____

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey H. Buchalter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended December 31, 2004 of Enzon Pharmaceuticals, Inc. ("Enzon");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 9, 2005

By: /s/Jeffrey H. Buchalter

President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Kenneth J. Zuerblis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended December 31, 2004 of Enzon Pharmaceuticals, Inc. ("Enzon");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 9, 2005

By: /s/Kenneth J. Zuerblis

Executive Vice President Finance,
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906,
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Enzon Pharmaceuticals, Inc. (the "Company") for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey H. Buchalter, Principal Executive Officer of the Company, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 9, 2005 By: /s/Jeffrey H. Buchalter

President and Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906,
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Enzon Pharmaceuticals, Inc. (the "Company") for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth J. Zuerblis, Chief Financial Officer and Corporate Secretary of the Company, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 9, 2005

/s/ Kenneth J. Zuerblis

Executive Vice President Finance,
Chief Financial Officer
(Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.