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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

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
(State of incorporation)

22-2372868
(I.R.S. Employer Identification No.)

685 Route 202/206, Bridgewater, New Jersey
(Address of principal executive offices)

08807
(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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Shares of Common Stock outstanding as of July 31, 2006: 43,790,810.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2006	December 31, 2005*
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 171,108	\$ 76,497
Short-term investments	161,422	88,021
Accounts receivable, net of allowance for doubtful accounts: \$163 at June 30, 2006 and \$71 at December 31, 2005	12,078	14,087
Inventories	17,575	16,014
Other current assets	8,322	12,596
	<u> </u>	<u> </u>
Total current assets	370,505	207,215
Property and equipment, net of accumulated depreciation: \$23,926 at June 30, 2006 and \$21,668 at December 31, 2005	36,067	34,978
Marketable securities	37,070	62,059
Amortizable intangible assets, net	65,112	34,154
Other assets	7,365	2,939
	<u> </u>	<u> </u>
Total assets	\$ 516,119	\$ 341,345
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 5,545	\$ 10,039
Notes payable	137,581	—
Accrued expenses	21,282	21,107
	<u> </u>	<u> </u>
Total current liabilities	164,408	31,146
Notes payable	397,642	394,000
	<u> </u>	<u> </u>
Other liabilities	2,528	169
	<u> </u>	<u> </u>
Total liabilities	564,578	425,315
	<u> </u>	<u> </u>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock - \$.01 par value, authorized 3,000,000 shares; no shares issued and outstanding at June 30, 2006 and December 31, 2005	—	—
Common stock - \$.01 par value, authorized 170,000,000 shares and 90,000,000 shares; issued and outstanding 43,763,254 shares and 43,786,786 shares at June 30, 2006 and December 31, 2005, respectively	438	438
Additional paid-in capital	323,208	320,557
Accumulated other comprehensive loss	(925)	(1,090)
Accumulated deficit	(371,180)	(403,875)
	<u> </u>	<u> </u>
Total stockholders' deficit	(48,459)	(83,970)
	<u> </u>	<u> </u>
Total liabilities and stockholders' deficit	\$ 516,119	\$ 341,345
	<u> </u>	<u> </u>

* Condensed from audited financial statements.

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

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenues:				
Product sales, net	\$ 24,537	\$ 23,480	\$ 48,812	\$ 44,703
Royalties	17,936	16,878	35,184	30,509
Contract manufacturing	5,131	3,309	8,337	7,668
Total revenues	47,604	43,667	92,333	82,880
Costs and expenses:				
Cost of product sales and contract manufacturing	12,352	13,717	22,901	22,741
Research and development	9,466	5,567	16,469	18,231
Selling, general and administrative	15,247	17,565	31,085	31,224
Amortization of acquired intangible assets	185	3,356	374	6,695
Restructuring charge	—	2,053	—	2,053
Total costs and expenses	37,250	42,258	70,829	80,944
Operating income	10,354	1,409	21,504	1,936
Other income (expense):				
Investment income, net	3,084	1,501	18,900	2,617
Interest expense	(6,639)	(4,958)	(11,520)	(9,915)
Other, net	4,476	(3,245)	4,235	(4,817)
	921	(6,702)	11,615	(12,115)
Income (loss) before income tax provision	11,275	(5,293)	33,119	(10,179)
Income tax provision	288	80,239	424	78,478
Net income (loss)	\$ 10,987	\$ (85,532)	\$ 32,695	\$ (88,657)
Earnings (loss) per common share - basic	\$ 0.25	\$ (1.97)	\$ 0.75	\$ (2.04)
Earnings (loss) per common share - diluted	\$ 0.25	\$ (1.97)	\$ 0.75	\$ (2.04)
Weighted average shares - basic	43,539	43,501	43,531	43,495
Weighted average shares - diluted	43,539	43,501	43,531	43,495

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 June 30,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$ 32,695	\$ (88,657)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,600	11,322
Non-cash expense for stock options and nonvested shares	2,544	380
(Gain) loss on sale of investments	(13,844)	11,050
Loss (gain) on sale of assets	31	(5)
Gain on redemption of notes payable	(4,397)	(151)
Non-cash loss related to equity collar arrangement	—	1,239
Write off and amortization of debt issue costs	2,220	915
Amortization of bond premium/discount	548	1,280
Deferred income taxes	—	79,631
Changes in operating assets and liabilities	(2,555)	(12,670)
Net cash provided by operating activities	<u>23,842</u>	<u>4,334</u>
Cash flows from investing activities:		
Purchase of property and equipment	(3,678)	(1,445)
Proceeds from sale of equity investment	20,209	23,137
Purchase of product rights	(35,000)	—
Proceeds from sale of marketable securities	314,475	130,364
Purchase of marketable securities	(363,308)	(169,525)
Net cash used in investing activities	<u>(67,302)</u>	<u>(17,469)</u>
Cash flows from financing activities:		
Proceeds from exercise of common stock options	106	64
Redemption of Convertible Subordinated Notes	(129,380)	(849)
Proceeds of convertible subordinated notes	275,000	—
Cash payment for debt issuance costs	(7,655)	—
Net cash provided by (used in) financing activities	<u>138,071</u>	<u>(785)</u>
Net increase (decrease) in cash and cash equivalents	94,611	(13,920)
Cash and cash equivalents at beginning of period	76,497	69,473
Cash and cash equivalents at end of period	<u>\$ 171,108</u>	<u>\$ 55,553</u>

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 (Enzon or the Company) in accordance with United States generally accepted accounting principles (GAAP) 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. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In the opinion of management, all adjustments (consisting only of normal and recurring adjustments) considered necessary for a fair presentation have been included. Certain prior year balances have been reclassified to conform to the current period presentation. 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 Transition Report on Form 10-K for the six months ended December 31, 2005.

(2) Marketable Securities

The Company classifies its investments in marketable equity securities and debt securities, including auction rate securities, as available-for-sale. The Company classifies those investments with maturities of one year or less as current assets and investments in debt securities with maturities greater than one year and marketable equity securities as noncurrent assets when it has the intent and ability to hold such securities for at least one year. Debt and marketable equity securities are carried at fair value, with the unrealized gains and losses (which are deemed to be temporary), net of related tax effect, included in the determination of other comprehensive income and reported in stockholders' deficit. The fair value of all securities is determined by quoted market prices.

The Company holds auction rate securities for which interest or dividend rates are generally reset for periods of up to 90 days. The auction rate securities outstanding at June 30, 2006 and December 31, 2005 were investments in state government bonds and corporate securities. At June 30, 2006, the Company held auction rate securities with contractual maturities between 2006 and 2032.

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 investment income, net. The cost of securities is based on the specific identification method.

The Company adopted Financial Accounting Standards Board Staff Position FSP FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" effective January 1, 2006. The adoption of this guidance had no effect on the Company's consolidated financial statements. Pursuant to FSP FAS 115-1, impairment assessments are made at the individual security level each reporting period. When the fair value of an investment is less than its cost at the balance sheet date, a determination is made as to whether the impairment is other than temporary and, if it is other than temporary, an impairment loss is recognized in earnings equal to the difference between the investment's cost and fair value at such date.

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The Company has determined that there were no other-than-temporary declines in the fair values of its marketable securities and short-term investments as of June 30, 2006. The following table shows the gross unrealized losses and fair values of the Company's available-for-sale securities (both short-term and long-term) aggregated by investment category and length of time that individual securities have been in a continuous loss position at June 30, 2006 (in thousands):

	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and GSE debt ⁽¹⁾	\$ 3,464	\$ (36)	\$ 40,888	\$ (612)
U.S. corporate debt ⁽²⁾	60,140	(165)	15,861	(204)
Total	\$ 63,604	\$ (201)	\$ 56,749	\$ (816)

- (1) U.S. Government and government-sponsored enterprise (GSE) debt. The unrealized losses of \$648,000 in the U.S. Government and GSE mortgage-backed securities were attributable to increases in interest rates. These holdings do not permit the issuer to settle the securities at a price less than the amortized cost. Further, because the declines in market value are due to increases in interest rates and not the credit quality of the issuer, and because the Company has the ability and the intent to hold these investments until recovery of the fair value, the Company does not consider its investments in U.S. Government and GSE debt to be other-than-temporarily impaired at June 30, 2006.
- (2) U.S. corporate debt. The unrealized losses of \$369,000 on the U.S. corporate debt were attributable to increases in interest rates, as well as bond pricing. The Company invests in bonds that are rated A1 or better, as dictated by its investment policy. Since the changes in the market value of these investments are due to changes in interest rates and not the credit quality of the issuer, and because the Company has the ability and intent to hold these investments until recovery of the fair value, the Company does not consider its investments in U.S. corporate debt to be other-than-temporarily impaired at June 30, 2006.

The amortized cost, gross unrealized holding gains or losses, and fair value of the Company's available-for-sale securities by major security type at June 30, 2006 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value*
U.S. Government and GSE debt	\$ 45,197	\$ —	\$ (648)	\$ 44,549
U.S. corporate debt	125,302	10	(369)	124,943
Auction rate securities	29,000	—	—	29,000
	\$ 199,499	\$ 10	\$ (1,017)	\$ 198,492

* \$161,422 is included in short-term investments and \$37,070 is included in marketable securities.

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The amortized cost, gross unrealized holding gains or losses, and fair value for securities available-for-sale by major security type at December 31, 2005 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value*
U.S. Government and GSE	\$ 59,458	\$ 2	\$ (664)	\$ 58,796
U.S. corporate debt	72,606	3	(478)	72,131
Auction rate securities	19,150	3	—	19,153
	<u>\$ 151,214</u>	<u>\$ 8</u>	<u>\$ (1,142)</u>	<u>\$ 150,080</u>

* Included in short-term investments \$88,021 and marketable securities \$62,059 at December 31, 2005.

Maturities of debt and marketable equity securities classified as available-for-sale at June 30, 2006 were as follows (in thousands):

June 30,	Amortized Cost	Fair Value
2007	\$ 162,007	\$ 161,422
2008	14,776	14,415
2009	3,600	3,538
2010 & thereafter	19,116	19,117
	<u>\$ 199,499</u>	<u>\$ 198,492</u>

(3) Investment in Equity Securities

During the six months ended June 30, 2006, the Company sold its remaining 1,023,302 shares of common stock of Nektar Therapeutics, Inc. (Nektar). This investment was reflected in other current assets on the December 31, 2005 condensed balance sheet at \$6.4 million. The disposition of the shares resulted in cash proceeds of \$20.2 million and a gain of \$13.8 million reported in investment income, net in the quarter ended March 31, 2006.

(4) Comprehensive Income

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

	Three months ended June 30		Six months ended June 30,	
	2006	2005	2006	2005
Net income (loss)	\$ 10,987	\$ (85,532)	\$ 32,695	\$ (88,657)
Other comprehensive income:				
Unrealized gain (loss) on securities that arose during the period	128	(1,054)	14,009	(4,052)
Reclassification adjustment for (gain) loss included in net income (loss)	—	2,808	(13,844)	6,358
Total other comprehensive income	128	1,754	165	2,306
Comprehensive income (loss)	<u>\$ 11,115</u>	<u>\$ (83,778)</u>	<u>\$ 32,860</u>	<u>\$ (86,351)</u>

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(5) Earnings Per Common Share

Basic earnings (loss) per share is computed by dividing the net income (loss) available to common stockholders, by the weighted average number of shares of common stock outstanding during the period. For purposes of calculating diluted earnings (loss) per share, the denominator includes both the weighted average number of shares of common stock outstanding and the number of common stock equivalents if the inclusion of such common stock equivalents is dilutive. Dilutive common stock equivalents potentially include non-qualified stock options, nonvested shares (unvested restricted stock awards and unvested restricted stock units) and the number of shares issuable upon conversion of the Company's convertible subordinated notes and/or convertible senior notes.

In determining the dilutive effect of stock options and nonvested shares, a number of treasury shares is calculated using assumed proceeds, which includes compensation costs to be attributed to future service and not yet recognized and, in the case of stock options, the cash paid by the holders to exercise plus the excess, if any, of tax benefits that would be credited to additional paid-in capital. For the three months and six months ended June 30, 2006, the inclusion of unrecognized share-based compensation in the treasury stock component of the calculation caused stock options and nonvested shares outstanding to be anti-dilutive and therefore were excluded from the computation of earnings per share.

As of June 30, 2006 and June 30, 2005, the Company determined that all potentially dilutive common stock equivalents (41.0 million shares and 11.7 million shares, respectively) were anti-dilutive. Consequently, reported diluted earnings (loss) per share is the same as basic earnings (loss) per share.

(6) Share-Based Compensation

The Company has incentive and non-qualified stock option plans for employees, officers, directors, consultants and independent contractors. These plans, the 2001 Incentive Stock Plan and the 1987 Non-Qualified Stock Option Plan, are administered by the Compensation Committee of the Board of Directors. Options granted to employees generally vest over four years from date of grant and options granted to directors vest after one year. The exercise price of the options granted must be at least 100% of the market value of the Company's common stock at the time the options are granted. Options may be exercised for a period of up to ten years from the date they are granted. The Company utilizes new shares of stock to satisfy stock option exercises.

The 2001 Incentive Stock Plan also provides for the issuance of restricted stock and restricted stock units, collectively referred to as "nonvested shares." The shares of the Company's common stock underlying these awards are issued by the Company to the recipient at the date of the grant in the case of a restricted stock award, or upon vesting, in the case of a restricted stock unit. The recipient pays no cash to receive the shares other than the \$0.01 par value in certain cases. These awards generally vest from the third anniversary of the date of grant to the fifth anniversary of the date of grant.

The Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" (SFAS 123R), effective July 1, 2005 to account for share-based compensation including both options and nonvested shares. The Company has selected the Black-Scholes method of valuation for stock options and has adopted the modified prospective transition method which requires that compensation cost be recorded, as earned, for all unvested stock options and nonvested shares outstanding at the beginning of the first quarter of adoption of SFAS 123R. The transition charges, and charges for new option and share awards, are recognized in research and development and selling, general and administrative expenses over the respective service periods. Manufacturing-related charges for option and share awards are largely embodied in product standard costs and production variances and consequently flow through to cost of products sold and contract manufacturing as inventory is sold.

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The Company has determined that a pool of excess tax benefits of approximately \$18.0 million existed in additional paid-in capital (APIC) as of July 1, 2005, the date of adoption of SFAS 123R, related to historical stock option exercises. The Company has elected to apply the short-cut method to determine the hypothetical APIC pool provided by FSP FAS 123(R) - 3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards". In future periods, excess tax benefits resulting from stock option exercises will be recognized as additions to APIC in the period the benefit is realized. In the event of a shortfall (i.e., the tax benefit realized is less than the amount previously recognized through periodic stock compensation expense recognition and related deferred tax accounting), the shortfall would be charged against APIC to the extent of previous excess benefits, including the hypothetical APIC pool, and then to tax expense.

The following tables summarize stock option activity for the three months and six months ended June 30, 2006 (in thousands, except per-option amounts):

	Options	Weighted Average Exercise Price
Outstanding at March 31, 2006	6,163	\$ 13.84
Granted at exercise prices that equaled the fair value on the date of grant	1,648	7.72
Exercised	(15)	6.90
Forfeited	(80)	7.32
Expired	(443)	16.39
	7,273	\$ 12.38
Outstanding at June 30, 2006	7,273	\$ 12.38
	Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	6,114	\$ 14.17
Granted at exercise prices that equaled the fair value on the date of grant	1,883	7.69
Exercised	(15)	6.90
Forfeited	(90)	7.46
Expired	(619)	16.49
	7,273	\$ 12.38
Outstanding at June 30, 2006	7,273	\$ 12.38
Exercisable at June 30, 2006	4,917	

For grants during the three months ended June 30, 2006, the Company's weighted average assumptions for expected volatility, expected term until exercise and risk-free interest rate were 48.89%, 5.18 years and 4.88%, respectively. For grants during the six months ended June 30, 2006, the Company's weighted average assumptions for expected volatility, expected term until exercise and risk-free interest rate were 49.17%, 5.16 years and 4.82%, respectively. Expected volatility is based on historical volatility of the Company's common stock. The expected term of options is estimated based on the Company's historical exercise rate. The risk-free rate is based on U.S. Treasury yields for securities in effect at the time of grant with terms approximating the expected term until exercise of the option. No dividend payments were assumed. The Company granted options with fair values ranging from \$3.71 to \$3.96 per share or a weighted average grant date fair value of \$3.82 per option during the three months ended June 30, 2006. For the six months ended June 30, 2006, fair values of options granted ranged from \$3.71 to \$3.96 per share or a weighted average grant date fair value of \$3.82 per option.

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following tables summarize nonvested share activity for the three months and six months ended June 30, 2006 (in thousands, except per share amounts):

	Number of Shares	Weighted- Average Grant-Date Fair Value
Nonvested at March 31, 2006	1,094	\$ 8.31
Granted	444	8.06
Vested	(1)	9.10
Forfeited	(33)	7.28
	1,504	\$ 8.26
	Number of Shares	Weighted- Average Grant-Date Fair Value
Nonvested at December 31, 2005	1,063	\$ 8.33
Granted	510	7.95
Vested	(1)	9.10
Forfeited	(68)	7.11
	1,504	\$ 8.26

In the three months ended June 30, 2006, the Company recorded share-based compensation for nonvested shares and options of \$408,000 and \$1.2 million, respectively, and for the six months ended June 30, 2006, \$850,000 and \$1.7 million, respectively, which is included in the Company's net income for the period. Cash received from exercise of stock options amounted to \$106,000 during the three months ended June 30, 2006. There were no stock option exercises during the first three months of 2006. As of June 30, 2006, there was \$8.6 million of total unrecognized compensation cost related to unvested options that the Company expects to recognize over a weighted-average period of 35 months. As of June 30, 2006, there was \$2.2 million and \$9.7 million, respectively, of total unrecognized cost related to nonvested shares awards and units that the Company expects to recognize over weighted-average periods of 31 and 48 months, respectively.

Prior to the adoption of SFAS 123R, the Company applied the intrinsic-value-based method of accounting prescribed by APB 25, "Accounting for Stock Issued to Employees", and related interpretations, to account for its stock options granted to employees. Under this method, compensation cost was recorded only if the market price of the underlying common stock on the date of grant exceeded the exercise price. SFAS 123, "Accounting for Stock-Based Compensation", as amended, (SFAS 123) established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by SFAS 123, the Company elected to continue to apply the intrinsic-value-based method of accounting described above, and adopted only the disclosure requirements of SFAS 123. For the Company, SFAS 123 was similar in most respects to SFAS 123R, with the exception of option forfeitures, which the Company accounted for as they occurred under SFAS 123. As a result of adopting SFAS No. 123R, the Company's net income for the three-month and six-month periods ended June 30, 2006 were \$1.1 million and \$1.3 million less, respectively, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2006 would have been \$0.25 per share and \$0.78 per share, respectively, as compared to reported per-share amounts of \$0.25 and \$0.75, respectively.

The fair value under SFAS 123 for each stock option granted was estimated at the date of grant using a Black-Scholes option-pricing model, assuming no dividends and the following assumptions. For grants during the six months ended June 30, 2005, the Company's weighted average assumptions for expected volatility, expected life and risk-free interest rate were 59.18%, 5 years and 3.71%, respectively.

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation (in thousands, except per-share data):

	<u>Three Months Ended June 30, 2005</u>	<u>Six Months Ended June 30, 2005</u>
Net loss as reported	\$ (85,532)	\$ (88,657)
Add: Stock-based employee compensation expense included in reported net loss	485	516
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards	(18,606)	(20,801)
Pro forma net loss	<u>\$ (103,653)</u>	<u>\$ (108,942)</u>
Earnings per common share - basic:		
As reported	\$ (1.97)	\$ (2.04)
Pro forma	\$ (2.38)	\$ (2.51)
Earnings per common share - diluted:		
As reported	\$ (1.97)	\$ (2.04)
Pro forma	\$ (2.38)	\$ (2.51)

(7) Inventories

As of June 30, 2006 and December 31, 2005 inventories consisted of the following (in thousands):

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Raw materials	\$ 4,840	\$ 6,695
Work in process	7,957	3,282
Finished goods	4,778	6,037
	<u>\$ 17,575</u>	<u>\$ 16,014</u>

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(8) Intangible Assets

As of June 30, 2006 and December 31, 2005 intangible assets consisted of the following (in thousands):

	June 30, 2006	December 31, 2005	Weighted Average Remaining Useful Lives
Product patented technology	\$ 6,000	\$ 6,000	9 years
Manufacturing patent	9,000	9,000	9 years
Patent	1,875	1,875	1 year
Product acquisition costs	61,194	26,194	8 years
	<u>78,069</u>	<u>43,069</u>	
Less: Accumulated amortization	12,957	8,915	
	<u>\$ 65,112</u>	<u>\$ 34,154</u>	

In October 2005, the Company amended its license agreement with Sanofi-Aventis for Oncaspar. The amendment became effective in January 2006 and includes a significant reduction in the royalty rate, with a single-digit royalty percentage now payable by Enzon only on those aggregate annual sales of Oncaspar in the U.S. and Canada that are in excess of \$25.0 million. In consideration for the amendment, Enzon made an upfront cash payment of \$35.0 million to Sanofi-Aventis in January 2006. The \$35.0 million payment will be amortized on a straight-line basis over its remaining economic life of 8.5 years. The Company is obligated to make royalty payments through June 30, 2014, at which time all of the Company's royalty obligations will cease.

For the three months and six months ended June 30, 2006, amortization charged to operations relating to intangible assets totaled \$2.0 million and \$4.0 million, respectively, of which \$1.8 million and \$3.7 million, respectively, were classified in cost of product sales and contract manufacturing. For the three months and six months ended June 30, 2005, amortization expense was \$4.5 million and \$8.9 million, respectively, of which \$1.1 million and \$2.2 million, respectively, were charged to cost of sales. Amortization charges in 2005 were higher than in 2006 reflecting the higher balances of Abelcet-related amortizable intangible assets recorded at that time. In December 2005, \$133.1 million of Abelcet-related intangibles were written down due to impairment.

(9) Notes Payable

The table below reflects the composition of the notes payable balances as of June 30, 2006 and December 31, 2005 (in millions):

	June 30, 2006	December 31, 2005
4.5% Convertible Subordinated Notes due July 1, 2008	\$ 260.2	\$ 394.0
4% Convertible Senior Notes due June 1, 2013	275.0	—
	<u>\$ 535.2</u>	<u>\$ 394.0</u>

Of the \$260.2 million of 4.5% notes outstanding as of June 30, 2006, \$137.6 million is classified as short-term in the condensed consolidated balance sheet as it was the Company's intention to repurchase this portion of the notes in July 2006 - see below.

The 4.5% notes mature on July 1, 2008 and are convertible, at the option of the holders, into common stock of the Company at a conversion price of \$70.98 per share at any time on or before July 1, 2008. The 4.5% notes are subordinated to all existing and future senior indebtedness. Upon occurrence of a "fundamental change", as defined in the indenture governing the notes, holders of the notes may require the Company to redeem the notes at a price equal to 100% of the principal amount plus accrued and unpaid interest.

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
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During the quarter ended June 30, 2006, the Company issued \$275.0 million of 4% notes that mature on June 1, 2013 unless earlier redeemed, repurchased or converted. The 4% notes are senior unsecured obligations and rank equal to other senior unsecured debt of the Company and all future senior unsecured debt of the Company. The 4% notes may be converted at the option of the holders into the Company's common stock at an initial conversion price of \$9.55 per share.

At any time on or after June 1, 2009, if the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading day period ending on the date one day prior to the date of a notice of redemption is greater than 140% of the applicable conversion price on the date of such notice, the Company, at its option, may redeem the 4% notes in whole or in part, at a redemption price in cash equal to 100% of the principal amount of the 4% notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date. The 4% notes are not redeemable prior to June 1, 2009. Upon occurrence of a "fundamental change", as defined in the indenture governing the notes, holders of the notes may require the Company to redeem the notes at a price equal to 100% of the principal amount plus accrued and unpaid interest or, in certain cases, to convert the notes at an increased conversion rate based on the price paid per share of the Company's common stock in the transaction constituting the fundamental change.

In connection with the Company's second-quarter 2006 issuance of \$275.0 million of the 4% notes, the Company entered into a registration rights agreement (RRA) whereby it agreed to file a shelf registration statement permitting the registered resale of the 4% notes and the common stock issuable upon conversion of the notes. Failure to comply with specified obligations under the RRA relating to filing of the shelf registration, its being declared effective and maintaining its effectiveness would result in additional interest being payable on the notes. The Company anticipates filing the shelf registration within the time period prescribed in the RRA.

Concurrent with the May 2006 issuance of the 4% notes, a portion of the proceeds were used to repurchase \$133.8 million of principal amount of 4.5% notes outstanding at a purchase price of \$129.4 million plus accrued interest of \$2.4 million. Upon repurchase of the 4.5% notes, deferred offering costs of \$1.3 million were written off and included in interest expense on the consolidated statements of operations.

On July 6, 2006, the Company completed a tender offer whereby it repurchased \$137.6 million principal amount of 4.5% notes at a purchase price of \$965 for each \$1,000 principal amount, plus accrued interest of \$86,000. As of August 1, 2006, \$122.6 million principal amount of the 4.5% notes remain outstanding. Upon repurchase of the 4.5% notes, deferred offering costs of \$1.2 million were written off and will be included in interest expense in the consolidated statements of operations.

Interest on the 4.5% notes is payable January 1 and July 1 of each year. Accrued interest on the 4.5% notes was \$5.8 million as of June 30, 2006 and \$8.9 million as of December 31, 2005. Interest on the 4% notes is payable on June 1 and December 1 of each year, commencing on December 1, 2006. As of June 30, 2006, accrued interest on the 4% notes amounted to \$1.1 million.

The Company incurred \$7.7 million of costs in connection with the issuance of the 4% notes including legal, accounting and underwriting fees. These costs have been capitalized as a component of other assets and will be amortized over the approximately 84 month term of the 4% notes.

The Company evaluated the accounting for the conversion feature in accordance with EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock," and related issues, at the date of issuance of the 4% Convertible Notes and determined that the conversion feature should be classified as equity, and therefore it does not need to be accounted for separately from the Convertible Notes. The Company will update its analysis of the accounting for the conversion feature as circumstances warrant. If the conversion feature is required to be bifurcated in the future, changes in the fair value of the conversion feature would be charged or credited to interest expense in each period.

(10) Stockholders' Equity

At the Company's annual meeting on May 18, 2006, the Company's stockholders approved an amendment and restatement of the Company's Restated Certificate of Incorporation to increase the number of authorized \$0.01 per share par value common stock from 90,000,000 shares to 170,000,000 shares.

Also at the annual meeting, the Company's stockholders approved an amendment to the 2001 Incentive Stock Plan to increase the number of shares of common stock issuable thereunder by 4,000,000 shares from 6,000,000 shares to 10,000,000 shares.

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As of June 30, 2006, the Company has reserved shares of its common stock for special purposes as detailed below (in thousands):

Non-Qualified and Incentive Stock Plan	12,689
Shares issuable upon conversion of 4.5% Notes due 2008	3,666
Shares issuable upon conversion of 4% Notes due 2013	28,796
	<hr/>
	45,151
	<hr/>

(11) Cash Flow Information

The Company considers all highly liquid securities with original maturities of three months or less to be cash equivalents. For each of the six-month periods ended June 30, 2006 and 2005, there were payments of interest of \$11.2 million and \$9.0 million, respectively. Income tax payments for the six months ended June 30, 2006 and 2005, were \$100,000 and \$257,000, respectively.

(12) Income Taxes

During the three months and six months ended June 30, 2006, the Company recorded a net tax expense of approximately \$288,000 and \$424,000, respectively, which represents state and Canadian taxes payable. No federal income tax provision was recorded for the three months and six months ended June 30, 2006 as the estimated annual effective tax rate is zero due to the Company's projected taxable income and its ability to utilize its net operating loss carry forwards. As of June 30, 2006, the Company continues to provide a valuation allowance against its net deferred tax assets since the Company believes it is more likely than not its deferred tax assets will not be realized.

During the quarter ended June 30, 2005, the Company concluded that it was more likely than not that it would not realize the tax benefits from its accumulated state and federal net operating loss carryforwards and research and development tax credit carryforwards and established a valuation allowance for all such deferred tax assets. Accordingly, the Company recorded non-cash charges of \$80.2 million and \$78.5 million for the three months and six months ended June 30, 2005, respectively, inclusive of a full reserve against existing deferred tax assets at June 30, 2005 of \$68.2 million and a charge for a deferred tax liability \$10.6 million associated with then existing goodwill. The goodwill and associated deferred tax liability were written off as of December 31, 2005.

(13) Derivative Instruments

During the quarter ended June 30, 2005, the Company sold 375,000 shares of NPS Pharmaceuticals, Inc. (NPS) common stock it held and 375,000 shares of the related Zero Cost Protective Collar (Collar) instrument matured. During the three months ended June 30, 2005, the Company recorded an unrealized loss of \$2.2 million as a component of other, net in the condensed consolidated statements of operations representing the change in fair value of the Collar. Also, during the three months ended June 30, 2005, the Collar matured resulting in a realized loss of \$1.3 million recorded in other, net. The Company received cash proceeds from the settlement of this instrument totaling \$7.5 million in the quarter ended June 30, 2005. During the six months ended June 30, 2005, the Company sold 750,000 shares of NPS common stock it held and 750,000 shares of the Collar instrument matured. The Company recorded as a component of other, net, an unrealized loss of \$160,000 representing the change in fair value of the Collar and a realized loss of \$5.3 million related to the collar maturation. The Company received cash proceeds from the settlement of this instrument totaling \$15.0 million in the six months ended June 30, 2005. At December 31, 2005, the Company no longer held any shares of NPS common stock nor did it hold any portion of the Collar.

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(14) Related Party Transactions

Two of the Company's executive officers received relocation benefits in connection with their joining the Company whereby the residences from which they were moving were purchased at independently determined appraisal values. During the six months ended June 30, 2006, both properties have been sold resulting in an aggregate net loss to the Company of \$268,000. At December 31, 2005, there was a balance of \$736,772 in other current assets carried in the condensed consolidated balance sheet representing these temporary holdings.

(15) Recently Issued Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109, "Accounting for Income Taxes". The Interpretation establishes criteria for recognizing and measuring the financial statement tax effects of positions taken on a company's tax returns. A two-step process is prescribed whereby the threshold for recognition is a more-likely-than-not test that the tax position will be sustained upon examination and the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company currently recognizes a tax position if it is probable of being sustained. The Interpretation is effective for the Company beginning January 1, 2007 and will be applicable to all tax positions upon initial adoption. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may continue to be recognized upon adoption of the Interpretation. The Company is evaluating the potential effects the Interpretation may have on its consolidated financial position or results of operations, but no material consequence is expected.

(16) Segment Information

The Company operates in the following business and reportable segments:

Products - Sales of the Company's four therapeutic, FDA-approved products: Abelcet, Adagen, Oncaspar and Depocyt.

Royalties - Licensing income from royalties received on the sale of products by third-party companies that utilize Enzon's proprietary technology - primarily royalties on sales of PEG-INTRON by Schering-Plough Corporation.

Contract Manufacturing - Contract manufacture of products for other firms - primarily Abelcet for export and MYOCET, each for Zeneus Pharma Ltd, a wholly owned subsidiary of Cephalon, Inc., and the injectable multivitamin, MVI, for Mayne Pharma U.S.A. Inc.

Profit (loss) for the Company's segments is measured based on operating results, excluding investment income, interest expense and income taxes. The Company does not identify or allocate property and equipment by operating segment, and does not allocate depreciation, as such, to the operating segments. Operating segments do not have intersegment revenue, and accordingly, there is none to be reported.

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
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The following table presents segment revenues and profitability information for the three-month and six-month periods ended June 30, 2006 and 2005 (in thousands):

Three months ended June 30,

Segment		Products	Royalties	Contract Manufacturing	Corporate ⁽¹⁾	Consolidated
Revenues	2006	\$ 24,537	\$ 17,936	\$ 5,131	\$ —	\$ 47,604
	2005	\$ 23,480	\$ 16,878	\$ 3,309	\$ —	\$ 43,667
Profit (Loss)	2006	\$ 7,406	\$ 17,936	\$ 1,995	\$ (16,062)	\$ 11,275
	2005	\$ (1,150)	\$ 16,878	\$ 547	\$ (21,568)	\$ (5,293)

Six months ended June 30,

Segment		Products	Royalties	Contract Manufacturing	Corporate ⁽¹⁾	Consolidated
Revenues	2006	\$ 48,812	\$ 35,184	\$ 8,337	\$ —	\$ 92,333
	2005	\$ 44,703	\$ 30,509	\$ 7,668	\$ —	\$ 82,880
Profit (Loss)	2006	\$ 15,315	\$ 35,184	\$ 2,767	\$ (20,147)	\$ 33,119
	2005	\$ 1,690	\$ 30,509	\$ 2,355	\$ (44,733)	\$ (10,179)

(1) Corporate expenses include operating income (loss) components that are not directly attributable to an operating segment, including general and administrative expenses, exploratory and preclinical research and development expenses, and treasury activities.

Following is a reconciliation of segment profit to consolidated income (loss) before income tax provision (in thousands):

	Three Months Ended June 30		Six Months Ended June 30,	
	2006	2005	2006	2005
Segment profit	\$ 27,337	\$ 16,275	\$ 53,266	\$ 34,554
Unallocated operating expense	(16,983)	(14,866)	(31,762)	(32,618)
Operating income (loss)	10,354	1,409	21,504	1,936
Other corporate income and expense	921	(6,702)	11,615	(12,115)
Income (loss) before income tax provision	\$ 11,275	\$ (5,293)	\$ 33,119	\$ (10,179)

Assets of the Products segment increased by \$35.0 million as a result of the payment made January 1, 2006 to Sanofi-Aventis for a negotiated reduction in royalty rates to be paid by the Company on sales of Oncaspar. This intangible asset is being amortized over 8.5 years on a straight-line basis.

(17) Subsequent Event

In July 2006, the Company entered into a license and collaboration agreement with Santaris Pharma A/S (Santaris) for up to eight RNA antagonists for the treatment of oncology indications. Enzon obtained rights worldwide, other than Europe, to develop and commercialize RNA antagonists directed against the Hif-I alpha and Survivin gene targets. Santaris will design and synthesize RNA antagonists directed against up to six additional gene targets selected by Enzon, and Enzon will have the right to develop and commercialize those antagonists worldwide other than Europe. Enzon will make an initial payment of \$8.0 million to Santaris in August 2006 and will be responsible for making additional payments upon the successful completion of certain compound synthesis and selection, clinical development and regulatory milestones. Santaris is also eligible to receive royalties from any future product sales from products based on the licensed antagonists. Santaris retains the right to develop and commercialize products developed under the collaboration in Europe.

Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a company dedicated to the development and commercialization of therapeutics to treat patients with cancer and adjacent diseases. Our primary clinical development and commercial focus is on internally developed or acquired products for oncology and adjacent therapeutic areas where there are serious unmet medical needs. We also leverage our scientific expertise in designing improved versions of pharmaceuticals to obtain commercialization rights in products discovered by others. We operate in three business segments: Products, Royalties and Contract Manufacturing. Products revenues are comprised of sales of four FDA-approved products, Abelcet, Adagen, Oncaspar and Depocyt. We receive royalties and license fees on sales of a number of products by other firms that mainly utilize our proprietary PEGylation platform including PEG-INTRON[®], marketed by Schering-Plough Corporation, and MACUGEN[®], marketed by OSI Pharmaceuticals, Inc. and Pfizer Inc. In addition, we utilize contract manufacturing opportunities to broaden our revenue base and enhance our organizational productivity. Presently, we manufacture three injectable pharmaceutical products for our partners.

Results of Operations

Following is a reconciliation of segment profitability to consolidated income before income tax (millions of dollars). The percentage changes below and throughout Management's Discussion and Analysis are based on thousands of dollars and not the rounded millions of dollars reflected throughout this section.

	Three Months Ended			Six Months Ended		
	June 2006	% Change	June 2005	June 2006	% Change	June 2005
Products Segment profit (loss)	\$ 7.4	n.m.	\$ (1.1)	\$ 15.3	806	\$ 1.7
Royalty Segment profit	18.0	6	16.9	35.2	15	30.5
Contract Manufacturing Segment profit	2.0	265	0.6	2.8	17	2.4
Corporate and other expenses*	(16.1)	(26)	(21.7)	(20.2)	(55)	(44.8)
Income (loss) before income tax provision	\$ 11.3	n.m.	\$ (5.3)	\$ 33.1	n.m.	\$ (10.2)

* The Company does not allocate certain corporate income and expenses not directly identifiable with the respective segments, including general and administrative expenses, exploratory and preclinical research and development expenses, depreciation, interest income, interest expense and income taxes.

n.m. – not meaningful

Products Segment

Segment profitability (millions of dollars):

	Three Months Ended			Six Months Ended		
	June 2006	% Change	June 2005	June 2006	% Change	June 2005
Revenues	\$ 24.5	5	\$ 23.5	\$ 48.8	9	\$ 44.7
Cost of sales	9.2	(16)	10.9	17.3	(1)	17.4
Selling & marketing	7.7	(25)	10.3	15.8	(16)	18.9
Amortization	0.2	(94)	3.4	0.4	(94)	6.7
Segment profit (loss)	\$ 7.4	n.m.	\$ (1.1)	\$ 15.3	806	\$ 1.7

n.m. – not meaningful

Revenues

Performance of individual products is provided below (millions of dollars):

Product	Three Months Ended			Six Months Ended		
	June 2006	% Change	June 2005	June 2006	% Change	June 2005
Abelcet	\$ 9.3	(17)	\$ 11.3	\$ 19.8	(3)	\$ 20.4
Adagen	5.7	22	4.6	11.0	17	9.4
Oncaspar	7.6	29	5.9	14.0	23	11.4
Depocyt	1.9	17	1.7	4.0	15	3.5
Totals	\$ 24.5	5	\$ 23.5	\$ 48.8	9	\$ 44.7

For the three months ended June 30, 2006, net product sales increased by 5% to \$24.5 million over the same period of 2005. For the six months ended June 30, 2006, net product sales increased by 9% to \$48.8 million over the same six-month period of 2005. All of our products except Abelcet contributed to these improvements, which were due largely to rising sales volumes. U.S. and Canadian Abelcet net sales declined \$2.0 million or 17% in the quarter ended June 30, 2006, as the result of continued competition that resulted in a decline in volume. For the six months ended June 30, 2006, Abelcet net sales decreased over the first six months of the prior year by \$0.6 million or 3%. We anticipate increased competition from new therapeutics entering the market the latter half of 2006.

Adagen sales, which tend to fluctuate from quarter to quarter because of the small number of patients on therapy, rose 22% for the quarter ended June 30, 2006 and 17% year to date as compared to the year-earlier periods. The 29% second-quarter and 23% first-half increase in revenue for Oncaspar was related to the adoption of Oncaspar in certain protocols by hospitals and cooperative groups resulting in an increase in demand for the product. In addition there was a small increase in price. In December 2005, Enzon announced it applied for FDA approval of Oncaspar as a first-line treatment for acute lymphoblastic leukemia (ALL). On July 25, 2006, we announced that we were notified by the FDA that our application for first line treatment for ALL was approved. Depocyt net sales increased by 17% in the three-month period ended June 30, 2006 and 15% in the first six months of 2006 compared to the same prior-year periods due to increased use because of its more convenient dosing schedule, as well as the effect of a price increase. Skyepharma submitted a post marketing study to the U.S. Food and Drug Administration as fulfillment of their post marketing commitment. As reported at the 2006 American Society of Clinical Oncology (ASCO) annual meeting, these results demonstrate at least comparable patient benefit between Depocyt and control treatments. Intrathecal Depocyt provides patients with the added convenience of bimonthly treatment.

Cost of sales

In the three months ended June 30, 2006, cost of products sold of \$9.2 million as a percentage of sales improved to 37.6% compared to 46.7% (\$10.9 million) the year-earlier period due primarily to favorable manufacturing variances in the current year due to higher than anticipated production volumes. Individual products each showed improved margins. Abelcet was favorably affected by inventory write-offs in the quarter ended June 30, 2005 of \$3.0 million and experienced none in the current year second quarter. Abelcet was also favorably affected by a \$0.3 million reduction of amortization of intangibles due to the December 2005 impairment write-down. Offsetting these favorable effects was a lower per-unit margin as Abelcet selling prices declined on a year-over-year basis. The other three products benefited from January 1, 2006 price increases which had a favorable effect on gross margins. In the case of Oncaspar, inventory write-offs rose in the quarter ended June 30, 2006 as compared to the same quarter of 2005 due to ongoing manufacturing challenges associated with product stability. This negative effect was offset in part by the net favorable effect of having negotiated lower royalties to Sanofi-Aventis effective January 1, 2006. The lower royalty payments of \$1.2 million have more than compensated for the increase in amortization expense (\$1.0 million) related to the agreement.

For the six months ended June 30, 2006, cost of products sold of \$17.3 million declined more modestly from 39.0% of sales to 35.5%. The prior-year second-quarter Abelcet inventory write-offs and reduced amortization discussed above were the major influences also for the six-month period. After eliminating these factors, margins would otherwise be lower in the first half of 2006 than in the comparable prior-year period as the favorable manufacturing variances referred to above were offset by unfavorable variances in the first quarter of 2006.

Selling and marketing expenses

Selling and marketing expenses consist primarily of commercial expense and marketing, medical education, Phase IV programs to support our commercial efforts as well as salaries and benefits for our sales and marketing personnel. Selling and marketing expenses decreased \$2.6 million or 25% from the three months ended June 30, 2005 and \$3.1 million or 16% from the six months ended June 30, 2005. The decrease in both comparable periods was primarily due to a change in marketing personnel and advertising agency resulting in a more targeted marketing spend in 2006. For the six months ended June 30, 2006, the decrease was also due to the discontinuation of the MARQIBO programs in 2005.

Amortization of acquired intangible assets

Amortization expense was \$0.2 million for the three months ended June 30, 2006, as compared to \$3.4 million for the three months ended June 30, 2005. Amortization expense was \$0.4 million for the six months ended June 30, 2006, as compared to \$6.7 million for the six months ended June 30, 2005. Amortization expense was lower in each comparative period due to the fourth quarter 2005 impairment of Abelcet-related intangible assets. Amortization of intangible assets has been provided over their remaining estimated lives ranging from 1-14 years on a straight-line basis.

Royalties Segment

(millions of dollars)

	Three Months Ended			Six Months Ended		
	June 2006	% Change	June 2005	June 2006	% Change	June 2005
Royalty revenue	\$ 18.0	6	\$ 16.9	\$ 35.2	15	\$ 30.5

Total royalties for the three months ended June 30, 2006 of \$18.0 million were 6% higher than the \$16.9 million during the comparable three-month period ended June 30, 2005. Total royalties for the six months ended June 30, 2006 increased 15% to \$35.2 million as compared to \$30.5 million during the comparable six-month period ended June 30, 2005. Impacting both the three-months and six-month periods were the proceeds of \$1.0 million on the sale of our SS1P program, an immunotoxin fusion protein, to Cambridge Antibody Technology. The improvement in total royalties over the prior year periods was due to the January 2005 launch of MACUGEN in the U.S. and the December 2004 launch of PEG-INTRON combination therapy in Japan. The sales of these products were not yet fully reflected in the same three- and six-month periods of 2005 due to the recent entry of these products into the associated markets. The majority of royalties is comprised of royalty revenue we receive on sales of PEG-INTRON, but also includes other royalty revenue, certain license revenues and contract revenues related to the application of our technology to other firms' products. We expect competition for PEG-INTRON combination therapy in Japan and MACUGEN in the U.S. to increase later this year.

Costs and expenses

Current royalty revenues do not require any material specific maintenance costs. At some point in the future, costs associated with initiation of new outlicensing agreements that could result in our receipt of a royalty stream and, if necessary, costs necessary to maintain the underlying technology may be charged to the Royalties segment.

Contract Manufacturing Segment

(millions of dollars)

Product	Three Months Ended			Six Months Ended		
	June 2006	% Change	June 2005	June 2006	% Change	June 2005
Revenues	\$ 5.1	55	\$ 3.4	\$ 8.3	9	\$ 7.7
Cost of sales	3.1	14	2.8	5.5	5	5.3
Segment profit	\$ 2.0	265	\$ 0.6	\$ 2.8	17	\$ 2.4

Revenues

Contract manufacturing revenue for the three-month and six-month periods ended June 30, 2006 was \$5.1 million and \$8.3 million, respectively. This compares to \$3.4 million and \$7.7 million for the comparable periods of 2005. The increase in contract manufacturing revenue was primarily attributable to the timing of third-party shipments. In addition, in the three months ended June 30, 2006, we settled a matter with one of our customers resulting in recognition of an additional \$0.9 million of revenue. The unavailability of certain raw materials in March 2006, delayed production in that quarter and the resulting revenues from products that the Company manufactures. It is not uncommon for the timing of the shipments to cause quarter-over-quarter fluctuations.

Cost of sales

Cost of sales for contract manufacturing for the three months ended June 30, 2006 was \$3.1 million or 61% of sales. This compared to \$2.8 million or 83% of sales for the comparable three-month period of 2005. The decrease in cost of sales as a percent of sales was attributable to lower production efficiency and decreased volumes in 2005 that resulted in a proportionate increase in fixed costs being allocated to the units produced. In addition, the higher margin in the three months ended June 30, 2006, was impacted by a settlement from one of our customers that resulted in the recognition of an additional \$0.9 million in revenue. For the six months ended June 30, 2006, cost of sales for contract manufacturing was \$5.5 million or 67% of sales, compared to \$5.3 million or 69% of sales for the six months ended June 30, 2005.

Non-U.S Revenue

During the three months ended June 30, 2006, we had export sales and royalties on export sales of \$16.2 million, of which \$9.9 million were in Europe. This compares to \$17.5 million of export sales in the comparable three-month period of 2005, of which \$10.7 million were in Europe.

We had export sales and royalties on export sales of \$31.8 million and \$29.9 million, of which \$18.1 million and \$19.5 million were in Europe, for the six months ended June 30, 2006 and 2005, respectively.

Corporate and Other Expense

(millions of dollars)

	Three Months Ended			Six Months Ended		
	June 2006	% Change	June 2005	June 2006	% Change	June 2005
Research and development	\$ 9.5	70	\$ 5.5	\$ 16.5	(10)	\$ 18.2
General and administrative	7.6	4	7.2	15.3	24	12.3
Restructuring charge	—	n.m.	2.1	—	n.m.	2.1
Other (income) expense:						
Investment income	(3.1)	105	(1.5)	(18.9)	622	(2.6)
Interest expense	6.6	34	4.9	11.5	16	9.9
Other, net	(4.5)	n.m.	3.5	(4.2)	n.m.	4.9
	(1.0)		6.9	(11.6)		12.2
Corporate Costs	\$ 16.1	(26)	\$ 21.7	\$ 20.2	(55)	\$ 44.8

n.m. – not meaningful

Research and Development.

For the three months ended June 30, 2006, research and development expenses increased by \$4.0 million to \$9.5 million as compared to the three months ended June 30, 2005. The increase was primarily due to new clinical programs in 2006, as compared to organizational and research and development portfolio restructuring that occurred in the second quarter of 2005.

For the six months ended June 30, 2006, research and development expenses decreased by \$1.7 million to \$16.5 million as compared to the six months ended June 30, 2005. The decrease was primarily due to the fact that the six months ended June 30, 2005 included a \$5.0 million payment to Inex Pharmaceuticals Corporation related to the termination of our partnership for the development and commercialization of MARQIBO. Partly offsetting this favorable effect was the increased spending referred to above.

The Company's clinical trial activities are expected to increase during the latter half of 2006, due to anticipated enrollment this summer in a study related to the use of Oncaspar in the treatment of certain cancers as well as ongoing development work on recombinant human Mannose-Binding Lectin (rhMBL) and the recently announced strategic collaboration with Santaris Pharma A/S to develop and commercialize a series of innovative RNA antagonists based on Santaris' LNA[®] technology.

General and administrative.

General and administrative expenses for the three months ended June 30, 2006, rose 4% to \$7.6 million. For the six month-period, general and administrative expenses rose 24% to \$15.3 million. A number of factors contributed to these increases, including contracted and consulting services, legal fees and salaries and benefits, partially offset by a decrease in accounting-related fees. The decrease in accounting-related fees is due to a change in our year end. Salaries and benefits are comparatively higher due in part to the recognition in 2006 of compensation expense for stock options, due to our adoption of SFAS 123R. Consulting and legal fees were higher due to due diligence efforts related to potential transactions.

Other income (expense).

Other income (expense) for the three months ended June 30, 2006 was net income of \$1.0 million, as compared to net expense of \$6.9 million for the three months ended June 30, 2005. For the six-month periods, other income (expense) was net income of \$11.6 million in 2006 versus a net expense of \$12.2 million in 2005. Other income (expense) includes: net investment income, interest expense and other expense.

Net investment income increased by \$1.6 million to \$3.1 million for the three months ended June 30, 2006 compared to \$1.5 million for the three months ended June 30, 2005. Net investment income increased by \$16.3 million to \$18.9 million for the six months ended June 30, 2006 compared to \$2.6 million for the six months ended June 30, 2005. The six months' increase was principally due to the sale in January and February 2006 of our remaining 1,023,302 shares of Nektar Therapeutics, Inc. common stock which resulted in a net gain of \$13.8 million and cash proceeds of \$20.2 million.

Interest expense was \$6.6 million and \$11.5 million for the three-month and six-month periods ended June 30, 2006 and \$4.9 million and \$9.9 million for the three-month and six-month periods ended June 30, 2005. The favorable effect on interest expense from the decline in the 4.5% notes payable of \$133.7 million was more than offset by the May 2006 issuance of \$275.0 million of the 4% notes. Also, the repurchase of the 4.5% notes resulted in the write-off of \$1.3 million of deferred offering costs which is included in interest expense.

Other, net was a net income of \$4.5 million for the three months ended June 30, 2006, as compared to a net expense of \$3.5 million for the three months ended June 30, 2005. The improvement resulted primarily from the debt refinancing which included a \$4.4 million gain on the repurchase of the 4.5% notes. For the six months ended June 30, 2006, other, net was a net income of \$4.2 million versus a net expense of \$4.9 million for the six months ended June 30, 2005. The 2005 expense was higher due to costs associated with our holding of NPS Pharmaceuticals, Inc. (NPS) common stock and a related hedging instrument. We recognized a realized loss of \$1.3 million on the maturation of the hedging instrument and sale of the underlying shares and a \$2.2 million unrealized loss on the instrument for the three months ended June 30, 2005. For the six months ended June 30, 2005 we recognized a realized loss of \$5.3 million on the maturation of the hedging instrument and sale of the underlying shares partially offset by an unrealized gain of \$160,000 on the instrument.

Income taxes

During the three months and six months ended June 30, 2006, we recorded a net tax expense of approximately \$0.3 million and \$0.4 million, respectively, which represents state and Canadian taxes payable. No federal income tax provision was recorded for the three months and six months ended June 30, 2006 as the estimated annual effective tax rate is zero due to our projected taxable income and the ability to utilize our federal net operating loss carryforwards. During the three months and six months ended June 30, 2005, we recorded non-cash charges of \$80.2 million and \$78.5 million, respectively, principally representing a full reserve against deferred tax assets of \$68.2 million at June 30, 2005 and establishment of a deferred tax liability of \$10.6 million associated with goodwill.

Liquidity and Capital Resources

Total cash reserves, which include cash, cash equivalents, short-term investments and marketable securities, were \$369.6 million as of June 30, 2006, as compared to \$226.6 million as of December 31, 2005. The increase is primarily due to the \$267.3 million net proceeds from the 4% Convertible Senior Notes and the \$20.2 million cash proceeds from the sale of Nektar common stock we owned. This was offset in part by the \$129.4 million cash payment for the repurchase of \$133.8 million of our 4.5% Convertible Subordinated Notes at a \$4.4 million discount and the January payment to Sanofi-Aventis of \$35.0 million relating to a reduction of the Oncaspar royalty rate. We invest our excess cash primarily in United States government and government-sponsored enterprise securities and investment-grade corporate debt securities and auction rate securities.

In July 2006 we completed a tender offer whereby we repurchased \$137.6 million principal amount of 4.5% notes at a purchase price of \$965 for each \$1,000 principal amount, plus accrued interest of \$0.1 million. We used the \$275.0 million from our new convertible offering due in 2013 to extinguish an aggregate principal amount of \$272.0 million of debt that otherwise would have been due in 2008.

Cash provided by operating activities totaled \$23.8 million for the six months ended June 30, 2006 compared to cash provided by operating activities of \$4.3 million for the six months ended June 30, 2005. The favorable shift was the result of improved net income of \$32.7 million, offset in part by gains on sale of investments of \$13.8 million and on the redemption of a portion of our 4.5% notes. Cash used in investing activities rose \$49.8 million from \$17.5 million to \$67.3 million. This was due primarily to the January 2006 \$35.0 million payment to Sanofi-Aventis for an Oncaspar intangible asset and a net increase in marketable securities of \$9.7 million. Cash provided by financing activities for the six months ended June 30, 2006 was \$138.1 million, compared to cash used in financing activities of 785,000 for the six months ended June 30, 2005. In the six months ended June 30, 2006, the Company raised \$267.3 million of 4% notes and repaid \$129.4 million of 4.5 % notes.

As of June 30, 2006, we had \$535.2 million of convertible notes outstanding. The 4.5% notes in the principal amount of \$260.2 million are subordinated to all existing and future senior indebtedness of the Company, including the \$275.0 million of 4% convertible senior notes issued during the second quarter of 2006. Interest is payable on January 1 and July 1 of each year on the 4.5% notes and on June 1 and December 1 of each year on the 4% notes. During the six-month periods ended June 30, 2006 and June 30, 2005, there were payments of interest of \$11.2 million and \$9.0 million, respectively. Accrued interest on the aggregate amount of the notes outstanding was \$6.9 million as of June 30, 2006 and \$8.9 million as of December 31, 2005.

The 4.5% notes mature on July 1, 2008 and are convertible, at the option of the holders, into common stock of the Company at a conversion price of \$70.98 per share at any time on or before July 1, 2008. The 4.5% notes are subordinated to all existing and future senior indebtedness. Upon occurrence of a "fundamental change", as defined in the indenture governing the 4.5% notes, holders of the 4.5% notes may require the Company to redeem the notes at a price equal to 100% of the principal amount plus accrued and unpaid interest.

At any time on or after June 1, 2009, if the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading day period ending on the date one day prior to the date of a notice of redemption is greater than 140% of the applicable conversion price on the date of such notice, the Company, at its option, may redeem the 4% notes in whole or in part, at a redemption price in cash equal to 100% of the principal amount of the 4% notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date. The 4% notes are not redeemable prior to June 1, 2009. Upon occurrence of a "fundamental change", as defined in the indenture governing the 4% notes, holders of the 4% notes may require the Company to redeem the 4% notes at a price equal to 100% of the principal amount plus accrued and unpaid interest or, in certain cases, to convert the 4% notes at an increased conversion rate based on the price paid per share of the Company's common stock in the transaction constituting the fundamental change.

In connection with our second-quarter 2006 issuance of \$275.0 million of the 4% senior convertible notes, we entered into a registration rights agreement (RRA) whereby we agreed to file a shelf registration statement permitting the registered resale of the 4% notes and the common stock issuable upon conversion of the notes. Failure to comply with specified obligations under the RRA relating to filing of the shelf registration, its being declared effective and maintaining its effectiveness would result in additional interest being payable on the notes. We anticipate filing the shelf registration within the time period prescribed in the RRA.

Our current sources of liquidity are our cash reserves; interest earned on such cash reserves; short-term investments, marketable securities; sales of Abelcet, Adagen, Oncaspar and Depocyt; royalties earned, which are primarily related to sales of PEG-INTRON; and contract manufacturing revenue. 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 and operational requirements for the near future.

While we believe that our current sources of liquidity will be adequate to satisfy our capital and operational needs for the near future, we may enter into agreements with collaborators with respect to the development and commercialization of products that could increase our cash requirements, or seek additional financing 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 June 30, 2006, we were 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.

In January 2006, we terminated our development and supply agreement entered into in June 2003 with, and returned our rights to ATG-Fresenius S, to Fresenius Biotech. The development and supply agreement with Fresenius Biotech provided us with exclusive development and distribution rights in the U.S. and Canada for a new formulation of the polyclonal antibody preparation, ATG-Fresenius S. Subsequently, in April 2006, Fresenius Biotech and Nabi Biopharmaceuticals announced an agreement to advance the ongoing clinical development of ATG-Fresenius S. The clinical trial has been transitioned to Nabi Biopharmaceuticals.

In July 2006, we entered into a license and collaboration agreement with Santaris Pharma A/S (Santaris) for up to eight RNA antagonists for the treatment of oncology indications. We obtained rights worldwide other than Europe, to develop and commercialize RNA antagonists directed against the Hif-1 alpha and Survivin gene targets. Santaris will design and synthesize RNA antagonists directed against up to six additional gene targets selected by us, and we will have the right to develop and commercialize those antagonists worldwide other than Europe. We will make an initial payment of \$8.0 million to Santaris in August 2006 and will be responsible for making additional payments upon the successful completion of certain compound synthesis and selection, clinical development and regulatory milestones. Santaris is also eligible to receive royalties from any future product sales from products based on the licensed antagonists. Santaris retains the right to develop and commercialize products developed under the collaboration in Europe.

During the quarter ended June 30, 2006, we issued \$275.0 million of 4% notes that mature on June 1, 2013 unless earlier redeemed, repurchased or converted. The 4% notes are senior unsecured obligations and rank equal to other senior unsecured debt of the Company and all future senior unsecured debt of the Company. The 4% notes may be converted at the option of the holders into the Company's common stock at an initial conversion price of \$9.55 per share.

At any time on or after June 1, 2009, if the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading day period ending on the date one day prior to the date of a notice of redemption is greater than 140% of the applicable conversion price on the date of such notice, the Company, at its option, may redeem the 4% notes in whole or in part, at a redemption price in cash equal to 100% of the principal amount of the 4% notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date. The 4% notes are not redeemable prior to June 1, 2009. Upon occurrence of a "fundamental change", as defined in the indenture governing the notes, holders of the notes may require the Company to redeem the notes at a price equal to 100% of the principal amount plus accrued and unpaid interest or, in certain cases, to convert the notes at an increased conversion rate based on the price paid per share of the Company's common stock in the transaction constituting the fundamental change.

Concurrent with the May 2006 issuance of the 4% notes, a portion of the proceeds were used to repurchase \$133.8 million of principal amount of 4.5% notes outstanding at a purchase price of \$129.4 million plus accrued interest of \$2.4 million.

On July 6, 2006, we completed a tender offer whereby we repurchased \$137.6 million principal amount of 4.5% notes at a purchase price of \$965 for each \$1,000 principal amount, plus accrued interest. As of August 1, 2006, \$122.6 million principal amount of the 4.5% notes remain outstanding.

Other than as described in the proceeding paragraphs, since December 31, 2005, there have 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 Transition Report on Form 10-K for the six months ended December 31, 2005.

Critical Accounting Policies and Estimates

A critical accounting policy is one that 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 June 30, 2006 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.

We base our estimates, to the extent possible, on historical experience. Historical information is modified as appropriate based on current business factors and various assumptions that we believe are necessary to form a basis for making judgments about the carrying value of assets and liabilities. We evaluate our estimates on an ongoing basis and make changes when necessary. Actual results could differ from our estimates.

Revenues

Revenues from product sales and contract manufacturing revenue are recognized when title passes to the customer, generally at the time of shipment. For product sales, we also record a provision at the time of shipment for estimated future credits, chargebacks, sales discounts, rebates and returns. These sales provision accruals, except for rebates which are recorded as a liability, are presented as a reduction of the accounts receivable balances. We continually monitor the adequacy of the accruals by comparing the actual payments to the estimates used in establishing the accruals.

Effective January 1, 2006, we changed our third-party distributor for three of our four products; Abelcet, Oncaspar and Depocyt. For Abelcet, our new third-party distributor ships product to the same wholesalers as prior to the change and the wholesalers then resell the product to the end-users. We continue to recognize revenues for Abelcet at the time of sale to the wholesaler. The distribution process for Oncaspar and Depocyt has changed. We previously sold the products to a specialty distributor and recorded sales at that time. The distributor then sold the products to the end-user. Now, sales are recorded when Oncaspar and Depocyt are shipped by our new third-party distributor directly to the end-user. The orders may be placed by either the end-user or by a wholesaler representing the end-user. For Adagen, our distribution process remains the same. Adagen continues to be sold directly to a specialty distributor who then sells the product to end-users. We continue to recognize revenue for Adagen upon sale to the specialty distributor.

In addition to the new distributor handling the indicated products on our behalf, it also maintains the related accounts receivable system for us and records sales, cash receipts and certain adjustments. We provide chargeback payments to wholesalers based on their sales to members of buying groups at prices determined under a contract between us and the member. Administrative fees are paid to buying groups based on the total amount of purchases by their members. We estimate the amount of the chargeback that will be paid using (a) distribution channel information obtained from certain of our wholesalers, which allows us to determine the amount and expiry of inventory in the distribution channel and (b) historical trends, adjusted for current changes. The settlement of the chargebacks generally occurs within three months after the sale to the wholesaler. We regularly analyze the historical chargeback trends and make adjustments to recorded reserves for changes in trends.

In addition, state agencies that administer various programs, such as the U.S. Medicaid programs, receive rebates. Medicaid rebates and administrative fees are recorded as a liability and a reduction of gross sales when we record the sale of the product. In determining the appropriate accrual amount, we use (a) distribution channel information obtained from certain of our wholesalers, which allows us to determine the amount and expiry of inventory in the distribution channel, (b) our historical rebate and administrative fee payments by product as a percentage of our historical sales and (c) any significant changes in sales trends. Current Medicaid rebate laws and interpretations, and the percentage of our products that are sold to Medicaid patients are also evaluated. Factors that complicate the rebate calculations are the timing of the average manufacturer pricing computation, the lag time between sale and payment of a rebate, which can range up to nine months, and the level of reimbursement by state agencies.

The following is a summary of reductions of gross sales accrued as of June 30, 2006 and December 31, 2005 (in thousands):

	June 30, 2006	December 31, 2005
Accounts Receivable Reductions		
Chargebacks	\$ 4,076	\$ 3,717
Cash Discounts	149	202
Other (including returns)	1,628	1,304
Total	\$ 5,853	\$ 5,223
Accrued Liabilities		
Medicaid Rebates	\$ 1,484	\$ 1,832
Administrative Fees	220	286
Total	\$ 1,704	\$ 2,118

There were no revisions to the estimates for gross to net sales adjustments that would be material to income from operations for the three-month or six-month periods ended June 30, 2006.

We have inventory management agreements with three of our major wholesalers. These agreements provide that the wholesalers maintain inventory levels at no more than six selling weeks.

Royalties under our license agreements with third parties are recognized when reasonably estimable and earned through the sale of the product by the licensee net of future credits, chargebacks, sales discount rebates and refunds, and product returns and collection is reasonably assured. Beginning with the quarter ended December 31, 2005, notification from the third party licensee of the royalties earned under the license agreement became the basis for royalty revenue recognition. This information is generally received from the licensees in the quarter subsequent to the period in which the sales occur. Other fees and royalties received from third parties using our technology 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.

Income Taxes

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 believe, based on future projections, that it is more likely than not that our net deferred tax assets, including our net operating losses from operating activities and stock option exercises, will not be realized.

Available-for-Sale Securities

We assess the carrying value of our available-for-sale securities in accordance with FASB Staff Position (FSP) 115-1, "The Meaning of Other-Than-Temporary Impairment and its application to Certain Investments." 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.

Long-Lived Assets

Long-lived assets, including amortizable intangible assets are tested for impairment in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This testing is performed when an impairment indicator is present. An impairment indicator is one or more event or circumstance that may be indicative of possible impairment such as a significant adverse change in legal factors or in business climate, a current period operating loss combined with a history of operating losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group.

SFAS No. 144 testing for the recoverability of amortizable intangible assets is performed initially by comparing the carrying amount of the asset to the future undiscounted net cash flows to be generated by the assets. If the undiscounted net cash flow stream exceeds the carrying amount, no further analysis is required. However, if this test shows a negative relationship, the fair value of the intangible assets must be estimated and we would record an impairment charge for any excess of the carrying amount over the fair value. These evaluations involve amounts that are based on management's best estimates and judgment. Actual results may differ from these estimates.

Share-Based Payment

We account for share-based compensation in accordance with SFAS 123R, "Share-Based Payment." SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services and requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements, measured by the fair value of the equity or liability instruments issued, adjusted for estimated forfeitures. Until we have developed sufficient reliable Enzon-specific information, we are using an industry average for purposes of estimating forfeitures of share-based payments. As stratified data are developed, they will be compared to the initial average and the rate will be adjusted as deemed necessary.

Options or stock awards issued to non-employees and consultants are recorded at their fair value as determined in accordance with SFAS No. 123R 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 or service period.

Fair value of share-based payments is determined using the Black-Scholes valuation model which employs weighted average assumptions for expected volatility of the Company's stock, expected term until exercise of the options, the risk free interest rate, and dividends, if any. Expected volatility is based on historical Enzon stock price information.

We have elected the modified prospective transition method which requires that compensation costs be recorded, as earned, for all unvested stock options and restricted stock awards and restricted stock units outstanding at July 1, 2005.

Recently Issued Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109. The interpretation establishes criteria for recognizing and measuring the financial statement tax effects of positions taken on a company's tax returns. A two-step process is prescribed whereby the threshold for recognition is a more-likely-than-not test that the tax position will be sustained upon examination and the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. We currently recognize a tax position if it is probable of being sustained. The Interpretation is effective for us beginning January 1, 2007. We are evaluating the potential effects the Interpretation may have on our consolidated financial position or results of operations, but we do not expect there to be any material consequence.

Factors That May Affect Future Results

There are forward-looking statements contained herein, which can be identified by the use of forward-looking terminology such as the words "believes," "expects," "may," "will," "should", "potential," "anticipates," "plans" or "intends" and similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be materially different from the future results, events or developments indicated in such forward-looking statements. Such factors include, but are not limited to, the timing, success and cost of clinical studies and our ability to obtain regulatory approval of products, and

- The risk that we will continue to experience operating losses for the next several years.
- The risk that there will be a decline in sales of one or more of our marketed products or products sold by others from which we derive royalty revenues. Such sales declines could result from increased competition, loss of patent protection, pricing, supply shortages and/or regulatory constraints.
- The risk that we will not achieve success in our research and development efforts including clinical trials conducted by us or by our collaborative partners.
- The risk that we will be unable to obtain critical compounds used in the manufacture of our products at economically feasible prices or at all, or one of our key suppliers will experience manufacturing problems or delays.
- The risk that we will fail to obtain adequate financing to meet our future capital and financing needs.
- The risk that key personnel will leave the company.

A more detailed discussion of these and other factors that could affect our results is contained in our filings with the U.S. Securities and Exchange Commission, including our Transition Report on Form 10-K for the six-month period ended December 31, 2005. These factors should be considered carefully and readers are cautioned not to place undue reliance on such forward-looking statements. No assurance can be given that the future results covered by the forward-looking statements will be achieved. All information contained herein is as of the date of this report and Enzon does not intend to update this information.

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. 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 June 30, 2006 the vast majority of our holdings were in instruments maturing in two years or less with the exception of certain auction rate securities and mutual fund investments relating to our executive deferred compensation plan, that had maturity dates through 2032.

The table below presents the principal amounts and related weighted average interest rates by year of maturity (as of June 30 each year) for our investment portfolio as of June 30, 2006 (in thousands):

	2007	2008	2009	2010 & thereafter	Total	Fair Value
Fixed Rate	\$ 123,707	\$ 7,276	\$ 3,600	\$ 1,116	\$ 135,699	\$ 135,022
Average Interest Rate	3.97%	3.65%	4.04%	0.53%	3.05%	
Variable Rate	38,300	7,500	—	18,000	63,800	63,470
Average Interest Rate	4.43%	3.44%	—	5.26%	3.29%	
	<u>\$ 162,007</u>	<u>\$ 14,776</u>	<u>\$ 3,600</u>	<u>\$ 19,116</u>	<u>\$ 199,499</u>	<u>\$ 198,492</u>

As of June 30, 2006, our 4.5% convertible subordinated notes in the principal amount of \$260.2 million due July 1, 2008 and our 4% convertible senior notes in principal amount of \$275.0 million, have fixed interest rates. The fair value of the 4.5% notes was approximately \$250.8 million and \$356.1 million (on a principal amount of \$394.0 million) at June 30, 2006 and December 31, 2005, respectively. The fair value of the 4% notes was approximately \$273.5 million at June 30, 2006. 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.

Our management, under the direction of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the Exchange Act)) as of June 30, 2006. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2006.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

This section sets forth changes in the risk factors previously disclosed in our Transition Report on Form 10-K for the six months ended December 31, 2005.

Disruption in supply or manufacturing difficulties relating to Oncaspar could cause a disruption in our ability to market and sell Oncaspar and result in a substantial loss of revenues.

We continue to face manufacturing and stability issues with Oncaspar. To date, we have been unable to identify the cause of these issues. If we continue to have these issues with Oncaspar, we may have a disruption in our ability to manufacture Oncaspar. Additionally, the period covered by our current supply agreement for L-asparaginase used in the manufacture of Oncaspar for the U.S. and Canadian markets will expire on December 31, 2006. The supplier has informed us that it does not intend to renew the current agreement, although we have been in discussions with them for a new agreement. If we are unable to agree on a new agreement for the supply of L-asparaginase on acceptable terms or at all, we may have a disruption in the supply of L-asparaginase, and as a result, a disruption in our ability to manufacture Oncaspar. We can give no assurance that we will be able to successfully obtain a new agreement for the supply of L-asparaginase. If we cannot market and distribute Oncaspar for an extended period, sales of the product and customer relationships will suffer, which would adversely affect our financial results.

Events with respect to our share capital could cause the shares of our common stock outstanding to increase.

The issuance of our 4% convertible notes in May 2006 could significantly increase the number of shares of our common stock outstanding on a fully diluted basis. Our 4% convertible notes can convert to 28.8 million shares of our common stock at a conversion price of \$9.55 per share. We intend to file a registration statement covering the shares of common stock that may be issued upon conversion of the 4% notes to make them eligible for public resale.

Item 4. Submission of Matters to a Vote of Security Holders

- (a) An annual meeting of stockholders was held on May 18, 2006.
- (b) Philip Renfro was re-elected as a Class I director of the Company. The term of office as a director for each of Dr. Goran Ando, Jeffrey H. Buchalter, Rolf G. Classon, Robert LeBuhn, Victor P. Micati and Robert C. Salisbury continued after the annual meeting. Dr. Rosina B. Dixon, M.D. retired from the Board of Directors effective April 30, 2006.
- (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. All proposals were approved by the requisite percentage:
 - (i) The stockholders voted 40,060,733 shares in favor and 626,824 shares withheld with respect to the election of Philip Renfro as a Class I director of the Company.
 - (ii) The stockholders voted 24,230,402 shares in favor, 5,661,350 shares against and 19,917 shares abstained with respect to a proposal to approve the amendment of the 2001 Incentive Stock Plan to increase the number of shares of common stock issuable thereunder by 4,000,000 shares from 6,000,000 shares to 10,000,000 shares. Broker non-votes totaled 10,775,888 shares.
 - (iii) The stockholders voted 33,158,930 shares in favor, 7,506,586 against and 22,041 shares abstained with respect to the amendment and restatement of our Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 90,000,000 shares to 170,000,000 shares.
 - (iv) The stockholders voted 36,572,591 shares in favor, 4,072,965 shares against and 42,001 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 December 31, 2006.

Item 5. Other Information

1. Amendment to Bylaws

On August 1, 2006, the Company amended and restated its Bylaws to reflect the prior change in the name of the Company from Enzon, Inc. to Enzon Pharmaceuticals, Inc. and to make certain ministerial changes. A copy of the Amended and Restated Bylaws of the Company are filed as an exhibit to this Quarterly Report on Form 10-Q.

2. Amendment to Executive Deferred Compensation Plan

On August 1, 2006, the Company amended its Executive Deferred Compensation Plan to make certain clarifications and ministerial changes. A copy of the Company's Executive Deferred Compensation Plan (2006 Restatement) is filed as an exhibit to this Quarterly Report on Form 10-Q.

Item 6. Exhibits

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

Exhibit Number	Description	Reference No.
3(i)	Amended and Restated Certificate of Incorporation	(1)
3(ii)	Amended and Restated By-laws	*
4.1	Rights Agreement dated May 17, 2002 between the Company and Continental Stock Transfer Trust Company, as rights agent	(2)
4.2	First Amendment to the Rights Agreement, dated as of February 19, 2003 between the Company and Continental Stock Transfer & Trust Company, as rights agent	(3)
4.3	Indenture, dated May 23, 2006, between Enzon Pharmaceuticals, Inc. and Wilmington Trust Company (Previously filed as an exhibit to the Company's Current Report on Form 8-K filed May 25, 2006 and incorporated herein by reference thereto.)	
10.1	Executive Deferred Compensation Plan (2006 Restatement)	*
10.2	Registration Rights Agreement, dated May 23, 2006, between Enzon Pharmaceuticals, Inc. and Goldman, Sachs & Co. (Previously filed as an exhibit to the Company's Current Report on Form 8-K filed May 25, 2006 and incorporated herein by reference thereto.)	
10.3	2001 Incentive Stock Plan, as amended and restated, of Enzon Pharmaceuticals, Inc. (Previously filed as an exhibit to the Company's Current Report on Form 8-K filed May 19, 2006 and incorporated herein by reference thereto.)	
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 of 2002	*
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 of 2002	*

* Filed herewith.

- (1) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed May 19, 2006 and incorporated herein by reference thereto.
- (2) Previously filed as an exhibit to the Company's Form 8-A12G (File No. 000-12957) filed with the Commission on May 22, 2002 and incorporated herein by reference thereto.
- (3) Previously filed as an exhibit to the Company's Form 8-A12G/A (File No. 000-12957) filed with the Commission on February 20, 2003 and incorporated herein by reference thereto.

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)

Date: August 2, 2006

By: /s/ Jeffrey H. Buchalter

Jeffrey H. Buchalter
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 2, 2006

By: /s/ Craig A. Tooman

Craig A. Tooman
Executive Vice President, Finance
and Chief Financial Officer
(Principal Financial Officer)

AMENDED AND RESTATED
BY-LAWS
OF
ENZON PHARMACEUTICALS, INC.

(A Delaware corporation)

ARTICLE I.

DEFINITION

As used in these By-laws as amended, unless the context otherwise requires, the term:

Section 1.1 "Assistant Secretary" means an Assistant Secretary of the Corporation.

Section 1.2 "Assistant Treasurer" means an Assistant Treasurer of the Corporation.

Section 1.3 "Board" means the Board of Directors of the Corporation.

Section 1.4 "By-laws" means the initial by-laws of the Corporation, as amended from time to time.

Section 1.5 "Certificate of Incorporation" means the initial certificate of incorporation of the Corporation, as amended, supplemented or restated from time to time.

Section 1.6 "Corporation" means Enzon Pharmaceuticals, Inc.

Section 1.7 "Directors" means directors of the Corporation.

Section 1.8 "General Corporation Law" means the General Corporation Law of the State of Delaware, as amended from time to time.

Section 1.9 "Office of the Corporation" means the executive office of the Corporation, anything in Section 131 of the General Corporation law to the contrary notwithstanding.

Section 1.10 "President" means the President of the Corporation.

Section 1.11 "Secretary" means the Secretary of the Corporation.

Section 1.12 "Stockholders" means stockholders of the Corporation.

Section 1.13 "Treasurer" means the Treasurer of the Corporation.

Section 1.14 "Vice President" means a Vice President of the Corporation.

ARTICLE II.

STOCKHOLDERS

Section 2.1 Place of Meetings.

Every meeting of the Stockholders shall be held at the office of the Corporation or at such other place within or without the State of Delaware as shall be specified or fixed in the notice of such meeting or in the waiver of notice hereof.

Section 2.2 Annual Meeting.

A meeting of Stockholders shall be held annually for the election of directors or the transaction of other business at such hour and on such business day as may be determined by the Board and designated in the notice of meeting.

Section 2.3 Deferred Meeting for Election of Directors, Etc.

If the annual meeting of Stockholders for the election of directors and the transaction of other business is not held on the date fixed in Section 2.2, the Board shall call a meeting of Stockholders for the election of directors and the transaction of other business as soon thereafter as convenient.

Section 2.4 Other Special Meetings.

A special meeting of Stockholders (other than a special meeting for the election of directors), unless otherwise prescribed by statute, may be called at any time by the Board or by the President or by the Secretary. At any special meeting of Stockholders only such business may be transacted which is related to the purpose or purposes of such meeting set forth in the notice thereof given pursuant to Section 2.6 of the By-laws or in any waiver of notice thereof given pursuant to Section 2.7 of the By-laws.

Section 2.5 Fixing Record Date.

For the purpose of determining the Stockholders entitled to notice of or to vote at any meeting of Stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or for the purpose of determining Stockholders entitled to receive payment of any dividend or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board may fix, in advance, a date as the record date for any such determination of Stockholders. Such date shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action.

2.5.1 If no such record date is fixed, the record date for determining Stockholders entitled to notice of or to vote at a meeting of Stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held;

2.5.2 Without limiting the foregoing, in order that the Corporation may determine the Stockholders entitled to consent to corporate action in writing without a meeting, the Board may fix a record date, which record date shall not precede the date upon which the Resolution fixing the record date is adopted by the Board, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board. Any Stockholder of record seeking to have the Stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board to fix a record date. The Board shall promptly, but in all events within ten (10) days after the date on which such a request is received, adopt a resolution fixing the record date. If no record date has been fixed by the Board within ten (10) days of the date on which such a request is received, the record date for determining Stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or any officer or agent of the Corporation having custody of the book in which proceedings of Stockholders meetings are recorded, to the attention of the Secretary of the Corporation. Delivery shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board and prior action by the Board is required by applicable law, the record date for determining Stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board adopts the resolution taking such prior action.

2.5.3 The record date for determining Stockholders for any purpose other than that specified in Sections 2.5.1 and 2.5.2 shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

When a determination of Stockholders entitled to notice of or to vote at any meeting of Stockholders has been made as provided in this section 2.5 such determination shall apply to any adjournment thereof, unless the Board fixes a new record date for the adjourned meeting.

Section 2.6 Notice of Meeting of Stockholders.

Except as otherwise provided in Sections 2.5 and 2.7 of the By-laws, whenever under the General Corporation Law or the Certificate of Incorporation or the By-laws, stockholders are required or permitted to take any action at a meeting, written notice shall be given stating the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. A copy of the notice of any meeting shall be given, personally or by mail, not less than ten nor more than sixty days before the date of the meeting, to each Stockholder entitled to notice of or to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, with postage prepaid, and directed to the Stockholder at his address as it appears on the records of the corporation. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent of the Corporation that the notice required by this section has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken, and at the adjourned meeting any business may be transacted that might have been transacted at the meeting as originally called. If, however, the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Stockholder of record entitled to vote at the meeting.

Section 2.7 Waivers of Notice.

Whenever notice is required to be given to any Stockholder under any provision of the General Corporation Law or of the Certificate of Incorporation or the By-laws, a written waiver thereof, signed by the Stockholder entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a Stockholder at a meeting shall constitute a waiver of notice of such meeting, except when the Stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Stockholders need be specified in any written waiver of notice.

Section 2.8 List of Stockholders.

The Secretary shall prepare and make, or cause to be prepared and made, at least ten days before every meeting of Stockholders, a complete list of the Stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each Stockholder and the number of shares registered in the name of each Stockholder. Such list shall be open to the examination of any Stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any Stockholder who is present.

Section 2.9 Quorum of Stockholders; Adjournment.

The holders of one-third of the shares of stock entitled to vote at any meeting of Stockholders, present in person or represented by proxy, shall constitute a quorum for the transaction of any business at such meeting. When a quorum is once present to organize a meeting of Stockholders, it is not broken by the subsequent withdrawal of any Stockholders. The holders of a majority of the shares of stock present in person or represented by proxy at any meeting of Stockholders, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place.

Section 2.10 Voting; Proxies.

Unless otherwise provided in the Certificate of Incorporation every Stockholder of record shall be entitled at every meeting of Stockholders to one vote for each share of capital stock standing in his name on the record of Stockholders determined in accordance with Section 2.5 of the By-laws. If the Certificate of Incorporation provides for more or less than one vote for any share, on any matter, every reference in the By-laws or the General Corporation Law to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock. The provisions of sections 212 and 217 of the General Corporation Law shall apply in determining whether any shares of capital stock may be voted and the persons, if any, entitled to vote such shares; but the Corporation shall be protected in treating the persons in whose names shares of capital stock stand on the record of Stockholders as owners thereof for all purposes. At any meeting of Stockholders (at which a quorum was present to organize the meeting), all matters, except as otherwise provided by law or by the Certificate of Incorporation or by the By-laws, shall be decided by a majority of the votes cast at such meeting by the holders of shares present in person or represented by proxy and entitled to vote thereon, whether or not a quorum is present when the vote is taken. All elections of directors shall be by written ballot unless otherwise provided in the Certificate of Incorporation. In voting on any other question on which a vote by ballot is required by law or is demanded by any Stockholder entitled to vote, the voting shall be by ballot. Each ballot shall be signed by the Stockholder voting or by his proxy, and shall state the number of shares voted. On all other questions, the voting may be viva voce. Every Stockholder entitled to vote at a meeting of Stockholders or to express consent or dissent without a meeting may authorize another person or persons to act for him by proxy. The validity and enforceability of any proxy shall be determined in accordance with Section 212 of the General Corporation Law.

Section 2.11 Selection and Duties of Inspectors at Meetings of Stockholders.

The Board, in advance of any meeting of Stockholders, may appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, the person presiding at such meeting may, and on the request of any Stockholder entitled to vote thereat shall, appoint one or more inspectors. In case any person appointed fails to appear or act, the vacancy may be filled by appointment made by the Board in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspector or inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all Stockholders. On request of the person presiding at the meeting or any Stockholder entitled to vote thereat, the inspector or inspectors shall make a report in writing of any challenge, question or matter determined by him or them and execute a certificate of any fact found by him or them. Any report or certificate made by the inspector or inspectors shall be prima facie evidence of the facts stated and of the vote as certified by him or them.

Section 2.12 Organization.

At every meeting of Stockholders, the President, or in the absence of the President a Vice President, and in case more than one Vice President shall be present, that Vice President designated by the Board (or in the absence of any such designation, the most senior Vice President, based on age, present), shall act as chairman of the meeting. The Secretary, or in his absence one of the Assistant Secretaries, shall act as secretary of the meeting. In case none of the officers above designated to act as chairman or secretary of the meeting, respectively, shall be present, a chairman or a secretary of the meeting, as the case may be, shall be chosen by a majority of the votes cast at such meeting by the holders of shares of capital stock present in person or represented by proxy and entitled to vote at the meeting.

Section 2.13 Order of Business.

The order of business at all meetings of Stockholders shall be as determined by the chairman of the meeting, but the order of business to be followed at any meeting at which a quorum is present may be changed by a majority of the votes cast at such meeting by the holders of shares of capital stock present in person or represented by proxy and entitled to vote at the meeting.

Section 2.14 Written Consent of Stockholders Without a Meeting.

Any action which could be taken at any annual or special meeting of Stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall (a) be signed by the holders of outstanding stock entitled to vote thereon (as determined in accordance with subsection 2.5.2 hereof) having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and (b) be delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the records of proceedings of meetings of Stockholders. Delivery made to the corporation's registered office shall be by hand or by certified mail or registered mail, return receipt requested. Every written consent shall bear the date of signature of each Stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless written consents signed by the holders of outstanding stock entitled to vote thereon (as determined in accordance with subsection 2.5.2 hereof) having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, are delivered to the Corporation, in the manner required by this Section, within sixty (60) days of the earliest dated consent delivered to the Corporation in the manner required by this Section 2.14. The validity of any consent executed by a proxy for a Stockholder pursuant to a telegram, cablegram or other means of electronic transmission transmitted to such proxy holder by or upon the authorization of the Stockholder shall be determined by or at the direction of the secretary. A written record of the information upon which the person making such determination relied shall be made and kept in the records of the proceedings of the Stockholders. Any such consent shall be inserted in the minute book as if it were the minutes of a meeting of the Stockholders.

2.15 Notifications of Nominations and Proposed Business.

Subject to the rights of holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation,

- (a) nominations for the election of directors, and
- (b) business proposed to be brought before any Stockholder meeting

may be made by the Board or proxy committee appointed by the Board of Directors or by any Stockholder entitled to vote in the election of directors generally. However, any such Stockholder may nominate one or more persons for election as directors at a meeting or propose business to be brought before a meeting, or both, only if such Stockholder has given timely notice in proper written form of his intent to make such nomination or nominations or to propose such business. To be timely, a Stockholder's notice must be delivered to or mailed and received by the Secretary of the Corporation not later than one hundred twenty (120) days prior to such meeting. To be in proper written form, a Stockholder's notice to the secretary shall set forth:

- (i) the name and address of the Stockholder who intends to make the nominations or propose the business and, as the case may be, of the person or persons to be nominated or of the business to be proposed;
- (ii) a representation that the Stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and, if applicable, intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;
- (iii) if applicable, a description of all arrangements or understandings between the Stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the Stockholder;
- (iv) such other information regarding each nominee or each matter of business to be proposed by such Stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, or the matter been proposed, or intended to be proposed by the Board; and
- (v) if applicable, the consent of each nominee to serve as director of the Corporation if so elected.

The chairman of the meeting may refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedure.

ARTICLE III.

DIRECTORS

Section 3.1 General Powers.

Except as otherwise provided in the Certificate of Incorporation, the business and affairs of the corporation shall be managed by or under the direction of the Board. The Board may adopt such rules and regulations, not inconsistent with the Certificate of Incorporation or the By-laws or applicable laws, as it may deem proper for the conduct of its meetings and the management of the Corporation. In addition to the powers expressly conferred by the By-laws, the Board may exercise all powers and perform all acts which are not required, by the By-laws or the Certificate of Incorporation or by law, to be exercised and performed by the Stockholders.

Section 3.2 Number.

The Board shall consist of not less than three nor more than fifteen directors, the exact number of directors to be determined from time to time by resolution adopted by affirmative vote of a majority of the whole Board and such exact number shall be four until otherwise determined by resolution adopted by affirmative vote of a majority of the whole Board. As used in this Article 3, the term "whole Board" means the total number of directors which the Corporation would have if there were no vacancies.

Section 3.3 Classification.

The Board shall be divided into three classes and, when the number of directors is changed, the Board shall determine the class or classes to which the increased or decreased number of directors shall be apportioned; provided, that no decrease in the number of directors shall affect the term of any director then in office.

Section 3.4 Election.

Notwithstanding the foregoing, and except as otherwise required by law, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the terms of the director or directors elected by such holders shall expire at the next succeeding annual meeting of Stockholders.

Section 3.5 Term.

The term of office of directors elected at the 1986 Annual Meeting of Stockholders held on January 20, 1987, shall be as follows: the term of office of directors of the first class shall expire at the first annual meeting of Stockholders after their election; the term of office of directors of the second class shall expire at the second annual meeting of Stockholders after their election; and the term of office of directors of the third class shall expire at the third annual meeting of Stockholders after their election; and as to directors of each class, when their respective successors are elected and qualified. At each annual meeting of Stockholders subsequent to the 1986 Annual Meeting of Stockholders, directors elected to succeed those whose terms are expiring shall be elected for a term of office to expire at the third succeeding annual meeting of Stockholders and when their respective successors are elected and qualified.

Section 3.6 New Vacancies.

Vacancies in the Board, however, caused, and newly created directorships shall be filled solely by a majority vote of the directors then in office, whether or not a quorum, and any director so chosen shall hold office for a term expiring at the annual meeting of Stockholders at which the term of the class to which the director has been chosen expires and when the director's successor is elected and qualified.

Section 3.7 Resignations.

Any director may resign at any time by written notice to the Corporation. Such resignation shall take effect at the time therein specified, and unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.8 Removal of Directors.

Except as otherwise provided by law, any or all of the directors may be removed only for cause, by vote of the holders of a majority of the shares then entitled to vote at an election of directors.

Section 3.9 Compensation.

Each director, in consideration of his service as such, shall be entitled to receive from the Corporation such amount per annum or such fees for attendance at directors' meetings, or both, as the Board may from time to time determine, together with reimbursement for the reasonable expenses incurred by him in connection with the performance of his duties. Each director who shall serve as a member of any committee of directors in consideration of his serving as such shall be entitled to such additional amount per annum or such fees for attendance at committee meetings, or both, as the Board may from time to time determine, together with reimbursement for the reasonable expenses incurred by him in the performance of his duties. Nothing in this section contained shall preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving proper compensation therefore.

Section 3.10 Place and Time of Meetings of the Board.

Meetings of the Board, regular or special, may be held at any place within or without the State of Delaware. The times and places for holding meetings of the Board may be fixed from time to time by resolution of the Board or (unless contrary to resolution of the Board) in the notice of the meeting.

Section 3.11 Annual Meetings.

On the day when and at the place where the annual meeting of Stockholders for the election of directors is held, and as soon as practicable thereafter, the Board may hold its annual meeting without notice of such meeting, for the purpose of organization, the election of officers and the transaction of other business. The annual meeting of the Board may be held at any other time and place specified in a notice given as provided in Section 3.11 of the By-laws for special meetings of the Board or in a waiver of notice thereof.

Section 3.12 Regular Meetings.

Regular meetings of the Board may be held at such times and places as may be fixed from time to time by the Board. Unless otherwise required by the Board, regular meetings of the Board may be held without notice. If any day fixed for a regular meeting of the Board shall be a Saturday or Sunday or a legal holiday at the place where such meeting is to be held, then such meeting shall be held at the same hour at the same place on the first business day thereafter which is not a Saturday, Sunday or legal holiday.

Section 3.13 Special Meetings.

Special meetings of the Board shall be held whenever called by the President or the Secretary or by any two or more directors. Notice of each special meeting of the Board shall, if mailed, be addressed to each director at the address designated by him for that purpose or, if none is designated, at his last known address at least two days before the date on which the meeting is to be held; or such notice shall be sent to each director at such address by telegraph cable or wireless, or be delivered to him personally, not later than the day before the date on which such meeting is to be held. Every such notice shall state the time and place of the meeting but need not state the purposes of the meeting, except to the extent required by law. If mailed, each notice shall be deemed given when deposited with postage thereon prepaid, in a post office or official depository under the exclusive care and custody of the United States Postal Service. Such mailing shall be by first class mail.

Section 3.14 Adjourned Meetings.

A majority of the directors present at any meeting of the Board, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place. Notice of any adjourned meeting of the Board need not be given to any director whether or not present at the time of the adjournment. Any business may be transacted at any adjourned meeting that might have been transacted at the meeting as originally called.

Section 3.15 Waiver of Notice.

Whenever notice is required to be given to any director or member of a committee of directors under any provision of the General Corporation Law or of the Certificate of Incorporation or By-laws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice.

Section 3.16 Organization.

At each meeting of the Board, the President of the Corporation, or in the absence of the president, a chairman chosen by the majority of the directors present, shall preside. The Secretary shall act as secretary at each meeting of the Board. In case the Secretary shall be absent from any meeting of the Board, an Assistant Secretary shall perform the duties of secretary at such meeting; and in the absence from any such meeting of the Secretary and Assistant Secretaries, the person presiding at the meeting may appoint any person to act as secretary of the meeting.

Section 3.17 Quorum of Directors.

One-third of the directors then in office shall constitute a quorum for the transaction of business or of any specified item of business at any meeting of the Board.

Section 3.18 Action by the Board.

All corporate action taken by the Board or any committee thereof shall be taken at a meeting of the Board, or of such committee, as the case may be, except that any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or Committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee. Members of the Board, or any committee designated by the Board, may participate in a meeting of the Board, or of such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 3.16 shall constitute presence in person at such meeting. Except as otherwise provided by the Certificate of Incorporation or by law, the vote of a majority of the directors present (including those who participate by means of conference telephone or similar communications equipment) at the time of the vote, if a quorum is present at such time, shall be the act of the Board.

ARTICLE IV.

COMMITTEES OF THE BOARD

The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the Stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the Stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the By-laws of the Corporation; and, unless the resolution designating it expressly so provides, no such Committee shall have the power or authority to declare a dividend or to authorize the issuance of stock.

ARTICLE V.

OFFICERS

Section 5.1 Officers.

The Board shall elect a President, a Secretary and a Treasurer, and may elect or appoint one or more Vice Presidents and such other officers as it may determine. The Board may designate one or more Vice Presidents as Executive Vice President and may use descriptive words or phrases to designate the standing, seniority or area of special competence of the vice Presidents elected or appointed by it. Each officer shall hold his office until his successor is elected and qualified or until his earlier death, resignation or removal in the manner provided in Section 5.2 of the By-laws. Any two or more offices may be held by the same person. The Board may require any officer to give a bond or other security for the faithful performance of his duties, in such amount and with such sureties as the Board may determine. All officers as between themselves and the Corporation shall have such authority and perform such duties in the management of the Corporation as may be provided in the By-laws or as the Board may from time to time determine.

Section 5.2 Removal of Officers.

Any officers elected or appointed by the Board may be removed by the Board with or without cause. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights.

Section 5.3 Resignations.

Any officer may resign at any time in writing by notifying the Board or the President or the Secretary. Such resignation shall take effect at the date of receipt of such notice or at such later time as is therein specified, and, unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective. The resignation of an officer shall be without prejudice to the contract rights of the Corporation, if any.

Section 5.4 Vacancies.

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term in the manner prescribed in the By-laws for the regular election or appointment to such office.

Section 5.5 Compensation.

Salaries or other compensation of the officers may be fixed from time to time by the Board. No officer shall be prevented from receiving a salary or other compensation by reason of the fact that he is also a director.

Section 5.6 President.

The President shall be the chief executive officer of the Corporation and shall have general supervision over the business of the Corporation, subject, however, to the control of the Board and of any duly authorized committee of directors. The President shall, if present, preside at all meetings of the Stockholders and at all meetings of the Board. He may, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation. He may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and, in general, he shall perform all duties incident to the Office of President and such other duties as from time to time may be assigned to him by the Board.

Section 5.7 Vice Presidents.

At the request of the President, or in his absence, at the request of the Board, the vice Presidents shall (in such order as may be designated by the Board or in the absence of any such designation in order of seniority based on age) perform all of the duties of the President and so acting shall have all the powers of and be subject to all restrictions upon the President. Any Vice President may also, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation; may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and shall perform such other duties as from time to time may be assigned to him by the Board or by the President.

Section 5.8 Secretary.

The Secretary, if present, shall act as secretary of all meetings of the Stockholders and of the Board, and shall keep the minutes thereof in the proper book or books to be provided for that purpose; he shall see that all notices required to be given by the Corporation are duly given and served; he may, with the President or a Vice President, sign certificates for shares of capital stock of the Corporation; he shall be custodian of the seal of the Corporation and may seal with the seal of the Corporation, or a facsimile thereof, all certificates for shares of capital stock of the Corporation and all documents the execution of which on behalf of the corporation under its corporate seal is authorized in accordance with the provisions of the By-laws; he shall have charge of the stock ledger and also of the other books, records and papers of the Corporation relating to its organization and management as a Corporation, and shall see that the reports, statements and other documents required by law are properly kept and filed; and shall, in general, perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board or by the President.

Section 5.9 Treasurer.

The Treasurer shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any sources whatsoever; deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with these By-laws; against proper vouchers, cause such funds to be disbursed by checks or drafts on the authorized depositories of the Corporation signed in such manner as shall be determined in accordance with any provisions of the By-laws, and be responsible for the accuracy of the amounts of all moneys so disbursed; regularly enter or cause to be entered in books to be kept by him or under his direction full and adequate account of all moneys received or paid by him for the account of the Corporation; have the right to require, from time to time reports or statements giving such information as he may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same; render to the President or the Board, whenever the President or the Board, respectively, shall require him so to do, an account of the financial condition of the Corporation and of all his transactions as Treasurer; exhibit at all reasonable times his books of account and other records to any of the directors upon application at the office of the Corporation where such books and records are kept; and in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board or by the President; and he may sign with the President or a Vice President certificates for shares of capital stock of the Corporation.

Section 5.10 Assistant Secretaries and Assistant Treasurers.

Assistant Secretaries and Assistant Treasurers shall perform such duties as shall be assigned to them by the Secretary or by the Treasurer, respectively, or by the Board or by the President. Assistant Secretaries and Assistant Treasurers may, with the President or a Vice President, sign certificates for shares of capital stock of the Corporation.

ARTICLE VI.

CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

Section 6.1 Execution of Contracts.

The Board may authorize any officer, employee or agent, in the name and on behalf of the Corporation, to enter into any contract or execute and satisfy any instrument, and any such authority may be general or confined to specific instances, or otherwise limited.

Section 6.2 Loans.

The President or any other officer, employee or agent authorized by the By-laws or by the Board may effect loans and advances at any time for the Corporation from any bank, trust company or other institutions or from any firm, corporation or individual and for such loans and advances may make, execute and deliver promissory notes, bonds or other certificates or evidences of indebtedness of the Corporation, and when authorized so to do may pledge and hypothecate or transfer any securities or other property of the Corporation as security for any such loans or advances. Such authority conferred by the Board may be general or confined to specific instances or otherwise limited.

Section 6.3 Checks, Drafts, Etc.

All checks, drafts and other orders for the payment of money out of the funds of the Corporation and all notes or other evidences of indebtedness of the corporation shall be signed on behalf of the Corporation in such manner as shall from time to time be determined by resolution of the Board.

Section 6.4 Deposits.

The funds of the Corporation not otherwise employed shall be deposited from time to time to the order of the Corporation in such banks, trust companies or other depositories as the Board may select or as may be selected by an officer, employee, or agent of the Corporation to whom such power may from time to time be delegated by the Board.

ARTICLE VII.

STOCK AND DIVIDENDS

Section 7.1 Certificates Representing Shares.

The shares of capital stock of the Corporation shall be represented by certificates in such form (consistent with the provisions of Section 158 of the General Corporation Law) as shall be approved by the Board. Such certificates shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the Corporation or a facsimile thereof. The signatures of the officers upon a certificate may be facsimiles, if the certificate is countersigned by a transfer agent or registrar other than the Corporation itself or its employee. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon any certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may, unless otherwise ordered by the Board, be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 7.2 Transfer of Shares.

Transfers of shares of capital stock of the Corporation shall be made only on the books of the Corporation by the holder thereof or by his duly authorized attorney appointed by a power of attorney duly executed and filed with the Secretary or a transfer agent of the Corporation, and on surrender of the certificate or certificates representing such shares of capital stock properly endorsed for transfer and upon payment of all necessary transfer taxes. Every certificate exchanged, returned or surrendered to the Corporation shall be marked "Cancelled," with the date of cancellation by the secretary or an Assistant Secretary or the transfer agent of the Corporation. A person in whose name shares of capital stock shall stand on the books of the Corporation shall be deemed the owner thereof to receive dividends, to vote as such owner and for all other purposes as respects the Corporation. No transfer of shares of capital stock shall be valid as against the Corporation, its Stockholders and creditors for any purpose, except to tender the transferee liable for the debts of the Corporation to the extent provided by law, until such transfer shall have been entered on the books of the Corporation by an entry showing from and to whom transferred.

Section 7.3 Transfer and Registry Agents.

The Corporation may from time to time maintain one or more transfer offices or agent and registry offices or agents at such place or places as may be determined from time to time by the Board.

Section 7.4 Lost, Destroyed, Stolen and Mutilated Certificates.

The holder of any shares of capital stock of the Corporation shall immediately notify the Corporation of any loss, destruction, theft or mutilation of the certificate representing such shares, and the Corporation may issue a new certificate to replace the certificate alleged to have been lost, destroyed, stolen or mutilated. The Board may, in its discretion, as a condition to the issue of any such new certificate, require the owner of the lost, destroyed, stolen or mutilated certificate, or his legal representatives, to make proof satisfactory to the Board of such loss, destruction, theft or mutilation and to advertise such fact in such manner as the Board may require, and to give the corporation and its transfer agents and registrars, or such of them as the Board may require, a bond in such form, in such sum and with such surety or sureties as the Board may direct, to indemnify the Corporation and its transfer agents and registrars against any claim that may be made against any of them on account of the continued existence of any such certificate so alleged to have been lost, destroyed, stolen or mutilated and against any expense in connection with such claim.

Section 7.5 Regulations.

The Board may make such rules and regulations as it may deem expedient, not inconsistent with the By-laws or with the Certificate of Incorporation, concerning the issue, transfer and registration of certificates representing shares of its capital stock.

Section 7.6 Restriction on Transfer of Stock.

A written restriction on the transfer or registration of transfer of capital stock of the Corporation, if permitted by section 202 of the General Corporation Law and noted conspicuously on the certificate representing such capital stock, may be enforced against the holder of the restricted capital stock or any successor or transferee of the holder including an executor, administrator, trustee, guardian or other fiduciary entrusted with like responsibility for the person or estate of the holder. Unless noted conspicuously on the certificate representing such capital stock, a restriction, even though permitted by Section 202 of the General Corporation Law, shall be ineffective except against a person with actual knowledge of the restriction. A restriction on the transfer or registration of transfer of capital stock of the Corporation may be imposed either by the Certificate of Incorporation or by an agreement among any number of Stockholders or among such Stockholders and the Corporation. No restriction so imposed shall be binding with respect to capital stock issued prior to the adoption of the restriction unless the holders of such capital stock are parties to an agreement or voted in favor of the restriction.

Section 7.7 Dividends, Surplus, Etc.

Subject to the provisions of the Certificate of Incorporation and of law, the Board:

7.7.1 May declare and pay dividends or make other distributions on the outstanding shares of capital stock in such amounts and at such time or times as, in its discretion, the condition of the affairs of the Corporation shall render advisable;

7.7.2 May use and apply, in its discretion, any of the surplus of the Corporation in purchasing or acquiring any shares of capital stock of the Corporation, or purchase warrants therefore, in accordance with law, or any of its bonds, debentures, notes, scrip or other securities or evidences of indebtedness; and

7.7.3 May set aside from time to time out of such surplus or net profits such sum or sums as, in its discretion, it may think proper, as a reserve fund to meet contingencies, or for equalizing dividends or for the purpose of maintaining or increasing the property or business of the Corporation, or for any purpose it may think conducive to the best interests of the Corporation.

ARTICLE VIII.
INDEMNIFICATION

Section 8.1 Indemnification of Officers and Directors.

The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or an officer of the Corporation, against expenses (including attorneys' fees) judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the fullest extent and in the manner set forth in and permitted by the General Corporation Law, and any other applicable law, as from time to time in effect. Such right of indemnification shall not be deemed exclusive of any other rights to which such director or officer may be entitled apart from the foregoing provisions. The foregoing provisions of this Section 8.1 shall be deemed to be a contract between the Corporation and each director and officer who serves in such capacity at any time while this Article 8 and the relevant provisions of the General corporation Law and other applicable law, if any, are in effect and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought or threatened based in whole or in part upon any such state of facts.

Section 8.2 Indemnification of Other Persons.

The Corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the extent and in the manner set forth in and permitted by the General Corporation Law, and any other applicable law, as from time to time in effect. Such right of indemnification shall not be deemed exclusive of any other rights to which any such person may be entitled apart from the foregoing provisions.

Section 8.3 Insurance.

The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation or a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of section 8.1 and 8.2 of the By-laws or under Section 145 of the General Corporation Law or any other provision of Law.

ARTICLE IX.

BOOKS AND RECORDS

Section 9.1 Books and Records.

The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of the Stockholders, the Board and any committee of the Board. The Corporation shall keep at the office designated in the Certificate of Incorporation or at the office of the transfer agent or registrar of the Corporation in Delaware, a record containing the names and addresses of all Stockholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof.

Section 9.2 Form of Records.

Any records maintained by the Corporation in the regular course of its business including its stock ledger, books of account, and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs, or any other information storage device, provided that the records so kept can be converted into clearly legible written form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

Section 9.3 Inspection of Books and Records.

Except as otherwise provided by law, the Board shall determine from time to time whether, and, if allowed, when and under what conditions and regulations the accounts, books, minutes and other records of the Corporation, shall be open to the inspection of any Stockholder or director.

ARTICLE X.

SEAL

The Board may adopt a corporate seal which shall be in the form of a circle and shall bear the full name of the corporation, the year of its incorporation and the word "Delaware."

ARTICLE XI.

FISCAL YEAR

The fiscal year of the Corporation shall be determined, and may be changed, by resolution of the Board.

ARTICLE XII.

VOTING OF SHARES HELD

Unless otherwise provided by resolution of the Board, the President may, from time to time, appoint one or more attorneys or agents of the Corporation, in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as a Stockholder or otherwise in any other corporation, any of whose shares or securities may be held by the Corporation, at meetings of the holders of stock or other securities of such other corporation, or to consent in writing to any action by any such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed on behalf of the Corporation and under its corporate seal, or otherwise, such written proxies, consents, waivers or other instruments as he may deem necessary or proper in the premises; or the President may himself attend any meeting of the holders of the stock or other securities of any such other corporation and thereat vote or exercise any or all other powers of the Corporation as the holder of such stock or other securities of such other corporation.

ARTICLE XIII.

AMENDMENTS

The By-laws may be altered, amended, supplemented or repealed, or new By-laws may be adopted, by vote of the holders of the shares entitled to vote in the election of directors, provided that Articles 3.2, 3.3, 3.4, 3.5, 3.6, 3.7 and 3.8 may only be amended by the affirmative vote of the holders of not less than two-thirds of the outstanding voting shares of capital stock of the Corporation entitled to vote generally in the election of directors; provided, however, that such two-thirds vote shall not be required for, any amendment, alteration, change, repeal or adoption of any inconsistent provision declared advisable by the Board by the affirmative vote of two-thirds of the Board and submitted to Stockholders for their consideration, but only if a majority of the members of the Board acting upon such matter shall be Continuing Directors. The term "Continuing Director" shall mean a director who was a member of the Board as of October 1, 1986. With the exception of Articles 3.2, 3.3, 3.4, 3.5, 3.6, 3.7 and 3.8, the By-laws may also be altered, amended, supplemented, repealed, or new By-laws may be adopted, by the Board. Any By-laws adopted, altered, amended, or supplemented by the Board may be altered, amended, or supplemented or repealed by the Stockholders entitled to vote thereon in accordance with the provisions hereof.

ENZON PHARMACEUTICALS, INC.

**Executive Deferred Compensation Plan
(2006 Restatement)**

Enzon Pharmaceuticals, Inc. Executive Deferred Compensation Plan

1. Statement of History and Purpose

Effective November 1, 2003, Enzon Pharmaceuticals, Inc. established this deferred compensation plan for its key employees which, in its most recently amended form, is maintained under a document entitled "ENZON PHARMACEUTICALS, INC. Executive Deferred Compensation Plan (December 2003)" (the "Prior Plan Statement"). Effective January 1, 2005, this Plan was amended and restated to comply with the deferred compensation provisions in the American Jobs Creation Act of 2004. The provisions in this Plan apply to both: (i) deferrals made which relate entirely to services performed on or before December 31, 2004 (*i.e.* with respect to compensation that was earned and vested as of 12/31/04) and (ii) deferrals which relate all or in part to services performed on or after January 1, 2005. No deferrals shall continue to be invested and distributed pursuant to the terms of the Prior Plan Statement. Effective August 1, 2006, this Plan was amended and restated to make certain clarifications and ministerial changes.

The purpose of the Enzon Pharmaceuticals, Inc. Executive Deferred Compensation Plan (the "Plan") is to aid Enzon Pharmaceuticals, Inc. (the "Company") and its subsidiaries in attracting and retaining key employees by providing a non-qualified compensation deferral vehicle.

2. Definitions

- 2.01 **Annual Incentive Compensation** – "Annual Incentive Compensation" means the amount paid annually to the Participant under the Enzon Pharmaceuticals Management Incentive Plan before reductions for deferrals under this Plan or the Enzon Inc. Savings and Investment Plan.
- 2.02 **Base Salary** – "Base Salary" means the Participant's annual basic rate of pay from the Company excluding Annual Incentive Compensation and other non-regular forms of compensation before reductions for deferrals under this Plan or the Enzon Pharmaceuticals, Inc. Savings and Investment Plan.
- 2.03 **Beneficiary** – "Beneficiary" means the person or persons designated as such in accordance with Section 8.

- 2.04 **Board of Directors** – “Board of Directors” means the Board of Directors of the Company.
- 2.05 **Committee** – “Committee” means the Vice President, Human Resources, Chief Financial Officer and Chief Executive Officer.
- 2.06 **Change in Control** – “Change in Control” means a “change in ownership or effective control” of the Company as defined in Section 409A(a)(2) of the Internal Revenue Code and Treasury regulations or other guidance issued thereunder.
- 2.07 **Deferral Amount** – “Deferral Amount” means the total amount of Elective Deferred Compensation and/or Non-Elective Deferred Compensation actually deferred by the Participant.
- 2.08 **Deferred Compensation Account** – “Deferred Compensation Account” means the account maintained on the books of account of the Company for a Participant pursuant to Section 6.
- 2.09 **Disability** – “Disability” means the Participant is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Company.
- 2.10 **Distribution Date** – “Distribution Date” means the date on which the Company makes distributions from the Participant’s Deferred Compensation Account(s).
- 2.11 **Election Form** – “Election Form” means the form or forms attached to this Plan and filed with the Company by the Participant in order to participate in the Plan. The terms and conditions specified in the Election Form(s) are incorporated by reference herein and form a part of the Plan.

- 2.12 **Elective Deferred Compensation** – “Elective Deferred Compensation” means the total amount elected to be deferred by an Eligible Employee on his/her Election Form.
- 2.13 **Eligible Employee** – “Eligible Employee” means any employee of the Company approved to participate by the Committee. It is the intention of the Company that all Participants satisfy the term “a select group of management or highly compensated employees” as provided in Sections 201(2), 301(a)(3), 401(a)(1) and 4021(b)(6) of ERISA..
- 2.14 **Insolvency** – “Insolvency” means (i) Enzon Pharmaceuticals, Inc. is unable to pay its debts as they become due, or (ii) Enzon Pharmaceuticals, Inc. is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.
- 2.15 **Non-Elective Deferred Compensation** – “Non-Elective Deferred Compensation” means the amount awarded to a Participant by the Company pursuant to Section 4.02.
- 2.16 **Participant** – “Participant” means an Eligible Employee who is invited or selected to participate in the Plan by the Committee and who is participating in accordance with the provisions of Section 4.
- 2.17 **Plan Year** – “Plan Year” means the twelve month period beginning on January 1 and ending on December 31.
- 2.18 **Separation from Service** – “Separation from Service” means the end of a Participant’s employment with the Company and all affiliates for any reason other than Disability.
- 2.19 **Substantially Equal Installments** – “Substantially Equal Installments” means a series of annual payments, such that equal payments over the remaining payment period would exactly amortize the Participant’s Deferred Compensation Account balance as of the Distribution Date if the investment return remained constant at the return credited as of the Valuation Date immediately preceding the Distribution Date for the remainder of the payment period.

- 2.20 **Unforeseeable Emergency** – “Unforeseeable Emergency” means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, or a dependent (as defined in section 152(a) of the Internal Revenue Code) of the Participant, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.
- 2.21 **Valuation Date** – “Valuation Date” means the date on which the value of a Participant’s Deferred Compensation Account is determined. Unless and until changed by the Committee, the Valuation Dates within each Plan Year shall be any date that the New York Stock Exchange is open and conducting business, and such other dates as may be specified by the Committee.
- 2.22 **Years of Service** – “Years of Service” means the cumulative years of continuous full-time employment with the Company beginning on the date the Participant first began service and each anniversary thereof.

3. Administration of the Plan

- 3.01 **Plan Administration.** The Plan shall be administered by the Committee. The Committee may assign duties to an officer or other employees of the Company, and may delegate such duties as it sees fit. An employee of the Company or Committee member who is also a Participant in the Plan shall not be involved in the decisions of the Company or Committee regarding any determination of any specific claim for benefit with respect to himself or herself. The Committee shall be responsible for the management, operation and administration of the Plan. In addition to any powers, rights and duties set forth elsewhere in the Plan, it shall have complete discretion to exercise the following powers and duties:
 - (a) adopt such rules and regulations consistent with the provisions of the Plan as it deems necessary for the proper and efficient administration of the Plan;
 - (b) administer the Plan in accordance with its terms and any rules and regulations it establishes, and be responsible for the preparation, filing, and disclosure on behalf of the Plan of such documents and reports as are required by any applicable federal or state law;

- (c) maintain records concerning the Plan sufficient to prepare reports, returns, and other information required by the Plan or by law;
 - (d) construe and interpret the Plan, and to resolve all questions arising under the Plan;
 - (e) authorize benefits under the Plan, and to give such other directions and instructions as may be necessary for the proper administration of the Plan; and
 - (f) employ or retain agents, attorneys, actuaries, accountants or other persons, who may also be Participants in the Plan or be employed by or represent the Company, as it deems necessary for the effective exercise of its duties, and may delegate to such persons any power and duties, both ministerial and discretionary, as it may deem necessary and appropriate, and the Committee shall be responsible for the prudent monitoring of their performance.
- 3.02 **Delegation of Duties.** The Committee may delegate any or all of its duties as to the administration of this Plan to other individuals or groups of individuals within the Company, as it deems appropriate.
- 3.03. **Claim for Benefits.** Any claim for benefits under the Plan shall be made in writing to the Committee. If such claim for benefits is wholly or partially denied by the Committee, the Committee shall, within a reasonable period of time, but not later than sixty (60) days after receipt of the claim, notify the claimant of the denial of the claim. Such notice of denial shall be in writing and shall contain:
- (a) The specific reason or reasons for the denial of the claim;
 - (b) A reference to the relevant Plan provisions upon which the denial is based;
 - (c) A description of any additional material or information necessary for the claimant to perfect the claim, together with an explanation of why such material or information is necessary; and

- (d) A reference to the Plan's claim review procedure.

Upon the receipt by the claimant of written notice of the denial of a claim, the claimant may within sixty (60) days file a written request to the Committee, requesting a review of the denial of the claim, which review shall include a hearing if deemed necessary by the Committee. In connection with the claimant's appeal of the denial of his or her claim, he or she may review relevant documents and may submit issues and comments in writing. To provide for fair review and a full record, the claimant must submit in writing all facts, reasons and arguments in support of his or her position within the time allowed for filing a written request for review. All issues and matters not raised for review will be deemed waived by the claimant.

- 3.04 **Review of a Denial of a Claim for Benefits.** The Committee shall render a decision on the claim review promptly, but no more than sixty (60) days after the receipt of the claimant's request for review, unless special circumstances (such as the need to hold a hearing) require an extension of time, in which case the sixty (60) day period shall be extended to one hundred twenty (120) days. Such decision shall:

- (a) Include specific reasons for the decision;
- (b) Be written in a manner calculated to be understood by the claimant; and
- (c) Contain specific references to the relevant Plan provisions upon which the decision is based.

The decision of the Committee shall be final and binding in all respects on the Company, the claimant and any other person claiming an interest in the Plan through or on behalf of the claimant. No litigation may be commenced by or on behalf of a claimant with respect to this Plan until after and unless the claim and review process described in Sections 3.03 and 3.04 has been exhausted. Judicial review of Committee action shall be limited to whether the Committee acted in an arbitrary and capricious manner.

4. Participation

4.01 Elective Participation.

(a) Any Eligible Employee may elect to participate in the Plan for a given Plan Year by filing a completed Election Form for the Plan Year with the Company. Except as otherwise provided herein, an Election Form to defer compensation for a Plan Year must be completed before the end of the immediately preceding Plan Year.

(i) In the case of the first Plan Year in which an Eligible Employee becomes eligible to participate in the Plan, no later than thirty (30) days after the employee is invited or selected for participation, such employee shall as a condition of participation complete such forms and make such elections as the Committee may require for the effective administration of this Plan. The Election Form may only be made with respect to compensation earned for services performed subsequent to the deferral election.

(ii) With respect to Annual Incentive Compensation earned for services performed over a Plan Year (or any other period of at least twelve (12) months), any Election Form may provide for Annual Incentive Compensation deferrals if such election is made no later than six (6) months prior to the end of the service period over which the Annual Incentive Compensation is earned.

(b) An Election Form shall contain an election to defer a portion of the Participant's Base Salary and/or Annual Incentive Compensation in accordance with the following limitations. The maximum deferral shall be one hundred percent (100%) of the Participant's Base Salary (as defined in Section 2.03) and one hundred percent (100%) of Participant's Annual Incentive Compensation (as defined in Section 2.01). Provided, however, that no election will be effective to reduce amounts paid by the Company to an Eligible Employee to an amount which is less than the sum of the amount the Company is required to withhold for purposes of federal, state, and local income taxes, including FICA tax withholding and the amount the Company is required to withhold for contributions to any employee benefit plan (other than this Plan). A deferral election, once accepted by the Committee, shall be irrevocable for the Plan Year (or the service period, in the case of an Annual Incentive Compensation deferral) with respect to which it is made; provided, however, that if a Disability or Unforeseeable Emergency occurs during the period elected in the Election Form, the Participant's election shall be suspended, and further deferrals shall not be required.

- (c) The Election Form shall also contain an election for the time and manner of payment of the employee's deferral for such Plan Year (in the case of a Base Salary deferral) or the service period (in the case of an Annual Incentive Compensation deferral). The time for payment elected shall be a specified date which complies with the limitations under Section 7.01(a). A Participant may elect to allocate his or her deferral election in percentage increments (as determined by the Committee) to be paid at separate specified dates or in different manners, subject to the limitations under Section 7.01(a). In the absence of an election specifying the time and manner of payment, payment shall be made automatically in a lump sum upon the earliest of the events specified in Sections 7.01(b) through 7.01(d).
- (d) A Participant may change the method of distribution to any other method permitted under Section 7.01(a) by submitting an election to the Committee, subject to the following limitations:
 - (i) Such election must be submitted to and accepted by the Committee at least twelve (12) months prior to the date a distribution to the Participant would otherwise have been made or commenced;
 - (ii) The first distribution is delayed at least five (5) years from such date;
 - (iii) The election shall have no effect until at least twelve (12) months after the date on which the election is made; and
 - (iv) The election shall not reduce the number of installment payments.

4.02 **Non-Elective Participation.** The Committee can, in its sole discretion, award to a Participant Non-Elective Deferred Compensation. Any such credit of Non-Elective Deferred Compensation shall vest in accordance with such schedule as determined by the Committee at such time the credit is made, and shall be distributed in a manner consistent with the election last made by the particular Participant prior to the Plan Year in which the credit is made. The Committee's decision to make a credit in any year shall not require the Committee to approve similar awards at all to any Eligible Person, Participant or other person at any future date. The Company and the Committee shall not have any obligation for uniformity of treatment of any person, including but not limited to, Eligible Persons or Participants and their legal representatives and beneficiaries and employees of the Company.

5. Vesting of Elective Deferred Compensation

A Participant's Elective Deferred Compensation credited to his/her Deferred Compensation Account shall vest immediately.

6. Accounts and Valuations

6.01 **Deferred Compensation Accounts.** The Committee shall establish and maintain a separate Deferred Compensation Account for each Participant for each Plan Year. Deferred amounts will be credited to a Participant's account within fourteen (14) days of the time at which the amount would otherwise have been paid. Any Non-Elective Deferred Compensation awarded to a Participant shall be credited to the Participant's Deferred Compensation Account on such date as specified by the Committee.

6.02 **Deferred Compensation Account Investment Options.** The Committee shall designate from time to time one or more investment options in which Deferred Compensation Accounts may be deemed invested. A Participant shall allocate his or her Deferred Compensation Account among the deemed investment options by filing with the Committee an Investment Allocation Election Form or by making an election through such other procedures proscribed by the Committee (including telephonic or electronic procedures). A Participant may elect to allocate his or her Deferred Compensation Account in percentage increments (as determined by the Committee) among as many of the investment options which are offered by the Company. Any such investment allocation election shall be subject to such rules as the Committee may prescribe, including, without limitation, rules concerning the manner of making investment allocation elections and the frequency and timing of changing such investment allocation elections.

The Committee shall have the sole discretion to determine the number of deemed investment options to be designated hereunder and the nature of the options and may change or eliminate the investment options from time to time. For each deemed investment option the Committee shall, in its sole discretion, select a mutual fund(s), an investment index, or shall create a phantom portfolio of such investments as it deems appropriate, to constitute the investment option. The Committee shall adopt rules specifying the deemed investment options, the circumstances under which a particular option may be elected (or shall be automatically utilized), the minimum or maximum percentages which may be allocated to the investment option, the procedures for making or changing elections, the extent (if any) to which beneficiaries of deceased Participants may make investment elections and the effect of a Participant's or beneficiary's failure to make an effective investment election with respect to all or any portion of a Deferred Compensation Account. The Committee shall determine the amount and rate of investment gains or losses with respect to any deemed investment option for any period, and may take into account any deemed expenses which would be incurred if actual investments were made.

- 6.03 **Crediting and Adjustment of Accounts.** As of each Valuation Date, the value of the Participant's Deferred Compensation Account shall consist of the balance as of the immediately preceding Valuation Date, plus the amount of any Elective and Non-Elective Deferred Compensation credited since the preceding Valuation Date, minus the amount of all distributions, if any, made from such Deferred Compensation Account since the preceding Valuation Date. The Participant's Deferred Compensation Account shall be adjusted for income, gains or losses as of each Valuation Date.
- 6.04 **Excess 401(k) Matching Credit.** A Participant's Deferred Compensation Account will be credited with an Excess 401(k) Matching Credit as follows:

- (a) **Matchable Annual Deferral.** The Matchable Annual Deferral shall be that portion of a Participant's Deferral Amount for each Plan Year which is less than or equal to: (i) six percent (6%) of the total Base Salary plus Annual Incentive Compensation for a Plan Year minus (ii) the amount of Elective Contribution to the Enzon Pharmaceuticals, Inc. 401(k) Savings and Investment Plan made by the Participant for which the Participant received an Employer Matching Contribution under the Enzon Pharmaceuticals, Inc. 401(k) Savings and Investment Plan for the same Plan Year. However, if the Participant does not make the maximum deferral under the the Enzon Pharmaceuticals, Inc. 401(k) Savings and Investment Plan that is eligible for a matching contribution under such Plan for any Plan Year (generally at least 6% of eligible compensation), the Matchable Annual Deferral for such Plan Year shall be zero.
- (b) **Excess 401(k) Matching Credit.** The Excess 401(k) Matching Credit shall be 50% of the value of the Matchable Annual Deferral for the Plan Year; provided, however, that in no event shall the Excess 401(k) Matching Credit exceed 3% of the sum of Base Salary and Annual Incentive Compensation for a Plan Year. Such amount shall be credited no later than as nearly as administratively practicable following the end of the Plan Year to which they relate.
- (c) **Vesting.** The Participant's right to receive the Excess 401(k) Matching Credits credited to the Participant's Deferred Compensation Account shall vest in accordance with the following schedule:

<i>Completed Years of Service</i>	<i>Vested Percentage</i>
0-1	0%
1-2	20%
2-3	40%
3-4	60%
4-5	80%
5+	100%

Notwithstanding the foregoing, a Participant's Excess 401(k) Matching Credits shall become fully (100%) vested upon the Participant's death, Disability, Separation from Service at or after age 55 or upon the occurrence of a Change in Control or Insolvency of the Company.

6.05 **Nature of Account Entries.** Notwithstanding any provision of this Plan to the contrary, the establishment and maintenance of Participants' Deferred Compensation Accounts and the crediting of gains and losses pursuant to this Section 6 shall be merely bookkeeping entries and (notwithstanding the establishment of any grantor trust pursuant to Section 10.02) shall not be construed as giving any person any interest in any specific assets of the Company or of any subsidiary of the Company or any trust created by the Company, including any investments owned by the Company or any such subsidiary or trust. The hypothetical investment of the Participant's Deferred Compensation Accounts shall be for bookkeeping purposes only, and shall not require the establishment of actual corresponding funds or investments by the Committee or the Company. Benefits accrued under this Plan shall constitute an unsecured general obligation of the Company.

7. Benefits

7.01 Normal Benefit

(a) **Specified Time and Form.** A Participant may elect pursuant to Section 4.01 to receive or commence distribution as of a specified date which shall be subject to the following requirements:

(i) such specified date shall be: (1) a date certain as of the time of election (e.g., January 1, 2010), or (2) the date of the Participant's Separation from Service; and

(ii) such specified date shall actually occur on or prior to the Participant's Separation from Service, Disability, death or a Change in Control.

A Participant's Deferred Compensation Account (or the portion thereof to which the election applies) shall be paid to the Participant in accordance with the terms of the Participant's Election Form. Distribution of the Participant's Deferred Compensation Account shall be determined as of the Valuation Date coincident with or next following such specified date and shall be paid to the Participant in a lump sum or in annual Substantially Equal Installments, subject to a maximum of ten (10) annual installments, as specified in the Participant's Election Form.

- (b) **Separation from Service or Disability.** Notwithstanding the provisions of Section 7.01(a), if a Participant incurs a Disability or Separation from Service before the specified date for which payment of a deferral is to be made or commenced, the value of such deferral (as adjusted for earnings, gains or losses) shall be determined as of the Valuation Date coincident with or next following such Separation from Service and shall be paid to the Participant in a lump sum or in Substantially Equal Installments in accordance with the manner elected by the Participant under Section 7.01(a). In the event a distribution is made pursuant to this Section 7.01(b), the Participant shall immediately cease to be eligible for any other benefit provided under this Plan. Notwithstanding the foregoing, where payment under this Section 7.01(b) is made to any "key employee" (as defined under Section 409A of the Internal Revenue Code) on account of Separation from Service, such payment shall commence no earlier than six (6) months following a Separation from Service (or upon the death of the employee, if earlier) if required to comply with Section 409A of the Internal Revenue Code.
- (c) **Death.** In the event of a Participant's death before a complete distribution of his or her account, the Participant's designated Beneficiary will receive an amount equal to the Participant's Deferred Compensation Account, and such amount shall be paid in a single sum or annual installments (not to exceed 10) in accordance with the Participant's election.
- (d) **Change in Control.** Notwithstanding any of the foregoing provisions in this Section 7.01, upon a Change in Control before distribution of the Participant's entire Deferred Compensation Account has been made, distribution of the Participant's entire Deferred Compensation Account balance determined as of the Valuation Date coincident with or next following such Change in Control shall be paid to the Participant in a lump sum.

- (e) **Small Accounts.** Notwithstanding any payment method elected by a Participant or Beneficiary, the Company will pay in a lump sum, any Deferred Compensation Account balance which is \$10,000 or less.
 - (f) **Time of Distribution.** Actual distribution shall occur as soon as is practicable (but no later than thirty (30) days) following the applicable Valuation Date for which such the value of the Participant's Deferred Compensation Account is determined.
- 7.02 **Hardship Benefit.** In the event that the Committee, upon written petition of the Participant, determines in its sole discretion, that the Participant has suffered an Unforeseeable Emergency, the Company may pay to the Participant, as soon as is practicable following such determination, an amount necessary to meet the emergency, not in excess of the Deferred Compensation Account credited to the Participant. The Deferred Compensation Account of the Participant thereafter shall be reduced to reflect the payment of a Hardship Benefit.
- 7.03 **Taxes; Withholding.** To the extent required by law, the Company shall withhold from payments made hereunder an amount equal to at least the minimum taxes required to be withheld by the federal, or any state or local, government.
- 7.04 **Form of Payment.** While it is generally contemplated that Benefits shall be paid pursuant to this Section 7 in cash, the Company may, in its sole discretion and in such manner as the Company deems appropriate, regardless of whether or not requested by the Participant, pay such benefit in kind in accordance with the bookkeeping entries recorded pursuant to Section 6.05.

8. Beneficiary Designation

At any time prior to complete distribution of the benefits due to a Participant under the Plan, he/she shall have the right to designate, change, and/or cancel, any person(s) or entity as his/her Beneficiary (either primary or contingent) to whom payment under this Plan shall be made in the event of his/her death. Each beneficiary designation shall become effective only when filed in writing with the Company during the Participant's lifetime on a form provided by the Company. The filing of a new beneficiary designation form will cancel all previously filed beneficiary designations. Further, any finalized divorce of a Participant subsequent to the date of filing of a beneficiary designation form in favor of Participant's spouse shall revoke such designation. Additionally, the spouse of a Participant domiciled in a community property jurisdiction shall join in any designation of Beneficiary other than the spouse.

If a Participant fails to designate a Beneficiary as provided above, or if his/her beneficiary designation is revoked by divorce or otherwise without execution of a new designation, or if all designated Beneficiaries predecease the Participant, then the distribution of such benefits shall be made to the Participant's estate. If a Beneficiary survives the Participant but dies before receiving a complete distribution of benefits, any remaining amount shall be paid to the estate of such Beneficiary in a lump-sum.

9. Amendment and Termination of Plan

9.01 **Amendment.** The Committee may amend the Plan at any time in whole or in part, provided, however, that, except as provided in Section 9.02 and Section 6.02, no amendment shall, absent consent of the Participant, be effective to decrease the benefits under the Plan payable to any Participant or Beneficiary with respect to any Elective or Non-Elective Deferred Compensation deferred prior to the date of the amendment. Written notice of any amendments (other than amendments that are administrative in nature) shall be given to each Participant in the Plan.

9.02 Termination of Plan

(a) **Company's Right to Terminate.** The Committee may terminate the Plan at any time.

- (b) **Payments Upon Termination.** Upon any termination of the Plan under this section, Compensation shall cease to be deferred prospectively, and, with respect to Compensation deferred previously, the Company will pay to the Participant (or the Participant's Beneficiary, if after the Participant's death), in a lump-sum, the value of his/her vested Deferred Compensation Account. Notwithstanding the foregoing, such payments shall be made upon Plan termination only to the extent permissible under Section 409A of the Internal Revenue Code and related Treasury regulations and guidance. Payment shall be made in cash, or in the Company's sole discretion in the manner the Company deems appropriate, payment may be made in kind in accordance with the bookkeeping entries recorded pursuant to Section 6.05.

10. Miscellaneous

- 10.01 **Unsecured General Creditor.** Participants and their beneficiaries, heirs, successors and assignees shall have no legal or equitable rights, interests, or other claims in any property or assets of the Company, nor shall they be beneficiaries of, or have any rights, claims, or interests in any life insurance policies, annuity contracts, or the policies therefrom owned or that may be acquired by the Company ("policies"). Such policies or other assets of the Company shall not be held in any way as collateral security for the fulfilling of the obligations of the Company under this Plan. Any and all of the Company's assets and policies shall be and will remain general, unpledged, unrestricted assets of the Company. The Company's obligation under the Plan shall be that of an unfunded and unsecured promise of the Company to pay money in the future.
- 10.02 **Grantor Trust.** Although the Company is responsible for the payment of all benefits under the Plan, the Company, in its sole discretion, may contribute funds as it deems appropriate to a grantor trust for the purpose of paying benefits under this Plan. Such trust may be irrevocable, but assets of the trust shall be subject to the claims of creditors of the Company. To the extent any benefits provided under the Plan actually are paid from the trust, the Company shall have no further obligation with respect thereto, but to the extent not so paid, such benefits shall remain the obligation of, and shall be paid by, the Company. Participants shall have the status of unsecured creditors on any legal claim for benefits under the Plan, and shall have no security interest in or any other preferential right to any assets held by such grantor trust. In the event of the Company's insolvency or bankruptcy, the trust assets are treated like other corporate assets of the Company and are subject to the claims of the Company's creditors. A Participant's claim for deferred compensation will be treated like any other claim by the Company's unsecured creditors, with no special preference for Participants.

- 10.03 **Successors and Mergers, Consolidations or Change in Control.** The terms and conditions of this Plan shall inure to the benefit of the Participants and shall bind the Company, its successors, assignees, and personal representatives. If substantially all of the stock or assets of the Company are acquired by another entity, or if the Company is merged into, or consolidated with, another entity, then the obligations created hereunder shall be obligations of the acquirer or successor entity.
- 10.04 **Non-Assignability.** Neither a Participant, nor any other person, shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, or convey in advance of the actual receipt, any amounts payable hereunder, or any part thereof. All rights to payments expressly are declared to be unassignable and nontransferable. No part of the amounts payable, prior to actual payment, shall be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant, or any other person, nor shall they be transferable by operation of law in the event of a Participant's, or any other person's, bankruptcy or insolvency.
- 10.05 **Employment or Future Eligibility to Participate Not Guaranteed.** Nothing contained in this Plan, nor any action taken hereunder, shall be construed as a contract of employment, or as giving any Eligible Employee any right to be retained in the employ of the Company. Designation as an Eligible Employee may be revoked at any time by the Committee with respect to any Compensation not yet deferred.
- 10.06 **Protective Provisions.** A Participant will cooperate with the Company by furnishing any and all information reasonably requested by the Company in order to facilitate the payment of benefits hereunder, including, but not limited to, taking such physical examinations as the Company reasonably may deem necessary (if the Company purchases life insurance to informally fund the Plan) and taking such other relevant action as may be reasonably requested by the Company. If a Participant refuses to cooperate, the Company shall have no further obligation to the Participant under the Plan, except for the distribution to Participant of his or her Deferral Amount.

- 10.07 **Indemnification.** No employee of the Company or member of the Committee shall be liable to any person for any action taken or omitted in connection with the administration of this Plan unless attributable to his or her own fraud or willful misconduct, and the Company agrees to indemnify and to defend to the fullest extent permitted by law any officers or employees who serve on the Committee administering the Plan. This indemnification shall not duplicate, but may supplement any coverage available under any applicable insurance coverage.
- 10.08 **Receipt and Release.** Any payment to any Participant or beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against Enzon Pharmaceuticals, Inc., the Plan Administrator and the Trustee under the Plan, and the Plan Administrator may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect. If any Participant or Beneficiary is determined by the Committee to be incompetent by reason of physical or mental disability (including minority) to give a valid receipt and release, the Company may cause the payment or payments becoming due to such person to be made to another person for his or her benefit without responsibility on the part of the Company to follow the application of such funds.
- 10.09 **Gender, Singular and Plural.** All pronouns, and any variations thereof, shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person(s) or entity(s) may require. As the context may require, the singular may be read as the plural and the plural as the singular.
- 10.10 **Captions.** The captions to the articles, sections, and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

- 10.11 **Applicable Law.** This Plan shall be governed and construed in accordance with the laws of the State of New Jersey.
- 10.12 **Validity.** In the event any provision of this Plan is found to be invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.
- 10.13 **Notice.** Any notice or filing required or permitted to be given to the Company or the Committee shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Company at 685 Route 202/206, Bridgewater, NJ 08807, directed to the attention of the Vice President, Human Resources. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Any notice to the Participant shall be addressed to the Participant at the Participant's residence address as maintained in the Company's records. Any party may change the address for such party here set forth by giving notice of such change to the other parties pursuant to this Section.

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

I, Jeffrey H. Buchalter, President and Chief Executive Officer of Enzon Pharmaceuticals, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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.
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.

August 2, 2006

By: /s/ Jeffrey H. Buchalter

Jeffrey H. Buchalter
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Craig A. Tooman, Executive Vice President, Finance and Chief Financial Officer of Enzon Pharmaceuticals, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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.
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.

August 2, 2006

By: /s/ Craig A. Tooman

Craig A. Tooman
Executive Vice President, Finance and Chief Financial
Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED 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 June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Jeffrey H. Buchalter, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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.

August 2, 2006

By: /s/ Jeffrey H. Buchalter

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.

A signed original of this written statement required by Section 906 has been provided to Enzon Pharmaceuticals, Inc. and will be retained by Enzon Pharmaceuticals, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED 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 June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Craig A. Tooman, Executive Vice President, Finance, and Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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.

August 2, 2006

By: /s/ Craig A. Tooman

Craig A. Tooman
Executive Vice President, Finance and
Chief Financial Officer
(Principal Financial 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.

A signed original of this written statement required by Section 906 has been provided to Enzon Pharmaceuticals, Inc. and will be retained by Enzon Pharmaceuticals, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
