

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 December 31, 2003

OR

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

Commission file number 0-12957

ENZON PHARMACEUTICALS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

685 Route 202/206, Bridgewater, New Jersey 08807
(Address of Principal Executive Offices) (Zip Code)

(908) 541-8600
(Registrant's Telephone Number, Including Area Code)

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of February 10, 2004, there were 43,819,246 shares of Common Stock, par value \$.01 per share, outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2003 (Unaudited)	June 30, 2003 *
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 89,164	\$ 66,752
Short-term investments	9,867	25,047
Accounts receivable, net	25,175	33,173
Inventories	10,871	11,786
Deferred tax and other current assets	15,998	16,089
	-----	-----

Total current assets	151,075	152,847
Property and equipment	46,612	43,896
Less: Accumulated depreciation and amortization	13,297	11,303
	33,315	32,593
Other assets:		
Marketable securities	70,409	61,452
Investments in equity securities and convertible note	67,165	56,364
Amortizable intangible assets, net	203,021	211,975
Goodwill	150,985	150,985
Deferred tax and other assets	61,600	62,350
	553,180	543,126
Total assets	\$ 737,570	\$ 728,566
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,772	\$ 12,809
Accrued expenses	21,168	21,536
Total current liabilities	28,940	34,345
Notes payable	400,000	400,000
Other liabilities	10,429	2,637
	410,429	402,637
Commitments and contingencies		
Stockholders' equity:		
Common stock-\$0.01 par value, authorized 90,000,000 shares;		
issued and outstanding 43,819,246 shares at December 31, 2003		
and 43,518,359 shares at June 30, 2003		
Additional paid-in capital	438	435
Accumulated other comprehensive income (loss)	324,986	322,488
Deferred compensation	895	(159)
Accumulated deficit	(6,101)	(4,040)
	(22,017)	(27,140)
Total stockholders' equity	298,201	291,584
Total liabilities and stockholders' equity	\$ 737,570	\$ 728,566

*Condensed from audited financial statements.

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

ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Three and Six Months Ended December 31, 2003 and 2002

(In thousands, except per share data)

(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2003	2002	2003	2002
Revenues:				
Product sales, net	\$ 27,711	\$ 7,811	\$ 52,672	\$ 14,377
Manufacturing revenue	2,187	733	3,791	733
Royalties	11,547	22,903	25,358	41,321
Contract revenue	253	50	521	134
Total revenues	41,698	31,497	82,342	56,565

Costs and expenses:				
Cost of sales and manufacturing revenue	11,825	4,265	22,737	6,779
Research and development	7,388	5,692	13,939	9,754
Selling, general and administrative	11,478	7,397	22,687	11,305
Amortization of acquired intangible assets	3,358	1,293	6,716	1,328
Write-down of carrying value of investments	--	27,237	--	27,237
Total costs and expenses	34,049	45,884	66,079	56,403
Operating income (loss)	7,649	(14,387)	16,263	162
Other income (expense):				
Interest and dividend income	706	4,345	1,180	7,798
Interest expense	(4,957)	(4,957)	(9,914)	(9,914)
Other, net	101	--	408	--
	(4,150)	(612)	(8,326)	(2,116)
Income (loss) before tax provision	3,499	(14,999)	7,937	(1,954)
Income tax provision	1,180	245	2,814	506
Net income (loss)	\$ 2,319	\$ (15,244)	\$ 5,123	\$ (2,460)
Basic earnings (loss) per common share	\$ 0.05	\$ (0.35)	\$ 0.12	\$ (0.06)
Diluted earnings (loss) per common share	\$ 0.05	\$ (0.35)	\$ 0.12	\$ (0.06)
Weighted average number of common shares outstanding-basic	43,307	43,011	43,298	42,995
Weighted average number of common shares and dilutive potential common shares outstanding	43,586	43,011	43,591	42,995

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

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ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ending December 31,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ 5,123	\$ (2,460)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,958	2,610
Non-cash expense for issuance of common stock	1,622	213
Non-cash income relating to equity collar arrangement	(401)	--
Amortization of bond premium/discount	(107)	1,983
Non-cash write-down of carrying value of investment	--	27,237
Deferred income taxes	997	--
Changes in operating assets and liabilities	680	5,909
Net cash provided by operating activities	18,872	35,492
Cash flows from investing activities:		
Purchase of property and equipment	(2,726)	(3,594)
Purchase of ABELCET business	--	(369,120)
Proceeds from sale of marketable securities	27,944	350,318
Maturities of marketable securities	--	53,000
Purchases of marketable securities	(21,950)	(81,859)
Net cash provided by (used in) investing activities	3,268	(51,255)
Cash flows from financing activities:		

Proceeds from exercise of common stock options	272	1,262
	-----	-----
Net increase (decrease) in cash and cash equivalents	22,412	(14,501)
Cash and cash equivalents at beginning of period	66,752	113,858
	-----	-----
Cash and cash equivalents at end of period	\$ 89,164	\$ 99,357
	=====	=====

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

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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. (the "Company") and its subsidiaries in accordance with accounting principles generally accepted in the United States of America for interim financial information pursuant to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete annual financial statements. In the opinion of management, all adjustments (consisting only of normal and recurring adjustments) considered necessary for a fair presentation have been included. Certain prior year balances were 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 latest annual report on Form 10-K.

(2) Comprehensive Income

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

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

	Three months ended December 31,		Six months ended December 31,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Net income (loss)	\$ 2,319	\$ (15,244)	\$ 5,123	\$ (2,460)
Other comprehensive income:				
Unrealized gain (loss) on marketable securities arising during the period, net of tax	(514)	(1,281)	(321)	800
Unrealized gain on NPS investment arising during the period, net of tax (see note 13)	--	--	1,824	--
Reclassification adjustment for net gain realized in net income, net of tax	(59)	(2,115)	(449)	(2,115)
	-----	-----	-----	-----
Total other comprehensive income (loss)	(573)	(3,396)	1,054	(1,315)
	-----	-----	-----	-----
Comprehensive income (loss)	\$ 1,746	\$ (18,640)	\$ 6,177	\$ (3,775)
	=====	=====	=====	=====

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

(3) New Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003) ("FIN46-R"), Consolidation of Variable Interest Entities, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46-R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"), which was issued in January 2003. FIN 46-R requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. The provisions of FIN 46-R are effective immediately to those entities that are considered to be special-purpose entities. For all other arrangements, the FIN 46-R provisions are required to be adopted at the beginning of the first interim or annual period ending after March 15, 2004. As of December 31, 2003 the Company is not a party to transactions contemplated under FIN 46-R.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus opinion on EITF 00-21, Revenue Arrangements with Multiple Deliverables. The consensus provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration for the arrangement should be allocated to the separate units of accounting based on their relative fair values, with different provisions if the fair value of all deliverables is not known or if the fair value is contingent on delivery of specified items or performance conditions. Applicable revenue recognition criteria should be considered separately for each separate unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. This adoption did not have any impact on our financial position or results of operations.

(4) Earnings Per Common Share

Basic earnings per share is computed by dividing the net income available to common shareholders adjusted for cumulative undeclared preferred stock dividends for the relevant period, by the weighted average number of shares of Common Stock issued and outstanding during the periods. For purposes of calculating diluted earnings per share for the three and six months ended December 31, 2003, the denominator includes both the weighted average number of shares of Common Stock outstanding and the number of dilutive Common Stock equivalents. The number of dilutive Common Stock equivalents includes the effect of non-qualified stock options calculated using the treasury stock method and the number of shares issuable upon conversion of certain Series A Preferred Stock which were outstanding as of December 31, 2002. Due to the net loss recorded for the three and six months ended December 31, 2002, the exercise or conversion of approximately 587,000 dilutive potential common shares is not included for purposes of the diluted loss per share calculation. The number of shares issuable upon conversion of the Company's 4.5% Convertible Subordinated Notes due 2008 (the "Notes") and the effect of the vesting of certain restricted stock using the treasury stock method have not been included as the effect of their inclusion would be antidilutive. As of December 31, 2003, the Company had 9.3 million dilutive common shares outstanding that could potentially dilute future earnings per share calculations.

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

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

	Three months ended December 31,		Six months ended December 31,	
	2003	2002	2003	2002
Net income (loss)	\$ 2,319	\$ (15,244)	\$ 5,123	\$ (2,460)
Less: Preferred stock dividends	--	4	--	7
Net income (loss) available to common stockholders	\$ 2,319	\$ (15,248)	\$ 5,123	(\$ 2,467)
Weighted average number of common shares outstanding - basic	43,307	43,011	43,298	42,995
Effect of dilutive securities:				
Assumed exercise of non-qualified stock options and restricted stock	279	--	293	--
Weighted average number of common shares outstanding and dilutive potential common shares	43,586	43,011	43,591	42,995

(5) Stock Based Compensation

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

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

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

	Three months ended December 31,		Six months ended December 31,	
	2003	2002	2003	2002
Net income (loss)	\$ 2,319	\$ (15,244)	\$ 5,123	\$ (2,460)
Less: Preferred stock dividends	--	4	--	7
Net income available to common stockholders	\$ 2,319	(15,248)	5,123	(2,467)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	237	136	423	213
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,999)	(4,909)	(5,284)	(7,092)
Pro forma net income (loss) available to common stockholders	\$ (443)	\$ (20,021)	\$ 262	\$ (9,346)

	=====	=====	=====	=====
Earnings (loss) per common share - basic:				
as reported	\$ 0.05	\$ (0.35)	\$ 0.12	\$ (0.06)
	=====	=====	=====	=====
pro forma	(\$ 0.01)	\$ (0.47)	\$ 0.01	\$ (0.22)
	=====	=====	=====	=====
Earnings (loss) per common share - diluted:				
as reported	\$ 0.05	\$ (0.35)	\$ 0.12	\$ (0.06)
	=====	=====	=====	=====
pro forma	(\$ 0.01)	\$ (0.47)	\$ 0.01	\$ (0.22)
	=====	=====	=====	=====

During the six months ended December 31, 2003, the Company issued 240,000 shares of restricted common stock to certain members of management. Total compensation expense of approximately \$2.7 million is being recognized over a five year period.

During the six months ended December 31, 2003, the Company granted 466,285 stock options to its employees at an average exercise price of \$11.50 under its stock option plans (fair value on the date of grants). The options vest over a period of four years.

6) Inventories

The composition of inventories is as follows (in thousands):

	December 31, 2003	June 30, 2003
	-----	-----
Raw materials	\$ 4,307	\$ 4,349
Work in process	3,674	3,392
Finished goods	2,890	4,045
	-----	-----
	\$10,871	\$11,786
	=====	=====

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ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements

(Unaudited)

(7) Acquisition of the ABELCET Product Line

On November 22, 2002, the Company acquired the North American rights and operational assets associated with the development, manufacture, sales and marketing of ABELCET(R) (Amphotericin B Lipid Complex Injection) (the "ABELCET Product Line") from Elan Corporation, plc, for \$360.0 million plus acquisition costs of approximately \$9.3 million.

The following unaudited pro forma results of operations of the Company for the three and six month period ended December 31, 2002, assumes the acquisition of the ABELCET Product Line occurred as of July 1, 2002 and assumes the purchase price has been allocated to the assets purchased based on fair values at the date of acquisition (in thousands, except per share amounts):

	Three months ended December 31, 2002	Six months ended December 31, 2002
	-----	-----
Product Sales, net	\$ 18,899	\$ 40,967
Total revenues	41,852	82,422
Net income (loss)	(24,125)	(16,629)
Pro forma earnings (loss) per share:		
Basic	\$ (0.56)	\$ (0.38)
Diluted	\$ (0.56)	\$ (0.38)

(8) Intangible Assets

The Company's intangible assets are primarily related to its November 22, 2002 acquisition of the ABELCET Product Line, DEPOCYT and ONCASPAR and are amortized over their estimated useful lives. The gross carrying amount, estimated lives and accumulated amortization, by major intangible asset class at December 31, 2003 were as follows:

	Estimated Lives -----	Gross Carrying Amount -----	Accumulated Amortization -----	Net Assets -----
Product patented technology	12 years	\$ 64,400	\$ 5,814	\$ 58,586
Manufacturing patent	12 years	18,300	1,652	16,648
NDA Approval	12 years	31,100	2,808	28,292
Trade name and other product rights	15 years	80,000	5,778	74,222
Product acquisition costs	10-14 years	26,194	2,719	23,475
Patents	1-5 years	2,092	1,700	392
Manufacturing contract	3 years	2,200	794	1,406
		-----	-----	-----
Total		\$224,286 =====	\$21,265 =====	\$203,021 =====

Amortization of intangible assets for the three and six month period ended December 31, 2003 was \$4.5 million and \$9.0 million respectively a portion of which is included in cost of goods sold. Assuming no changes in the

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

gross carrying amount of intangible assets, the amortization of intangible assets for the next five fiscal years is estimated to be approximately \$17.9 million per year. Amortization of intangible assets for both the three and six month period ended December 31, 2002 was \$1.6 million and \$1.8 million, respectively.

(9) Goodwill

The amount assigned to goodwill in connection with the ABELCET Product Line acquisition was recorded at \$151.0 million. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized, but rather is reviewed at least annually for impairment.

(10) Cash Flow Information

The Company considers all highly liquid securities with original maturities of three months or less to be cash equivalents. Cash payments for interest were approximately \$9.0 million for the six months ended December 31, 2003 and 2002. Income tax payments for the six months ended December 31, 2003 were \$3.2 million. There were no income tax payments made for the six months ended December 31, 2002.

(11) Income Taxes

The Company recognized a tax provision for the six months ended December 31, 2003 at an estimated annual effective tax rate of 35%, which is based on the projected income tax expense and taxable income for the fiscal year ending June 30, 2004. During the three months ended December 31, 2003, the Company reduced the effective tax rate from 36% to 35%, based on the revised estimate of the full year effective tax rate. The impact of this change in the effective tax rate was recognized in the three months ended December 31, 2003.

At June 30, 2003, the Company recognized approximately \$67.5 million as a net deferred tax asset related to expected future profits, because management concluded that it is more likely than not that the deferred tax assets will be realized, including the net operating losses from operating activities and stock option exercises, based on future operations. As of June 30, 2003 and December

31, 2003, the Company retained a valuation allowance of \$12.8 million and \$13.4 million, respectively, with respect to certain capital losses and federal research and development credits as the ultimate utilization of such losses and credits is uncertain. The Company will continue to reassess the need for such valuation allowance based on the future operating performance of the Company.

The tax provision for the three and six month period ended December 31, 2002 represents the Company's anticipated Alternative Minimum Tax liability based on the anticipated taxable income for the full fiscal year.

During the three and six month period ended December 31, 2003, the Company received \$254,000 for the sale of certain New Jersey state net operating loss carryforwards and also purchased certain New Jersey state net operating loss carryforwards for \$1.5 million.

(12) Business Segments

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

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

(13) Derivative Instruments

In August 2003, the Company entered into a Zero Cost Protective Collar arrangement (the "Collar") with a financial institution to reduce the exposure associated with the 1.5 million shares of common stock of NPS Pharmaceuticals, Inc. ("NPS") it received as part of the merger termination agreement between the Company and NPS. By entering into this equity collar arrangement and taking into consideration the underlying put and call option strike prices, the terms are structured so that the Company's investment in NPS stock, when combined with the value of the Collar, should secure ultimate cash proceeds in the range of 85%-108% of the negotiated fair value per share of \$23.47 (representing a 4.85% discount off of the closing price of NPS common stock on the day before the Company executed the Collar). The Collar is considered a derivative hedging instrument under SFAS No. 133 and as such, the Company periodically measures its fair value and recognizes the derivative as an asset or a liability. The change in fair value is recorded in other comprehensive income (See Note 2) or in the Statement of Operations depending on its effectiveness. As of December 31, 2003, the market value of NPS' common stock was \$30.86 per share. When the underlying shares become unrestricted and freely tradable, the Company is required to deliver to the financial institution as posted collateral, a corresponding number of shares of NPS common stock. During the three and six month period ended December 31, 2003, the Company sold and re-purchased 375,000 shares of common stock of NPS. The unrealized gain previously recognized under other comprehensive income with respect to these shares aggregating \$600,000 was recognized in the Statements of Operations for three and six months ended December 31, 2003 and is being shown as "Other Income". With respect to the remaining 1,125,000 shares of NPS common stock, the increase in the aggregate value above the base price of \$23.47 per share up to the \$25.35 per share Collar limit, or \$2.2 million, has been recorded in comprehensive income for the six months ended December 31, 2003, net of income taxes. The fair value of the Collar above the 25.35 per share dollar limit represented a liability of \$8.3 million at December 31, 2003, which is included under "Other Liabilities" in the Condensed Consolidated Balance Sheet. In addition, the difference in the fair value of the Collar compared to the fair market value of the NPS common stock representing a loss of \$199,000 and \$506,000 for the three and six month period ended December 31, 2003, respectively, was recorded as "Other Income" in the Statement of Operations. The Collar will mature in four separate three-month intervals beginning November 2004 through August 2005, at which time the Company will receive the proceeds from the sale of the securities. The amount due at each maturity date will be determined based on the market value of NPS' common

stock on such maturity date. The contract requires the Company to maintain a minimum cash balance of \$30.0 million and additional collateral up to \$10.0 million (as defined) under certain circumstances with the financial institution. The strike prices of the put and call options are subject to certain adjustments in the event the Company receives a dividend from NPS.

(14) Amendments to Incentive Stock Option Plan

In December 2003, the stockholders of the Company approved amendments to the Company's 2001 Incentive Stock Plan ("Plan") to increase the number of shares of common stock available for issuance under the Plan from 2,000,000 to 6,000,000 and to limit the maximum number of shares of restricted stock and restricted stock units that may be granted under the Plan to 50% of the total number of shares available for issuance.

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

(15) Subsequent Events

In January 2004, the Company and INEX Pharmaceuticals Corporation ("INEX") entered into a strategic partnership to develop and commercialize INEX's proprietary oncology product Onco TCS. The Company and INEX entered into a Product Supply Agreement, a Development Agreement, and a Co-Promotion Agreement. The agreements contain cross termination provisions under which termination of one agreement triggers termination of all the agreements.

Under the terms of the agreements, the Company received the exclusive commercialization rights for Onco TCS for all indications in the United States, Canada and Mexico. The lead indication for Onco TCS is relapsed aggressive non-Hodgkin's lymphoma (NHL) for which INEX is in the process of submitting a "rolling" New Drug Application (NDA) to the United States Food and Drug Administration (FDA), which is expected to be completed during the first quarter of calendar year 2004. The product is also in numerous phase II clinical trials for several other cancer indications, including first-line NHL.

Upon execution of the related agreements the Company made a \$12.0 million up-front payment to INEX. Such amount will be reflected as an expense related to acquisition of in-process research and development in the Company's Statement of Operations for the quarter ending March 31, 2004. In addition, the Company will be required to pay up to \$20.0 million upon Onco TCS being approved by the FDA. Additional development milestones and sales based bonus payments could total \$43.75 million, of which \$10.0 million is payable upon annual sales first reaching \$125.0 million, and \$15.0 million is payable upon annual sales first reaching \$250.0 million. The Company will also be required to pay INEX a percentage of commercial sales of Onco TCS and this percentage will increase as sales reach certain predetermined thresholds.

The Company and INEX will share equally the future development costs to obtain and maintain marketing approvals in North America for Onco TCS, and the Company will pay all sales and marketing costs and certain other post-approval clinical development costs typically associated with commercialization activities. The Company plans to market Onco TCS to the oncology market through its North American sales force, which currently markets ABELCET(R), ONCASPAR(R), and DEPOCYT(R). INEX has the option of complementing the Company's sales efforts by co-promoting Onco TCS through the formation of a dedicated North American sales and medical science liaison force. The costs of building INEX's co-promotion force will be shared equally by both companies and the Company will record all sales in the licensed territories. INEX retains manufacturing rights and the Company will reimburse INEX for the manufacture and supply of the drug at manufacturing cost plus five percent.

The agreements will expire on a country by country basis upon the expiration of the last patent covering the licensed product in each particular country or 15 years after the first commercial sale in such country, whichever is later. The agreements are also subject to earlier termination under various circumstances. The Company may terminate the agreements at any time upon 90 days notice, in connection with which the Company must pay a \$2.0 million termination fee, unless such termination occurs more than 12 months after the agreements were executed, but before INEX has completed the submission of its NDA to the

FDA for the lead indication. In addition, if at any time the Company determines that it has no interest in commercializing the product in any country, then INEX may terminate the agreement with respect to such country. Either party may terminate the agreements upon a material breach and failure to cure by the other party. In addition, either party may terminate the agreements upon the other party's bankruptcy. Generally, the termination of the agreements with respect to a particular country shall terminate the Company's license with respect to Onco TCS, and preclude the Company from marketing the product, in that country. However, if the Company terminates the agreements because of INEX's breach or bankruptcy, INEX will be obligated to provide the Company a right of reference to INEX's regulatory dossiers and facilitate a transfer to the Company of the technology necessary to manufacture the product. In addition, after such termination, INEX will be obligated to exercise commercially reasonable efforts to ensure that the Company has a continuous supply of product until the Company, exercising commercially reasonable efforts, has secured an alternative source of supply.

Subsequent to December 31, 2003, the Company converted 11,395 shares of its Nektar Therapeutics

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convertible preferred stock resulting in gross proceeds of approximately \$9.5 million and a net gain of approximately \$5.9 million.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information contained herein contains forward-looking statements which can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. These forward looking statements are subject to various risks and uncertainties that may cause actual results to differ materially from the results predicted by the forward looking statements. The matters set forth in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003, which is incorporated herein by reference, contain cautionary statements identifying important risks, uncertainties and other factors, that could prevent the future results indicated in such forward-looking statements from being achieved. Other factors could also cause actual results to vary materially from the future results indicated in such forward-looking statements.

Acquisition of ABELCET(R) Business

On November 22, 2002, we acquired the North American rights and operational assets associated with the development, manufacture, sales and marketing of ABELCET(R) (Amphotericin B Lipid Complex Injection) ("the ABELCET Product Line") from Elan Corporation, plc ("Elan") for \$360.0 million, plus approximately \$9.3 million of acquisition costs. This transaction was accounted for as a business combination.

Unless otherwise indicated, the discussions in Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and six months ended December 31, 2003 and financial condition at December 31, 2003 include the results of operations of the ABELCET Product Line. Comparisons are made to the results of operations and the financial condition for the three and six months ended December 31, 2002, which include approximately only one month of operations, of the ABELCET Product Line commencing from our acquisition of the Product Line on November 22, 2002.

Liquidity and Capital Resources

Total cash reserves, which include cash, cash equivalents, short-term investments, and marketable securities, were \$169.4 million as of December 31, 2003, as compared to \$153.3 million as of June 30, 2003. The increase is primarily due to the positive cash flow from operations. We invest our excess cash primarily in United States government-backed securities and investment-grade corporate debt securities.

During the six months ended December 31, 2003, net cash generated from operating activities was \$18.9 million, compared to \$35.5 million for the six months ended December 31, 2002. The reduction in net cash generated from operating activities in 2003 compared to 2002 was primarily due to a reduction in net income related to the deduction of a non-cash writedown of the carrying value of investments in 2002. During the six months ended December 31, 2002, we recorded as a non-cash writedown of approximately \$27.2 million of our investment in Nektar Therapeutics.

Cash provided by investing activities totaled \$3.3 million for the six months ended December 31, 2003 compared to cash utilization of \$51.3 million for the six months ended December 31, 2002. Cash provided by investing activities during the six months ended December 31, 2003, was principally due to net proceeds from marketable securities of \$6.0 million offset by \$2.7 million of capital expenditures.

As of December 31, 2003, we had \$400.0 million of 4.5% convertible subordinated notes outstanding. The notes bear interest at an annual rate of 4.5%. Interest is payable on January 1 and July 1 of each year. Accrued interest on the notes was \$9.0 million as of December 31, 2003. The holders may convert all or a portion of the notes into common stock at any time on or before July 1, 2008. The notes are convertible into our common stock at a conversion price of \$70.98 per share, subject to adjustment in certain events. The notes are subordinated to all existing and future senior indebtedness. On or after July 7, 2004, we may redeem any or all of the notes at specified redemption prices, plus accrued and unpaid interest to the day preceding the redemption date. The notes will mature

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on July 1, 2008 unless earlier converted, redeemed at our option or redeemed at the option of the note-holder upon a fundamental change, as described in the indenture for the notes. Neither we nor any of our subsidiaries are subject to any financial covenants under the indenture. In addition, neither we nor any of our subsidiaries are restricted under the indenture from paying dividends, incurring debt, or issuing or repurchasing our securities.

In August 2003, we entered into a Zero Cost Protective Collar arrangement with a financial institution to reduce the exposure associated with the 1.5 million shares of common stock of NPS we received as part of the merger termination agreement with NPS. By entering into this equity collar arrangement and taking into consideration the underlying put and call option strike prices, the terms are structured so that our investment in NPS stock, when combined with the value of the Collar, should secure ultimate cash proceeds in the range of 85%-108% of the negotiated fair value per share of \$23.47 (representing a 4.85% discount off of the closing price of NPS common stock on the day before we executed the Collar). The Collar is considered a derivative hedging instrument under SFAS No. 133 and as such, we periodically measure its fair value and recognizes the derivative as an asset or a liability. The change in fair value is recorded in other comprehensive income (See Note 2) or in the Statement of Operations depending on its effectiveness. As of December 31, 2003, the market value of NPS' common stock was \$30.86 per share. When the underlying shares become unrestricted and freely tradable, we are required to deliver to the financial institution as posted collateral, a corresponding number of shares of NPS common stock. During the three and six month period ended December 31, 2003, we sold and re-purchased 375,000 shares of common stock of NPS. The unrealized gain previously recognized under other comprehensive income with respect to these shares aggregating \$600,000 was recognized in the Statements of Operations for three and six months ended December 31, 2003 and is being shown as "Other Income". With respect to the remaining 1,125,000 shares of NPS common stock, the increase in the aggregate value above the base price of \$23.47 per share up to the \$25.35 per share Collar limit, or \$2.2 million, has been recorded in comprehensive income for the six months ended December 31, 2003, net of income taxes. The fair value of the Collar above the 25.35 per share Collar limit represented a liability of \$8.3 million at December 31, 2003, which is included under "Other Liabilities" in the Condensed Consolidated Balance Sheet. In addition, the difference in the fair value of the Collar compared to the fair market value of the NPS common stock of \$199,000 and \$506,000 for three and six month period ended December 31, 2003, respectively, was recorded as "Other Income" in the Statement of Operations. The Collar will mature in four separate three-month intervals beginning November 2004 through August 2005, at which time we will receive the proceeds from the sale of the securities. The amount due at

each maturity date will be determined based on the market value of NPS' common stock on such maturity date. The contract requires us to maintain a minimum cash balance of \$30.0 million and additional collateral up to \$10.0 million (as defined) under certain circumstances with the financial institution. The strike prices of the put and call options are subject to certain adjustments in the event we receive a dividend from NPS.

Our current sources of liquidity are our cash reserves, and interest earned on such cash reserves, short-term investments, marketable securities, sales of ADAGEN(R), ONCASPAR(R), DEPOCYT(R) and ABELCET(R), royalties earned primarily on sales of PEG-INTRON(R), sales of our products for research purposes and license fees. Based upon our currently planned research and development activities and related costs and our current sources of liquidity, we anticipate our current cash reserves and expected cash flow from operations will be sufficient to meet our capital, debt service and operational requirements for the foreseeable future.

During January 2004, we entered into a strategic partnership to develop and commercialize INEX Pharmaceuticals Corporation's ("INEX") proprietary oncology product, Onco TCS. Under the terms of the agreements, we obtained the exclusive commercialization rights for Onco TCS for all indications in the United States, Canada and Mexico. The lead indication for Onco TCS is relapsed aggressive non-Hodgkin's lymphoma (NHL) for which INEX is in the process of submitting a "rolling" New Drug Application (NDA) to the United States Food and Drug Administration (FDA), which is expected to be completed during the first quarter of calendar year 2004. The product is also in numerous phase II clinical trials for several other cancer indications, including first-line NHL.

Under the agreement, we paid INEX a \$12.0 million up-front payment and will pay up to a \$20.0 million payment upon Onco TCS receiving approval from the FDA. Additional development milestones and sales based bonus payments could total \$43.75 million, of which \$10.0 million is payable upon annual sales first reaching \$125.0 million

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and \$15.0 million is payable upon annual sales first reaching \$250.0 million. INEX will also receive a percentage of commercial sales of Onco TCS and this percentage will increase as sales reach certain predetermined thresholds.

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

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPE"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow limited purposes. As of December 31, 2003, we are not involved in any material unconsolidated SPE transactions.

Contractual Obligations

Our major outstanding contractual obligations relate to our operating leases, our convertible debt and our license and development agreements with collaborative partners. Other than the additional contractual obligations under our strategic partnership with INEX discussed under "Liquidity and Capital Resources " and in Note 15 of the Notes to our unaudited quarterly financial statements, our contractual obligations as of December 31, 2003 are not materially different from our contractual obligations as of June 30, 2003 as disclosed under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations" in our annual report on Form 10-K for the fiscal year ended June 30, 2003.

Results of Operations

Three months ended December 31, 2003 and December 31, 2002

Revenues. Total revenues for the three months ended December 31, 2003 increased by 32% to \$41.7 million, as compared to \$31.5 million for the three months ended December 31, 2002. The components of revenues are product sales and certain contract manufacturing revenues, royalties we earn on the sale of products by others and contract revenues.

Net product sales and manufacturing revenue increased by 250% to \$29.9 million for the three months ended December 31, 2003, as compared to \$8.5 million for the three months ended December 31, 2002. The increase in net sales was due to the commencement of sales of ABELCET in North America in November 2002, the commencement of sales of DEPOCYT in January 2003, and increased sales of ONCASPAR. During November 2002, we acquired the ABELCET Product Line from Elan. During the three months ended December 31, 2003, we recorded \$20.3 million of sales related to the ABELCET Product Line as compared to \$1.3 million for the corresponding period in the prior year. Of the total ABELCET Product Line sales, sales in North America accounted for \$18.0 million for the three months ended December 31, 2003 as compared to \$588,000 for the three months ended December 31, 2002. Contract manufacturing revenue related to the manufacture and sale of ABELCET to Elan for the international market and other contract manufacturing revenue was \$2.2 million for the three month period ended December 31, 2003 as compared to \$733,000 for the three months ended December 31, 2002. In January 2003, we obtained an exclusive license to sell, market, and distribute SkyePharma's DEPOCYT. During the three months ended December 31, 2003, we recorded DEPOCYT sales of \$1.3 million. Sales of ONCASPAR increased by 40% to \$4.4 million for the three months ended December 31, 2003 from \$3.1 million in the corresponding period in the prior year. This was a result of our resumption of marketing efforts in connection with our reacquiring from Aventis in June 2002 the right to market and distribute ONCASPAR for certain territories previously licensed to Aventis. Sales of ADAGEN decreased by 3% for the three months ended December 31, 2003 to \$4.0 million as compared to \$4.1 million for the three months ended December 31, 2002 due to the timing

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of shipments.

Royalties for the three months ended December 31, 2003, decreased to \$11.5 million as compared to \$22.9 million in the same period in the prior year. The decrease was primarily due to decreased sales of PEG-INTRON by Schering-Plough, our marketing partner, due to the introduction of a competitive product, PEGASYS (R) .

During December 2002, Hoffman-LaRoche launched PEGASYS (R), a pegylated version of its interferon product ROFERON-A (R). Since its launch, PEGASYS has taken market share away from PEG-INTRON. As a result, quarterly sales of PEG-INTRON and the royalties we receive on those sales have declined in recent quarters. We have no involvement in the marketing and sales of PEG-INTRON, which are the responsibility of Schering-Plough. We cannot assure you that PEGASYS will not continue to gain market share at the expense of PEG-INTRON, which could result in lower PEG-INTRON sales and lower royalties.

As a result of our focused marketing efforts for ABELCET, we believe that we have been able to stabilize the pressure from the introduction of new products in the antifungal market and that the product is now back on a growth pattern. We expect sales of DEPOCYT, which are currently running at an annual rate of approximately \$5.0 million, to increase as we continue to roll out our focused marketing efforts. We expect ADAGEN and ONCASPAR sales to grow in this fiscal year at levels similar to those achieved during the last fiscal year. However, we cannot assure you that any particular sales levels of ABELCET, ADAGEN, ONCASPAR, DEPOCYT or PEG-INTRON will be achieved or maintained.

Contract revenues for the three months ended December 31, 2003, increased to \$253,000 as compared to \$50,000 in the corresponding period in the previous year. The increase was related to revenue received from the licensing of our PEG technology to SkyePharma. In connection with such licensing, we received a payment of \$3.5 million in January 2003 which is being recognized as revenue over the term of the related agreement.

During the three months ended December 31, 2003, we had export sales and royalties on export sales of \$8.7 million, of which \$7.2 million were sales in Europe or royalties on sales in Europe. Export sales and royalties recognized on

export sales for the three months ended December 31, 2002 were \$7.5 million, of which \$6.8 million were in Europe.

Cost of Sales and Manufacturing Revenue. Cost of sales and manufacturing revenue, as a percentage of net sales and manufacturing revenue decreased to 40% for the three months ended December 31, 2003 as compared to 50% for the same period last year. The decrease was due to certain purchase accounting adjustments to the inventory acquired with the ABELCET Product Line, which was sold during the six months ended December 31, 2002.

Research and Development. Research and development expenses increased by 30% to \$7.4 million for the three months ended December 31, 2003 from \$5.7 million for the same period last year. The increase was primarily due to (i) increased spending of approximately \$900,000 related to our single chain antibody collaboration with Micromet AG, (ii) increased spending on our two late stage development programs, PEG-Camptothecin and ATG Fresenius S, of approximately \$400,000, and (iii) increased payroll related expenses of approximately \$400,000.

Selling, General and Administrative. Selling, general and administrative expenses for the three months ended December 31, 2003 increased by 55% to \$11.5 million, as compared to \$7.4 million in the same period last year. The increase was primarily due to (i) increased sales and marketing expense of approximately \$3.3 million related to the sales force acquired from Elan as part of our acquisition of the ABELCET Product Line, and (ii) increased sales and marketing expense of approximately \$800,000 related to the establishment of an oncology sales force for ONCASPAR and DEPOCYT.

Amortization. Amortization expense increased to \$3.4 million for the three months ended December 31, 2003 as compared to \$1.3 million in the comparable period last year as a result of the amortization of the intangible assets acquired in November 2002 as part of the ABELCET Product Line. Amortization of intangible assets is provided over

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their estimated lives ranging from 1-15 years on a straight-line basis.

Other Income/Expense. Interest and dividend income for the three months ended December 31, 2003 decreased to \$706,000, as compared to \$4.3 million for the prior year. The decrease was primarily due to a reduction in our interest-bearing investments resulting from our purchase of the ABELCET Product Line in November 2002 for a cash payment of \$360.0 million, plus acquisition costs, as well as a decrease in interest rates. Interest expense remained unchanged from the comparable period last year. Interest expense is related to the \$400.0 million in 4.5% convertible subordinated notes, which were outstanding for both periods. Other income of \$102,000 for the three months ended December 31, 2003, primarily represents the gain realized pursuant to the sale and re-purchase of 375,000 shares of NPS common stock partially offset by loss recognized with respect to the collar associated with the 1.5 million shares of NPS common stock we hold.

Income Taxes. During the three months ended December 31, 2003 and 2002 we recognized net tax expense of approximately \$1.2 million and \$245,000, respectively. We recognized a tax provision for the three months ended December 31, 2003 at an estimated annual effective tax rate of 35%, which is based on the projected income tax expense and taxable income for the fiscal year ending June 30, 2004. The tax provision for the three months ended December 31, 2002 represents our anticipated Alternative Minimum Tax liability based on the anticipated taxable income for the full fiscal year.

At June 30, 2003, we recognized approximately \$67.5 million as a net deferred tax asset related to expected future profits, since management concluded that it is more likely than not that the deferred tax assets will be realized, including the net operating losses from operating activities and stock option exercises, based on future operations. As of December 31, 2003, we retained a valuation allowance of \$13.4 million with respect to certain capital losses and credits and will continue to reassess the need for such valuation allowance based on the future operating performance of the Company.

Six months ended December 31, 2003 and December 31, 2002

Revenues. Total revenues for the six months ended December 31, 2003

increased by 46% to \$82.3 million, as compared to \$56.6 million for the six months ended December 31, 2002. The components of revenues are product sales and certain contract manufacturing revenues, royalties we earn on the sale of products by others and contract revenues.

Net product sales and manufacturing revenue increased by 274% to \$56.5 million for the six months ended December 31, 2003, as compared to \$15.1 million for the six months ended December 31, 2002. The increase in net sales was due to the commencement of sales of ABELCET in North America in November 2002, the commencement of sales of DEPOCYT in January 2003, and increased sales of ADAGEN and ONCASPAR. During November 2002, we acquired the ABELCET Product Line from Elan. During the six months ended December 31, 2003, we recorded \$36.8 million of sales related to the ABELCET Product Line as compared to \$1.3 million for the prior year. Of the total ABELCET Product Line sales, sales in North America accounted for \$33.0 million for the six months ended December 31, 2003 as compared to \$588,000 for the six months ended December 31, 2002. Contract manufacturing revenue related to the manufacture and sale of ABELCET to Elan for the international market and other contract manufacturing revenue was \$3.8 million for the six month period ended December 31, 2003 as compared to \$733,000 for the comparable period of the prior year. In January 2003, we obtained an exclusive license to sell, market and distribute SkyePharma's DEPOCYT. During the six months ended December 31, 2003, we recorded DEPOCYT sales of \$2.6 million. Sales of ONCASPAR increased by 44% to \$8.4 million for the six months ended December 31, 2003 from \$5.9 million in the corresponding period in the prior year. This was a result of our resumption of marketing efforts in connection with reacquiring from Aventis in June 2002, the right to market and distribute ONCASPAR for certain territories we previously licensed to Aventis. Sales of ADAGEN increased by 9% for the six months ended December 31, 2003 to \$8.7 million as compared to \$7.9 million for the six months ended December 31, 2002 due to an increase in the number of patients receiving the drug.

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Royalties for the six months ended December 31, 2003, decreased to \$25.4 million as compared to \$41.3 million in the same period in the prior year. The decrease was primarily due to decreased sales of PEG-INTRON by Schering-Plough, our marketing partner, due to the introduction of a competitive product, PEGASYS.

Contract revenues for the six months ended December 31, 2003 increased to \$521,000 as compared to \$134,000 in the corresponding period in the previous year. The increase was related to revenue received from the licensing of our PEG technology to SkyePharma. In connection with such licensing, we received a payment of \$3.5 million in January 2003 which is being recognized as revenue over the term of the related agreement.

During the six months ended December 31, 2003, we had export sales and royalties on export sales of \$18.2 million, of which \$15.5 million were sales in Europe or royalties on sales in Europe. Export sales and royalties recognized on export sales for the corresponding period in the prior year were \$15.6 million, of which \$14.0 million were in Europe.

Cost of Sales and Manufacturing Revenue. Cost of sales and manufacturing revenue, as a percentage of net sales and manufacturing revenue decreased to 40% for the six months ended December 31, 2003 as compared to 45% for the comparable period last year. The decrease was due to certain purchase accounting adjustments to the inventory acquired with the ABELCET Product Line, which was sold during six months ended December 31, 2002.

Research and Development. Research and development expenses increased by 43% to \$13.9 million for the six months ended December 31, 2003 from \$9.8 million for the comparable period last year. The increase was primarily due to (i) increased spending of approximately \$1.6 million related to our single chain antibody collaboration with Micromet AG, (ii) increased spending on our two late stage development programs, PEG-Camptothecin and ATG Fresenius S, of approximately \$1.4 million, (iii) increased payroll related expenses of approximately \$1.0 million and (iv) increased other expenses of approximately \$100,000 related to our internal research and preclinical activities.

Selling, General and Administrative. Selling, general and administrative expenses for the six months ended December 31, 2003 increased by 101% to \$22.7 million, as compared to \$11.3 million in the comparable period last year. The increase was primarily due to (i) increased sales and marketing expense of

approximately \$9.7 million related to the sales force acquired from Elan as part of our acquisition of the ABELCET Product Line, (ii) increased sales and marketing expense of approximately \$1.6 million related to the establishment of an oncology sales force for ONCASPAR and DEPOCYT and (iii) increased general and administrative personnel and other costs of approximately \$100,000.

Amortization. Amortization expense increased to \$6.7 million for the six months ended December 31, 2003 as compared to \$1.3 million in the same period last year as a result of the amortization of the intangible assets acquired in November 2002 as part of the ABELCET Product Line. Amortization of intangible assets is provided over their estimated lives ranging from 1-15 years on a straight-line basis.

Other Income/Expense. Interest and dividend income for the six months ended December 31, 2003 decreased to \$1.2 million, as compared to \$7.8 million for the prior year. The decrease was primarily due to a reduction in our interest-bearing investments resulting from our purchase of the ABELCET Product Line in November 2002 for a cash payment of \$360.0 million, plus acquisition costs, as well as a decrease in interest rates. Interest expense remained unchanged from the comparable period last year. Interest expense is related to the \$400.0 million in 4.5% convertible subordinated notes, which were outstanding for both periods. Other income of \$408,000 for the six months ended December 31, 2003, mostly represents the gain realized pursuant to the sale and re-purchase of 375,000 shares of NPS common stock partially offset by a loss recognized on the Collar arrangement related to the 1.5 million shares of NPS common stock we hold.

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Income Taxes. During the six months ended December 31, 2003 and 2002 we recognized net tax expense of approximately \$2.8 million and \$506,000, respectively. We recognized a tax provision for the six months ended December 31, 2003 at an estimated annual effective tax rate of 35%, which is based on the projected income tax expense and taxable income for the fiscal year ending June 30, 2004. The tax provision for the six months ended December 31, 2002 represents our anticipated Alternative Minimum Tax liability based on the anticipated taxable income for the full fiscal year

At June 30, 2003, we recognized approximately \$67.5 million as a net deferred tax asset related to expected future profits, since management concluded that it is more likely than not that the deferred tax assets will be realized, including the net operating losses from operating activities and stock option exercises, based on future operations. As of December 31, 2003, we retained a valuation allowance of \$13.4 million with respect to certain capital losses and credits and will continue to reassess the need for such valuation allowance based on the future operating performance of the Company.

Critical Accounting Policies

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

Our consolidated financial statements are presented in accordance with accounting principles that are generally accepted in the United States. All professional accounting standards effective as of December 31, 2003 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.

Revenues from product sales and manufacturing revenue are recognized based on shipping terms and a provision is made at that time for estimated future credits, chargebacks, sales discounts, rebates and returns. These sales

provision accruals 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. We utilize the following criteria to determine appropriate revenue recognition: pervasive evidence of an arrangement exists, delivery has occurred, selling price is fixed and determinable and collection is reasonably assured.

Royalties under our license agreements with third parties are recognized when earned through the sale of the product by the licensor net of any estimated future credits, chargebacks, sales discount rebates and refunds. Since we do not sell or market the products, we rely on disclosures from our marketing partners to estimate such sales allowances.

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

Under the asset and liability method of Statement of Financial Accounting Standards ("SFAS") No. 109, 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.

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Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance on net deferred tax assets is provided for when it is more likely than not that some portion or all of the deferred tax assets will not be realized. We have significant net deferred tax assets, primarily related to net operating loss carryforwards, and continue to analyze the level of the valuation allowance needed taking into consideration the expected future performance of the Company.

We assess the carrying value of our investments in accordance with SFAS No. 115 and SEC Staff Accounting Bulletin No. 59. An impairment write-down is recorded when a decline in the value of an investment is determined to be other-than-temporary. These determinations involve a significant degree of judgment and are subject to change as facts and circumstances change.

In accordance with the provisions of SFAS No. 142, goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination are not subject to amortization, are tested at least annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. Goodwill is reviewed for impairment by comparing the carrying value to its fair value. Recoverability of amortizable intangible assets is determined by comparing the carrying amount of the asset to the future undiscounted net cash flow to be generated by the asset. The evaluations involve amounts that are based on management's best estimate and judgment. Actual results may differ from these estimates. If recorded values are less than the fair values, no impairment is indicated. SFAS No. 142 also requires that intangible assets with estimated useful lives be amortized over their respective estimated useful lives.

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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 investment grade fixed income securities while at the same time seeking to achieve a favorable rate of return. Our market risk exposure consists principally of exposure to changes in interest rates. Our holdings are also exposed to the risks of changes in the credit quality of issuers. We typically invest the majority of our investments in the shorter-end of the maturity spectrum, and at December 31, 2003 all of our holdings were in instruments maturing in three years or less.

The table below presents the principal amounts and related weighted average interest rates by year of maturity for our investment portfolio as of December 31, 2003 (in thousands):

	2004	2005	2006	2007	Total	Fair Value
	----	----	----	----	-----	-----
Fixed Rate	\$ 9,811	\$47,194	\$18,929	\$ 4,500	\$80,434	\$80,276
Average Interest Rate	2.42%	2.17%	2.23%	2.93%	2.26%	--
Variable Rate	--	--	--	--	--	--
Average Interest Rate	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----
	\$ 9,811	\$47,194	\$18,929	\$ 4,500	\$80,434	\$80,276
	=====	=====	=====	=====	=====	=====

Our 4.5% convertible subordinated notes in the principal amount of \$400.0 million due July 1, 2008 have a fixed interest rate. The fair value of the notes was approximately \$352.0 million at December 31, 2003. 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.

As discussed in Liquidity and Capital Resources, in August 2003, we entered into a Zero Cost Protective Collar arrangement with a financial institution to reduce the exposure associated with the 1.5 million shares of common stock of NPS we received as part of the merger termination agreement with NPS.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2003, the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us required to be included in our periodic SEC filings.

(b) Changes in internal controls over financial reporting.

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 4. Submission of Matters to a Vote of Security Holders

- (a) An annual meeting of stockholders was held on December 2, 2003.
- (b) The directors elected at the annual meeting were Dr. David W. Golde and Robert L. Parkinson, Jr. The term of office as a director for each of David S. Barlow, Rolf A. Classon, Arthur J. Higgins, Robert LeBuhn and Dr. Rosina Dixon continued after the annual meeting. Mr.

Barlow resigned from our Board of directors effective as of January 2, 2004.

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

(i) The stockholders voted 34,398,496 shares in favor and 2,090,555 shares withheld with respect to the election of Dr. David W. Golde as a Class II director of the Company, and 33,811,334 shares in favor and 2,677,717 shares withheld with respect to the election of Robert L. Parkinson, Jr. as a Class II director of the Company. Broker non-votes were not applicable.

(ii) The stockholders voted 15,236,400 shares in favor, 9,028,383 shares against and 132,265 shares abstained with respect to a proposal to approve the amendments to the Company's 2001 Incentive Stock Plan to increase the number of shares of common stock available for issuance under the 2001 Incentive Stock Plan from 2,000,000 to 6,000,000 and to limit the maximum number of shares of restricted stock and restricted stock units that may be granted under the 2001 Incentive Stock Plan to 50% of the total number of shares available for issuance under the 2001 Incentive Stock Plan. Broker non-votes were not applicable.

(iii) The stockholders voted 34,885,438 shares in favor and 1,486,648 shares against and 116,965 shares abstained with respect to a proposal to ratify the selection of KPMG LLP to audit our consolidated financial statements for the fiscal year ending June 30, 2004. Broker non-votes were not applicable.

Item 6. Exhibits and Reports on Form 8-K

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

Exhibit Number -----	Description -----	Page Number or Incorporation By Reference -----
3.1	Certificate of Incorporation, as amended	^^^
3.2	Amendment to Certificate of Incorporation	\\
3.3	By laws, as amended	^^
4.1	Indenture dated as of June 26, 2001, between the Company and Wilmington Trust Company, as trustee, including the form of 4 1/2% Convertible Subordinated Notes due 2008 attached as Exhibit A thereto	++++
4.2	Rights Agreement dated May 17, 2002 between the Company and Continental Stock Transfer Trust Company, as rights agent	^
4.3	First Amendment to Rights Agreement, dated as of February 19, 2003	*
10.23	2001 Incentive Stock Plan, as amended	#
10.24	Amendment No. 2 to the Employment Agreement between the Company and Arthur J. Higgins dated May 23, 2001	#
10.25	Amended and Restated Employment Agreement between the Company and Ulrich Grau dated as of December 5, 2003.	#
10.26	Restricted Stock Award Agreement between the Company and Ulrich Grau dated as of December 5, 2003.	#
31.1	Rule 13a-14(a) Certifications	#
31.2	Rule 13a-14(a) Certifications	#

32.1 Section 1350 Certifications #
32.2 Section 1350 Certifications #

Filed herewith.

^^^ Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 2002 and incorporated herein by reference thereto.

\\ Previously filed as an exhibit to the Company's Current Report on Form 8-K filed on December 10, 2002 and incorporated herein by reference thereto.

^^ Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on May 22, 2002 and incorporated herein by reference thereto.

++++ Previously filed as an exhibit to the Company's Registration Statement on Form S-3 (File No. 333-67509) filed with the Commission and incorporated herein by reference thereto.

^ Previously filed as an exhibit to the Company's Form 8-A (File No. 000-12957) filed with the Commission on May 22, 2002 and incorporated herein by reference thereto.

* Previously filed as an exhibit to the Company's Form 8-A12 G/A (File No. 000-12957) filed with the Commission on February 20, 2003 and incorporated herein by reference thereto. (b) Reports on Form 8-K.

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(b) Reports on Form 8-K

On October 22, 2003, we filed with the Commission a Current Report on Form 8-K dated October 22, 2003 updating our financial outlook and withdrawing our pre-tax net income and EBITA guidance for the fiscal year ending June 30, 2004.

On November 6, 2003, we filed with the Commission a Current Report on Form 8-K dated November 6, 2003 reporting our financial results for the first quarter of fiscal year 2004 ended September 30, 2003.

On November 12, 2003, we filed with the Commission a Current Report on Form 8-K dated November 12, 2003 reporting the amendment of our 2001 Incentive Stock Plan to add the following language to Section 7.B thereof:
"Notwithstanding the foregoing, without the prior approval of Enzon's stockholders, options issued under this plan will not be repriced, replaced, or regranted through cancellation, or by lowering the option exercise price of a previously granted award."

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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: February 17, 2004

By: /s/ Arthur J. Higgins

Arthur J. Higgins
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

Date: February 17, 2004

By: /s/ Kenneth J. Zuerblis

Kenneth J. Zuerblis
Vice President, Finance,
Chief Financial Officer
(Principal Financial
and Accounting Officer) and
Corporate Secretary

ENZON, INC.
2001 INCENTIVE STOCK PLAN(1)

Section 1. Purpose

The purpose of the Plan is to promote the interests of the Company and its shareholders by aiding the Company in attracting and retaining employees, officers, consultants, independent contractors and Non-Employee Directors capable of contributing to the future success of the Company, to offer such persons incentives to put forth maximum efforts for the success of the Company's business and to afford such persons an opportunity to acquire a proprietary interest in the Company.

Section 2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

"Affiliate" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in each case as determined by the Committee.

"Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, Dividend Equivalent, Other Stock Grant or Other Stock-Based Award granted under the Plan.

"Award Agreement" shall mean any written agreement, contract or other instrument or document evidencing any Award granted under the Plan. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

"Board" shall mean the Board of Directors of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

"Committee" shall mean a committee of Directors designated by the Board to administer the Plan. The Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan by the Committee to qualify under Rule 16b-3, and each member of the Committee shall be a "Non-Employee Director" within the meaning of Rule 16b-3 and an "outside director" within the meaning of Section 162(m) of the Code. The Company expects to have the Plan administered in accordance with the requirements for the award of "qualified performance-based compensation" within the meaning of Section 162(m) of the Code.

"Company" shall mean Enzon, Inc., a Delaware corporation, and any successor corporation.

"Director" shall mean a member of the Board, including Non-Employee Directors.

"Dividend Equivalent" shall mean any right granted under Section 6(E) of the Plan.

(1) As amended on November 12, 2003 and December 2, 2003.

"Eligible Person" shall mean any employee, officer, consultant, independent contractor or Director (including any Non-Employee Director) providing services to the Company or any Affiliate whom the Committee determines to be an Eligible Person.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" shall mean, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee. Notwithstanding the foregoing, unless otherwise determined by the Committee, the Fair Market Value of a Share as of a given date shall be, if the Shares are then traded on the Nasdaq National Market, the last reported sale price of one Share as reported on the Nasdaq National Market on such date or, if the Nasdaq National Market is not open for trading on such date, on the most recent preceding date when it is open for trading.

"Family Members" shall be those persons related to a Participant as determined by the Committee.

"Incentive Stock Option" shall mean an option granted under Section 6A of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.

"Non-Employee Director" shall have the meaning ascribed in Rule 16b-3 promulgated under the Exchange Act or any successor provision.

"Non-Qualified Stock Option" shall mean an option granted under Section 6A of the Plan that is not intended to be an Incentive Stock Option.

"Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

"Other Stock Grant" shall mean any right granted under Section 6F of the Plan.

"Other Stock-Based Award" shall mean any right granted under Section 6G of the Plan.

"Participant" shall mean an Eligible Person designated to be granted an Award under the Plan.

"Performance Award" shall mean any right granted under Section 6D of the Plan.

"Person" shall mean any individual, corporation, partnership, association or trust.

"Plan" shall mean the Enzon, Inc. 2001 Incentive Stock Plan, as amended from time to time, the provisions of which are set forth herein.

"Plan Year" shall mean a consecutive 12-month period ending on December 31 of each year.

"Reload Option" shall mean any Option granted under Section 6A(5) of the Plan.

"Restricted Stock" shall mean any Shares granted under Section 6C of the Plan.

"Restricted Stock Unit" shall mean any unit granted under Section 6C of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.

"Rule 16b-3" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor rule or regulation.

"Share" or "Shares" shall mean shares of common stock, \$0.01 par value per share, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4C of the Plan.

"Stock Appreciation Right" shall mean any right granted under Section 6B of the Plan.

Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or the method by which payments, or other rights are to be calculated in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) amend the terms and conditions of any Award or Award Agreement and accelerate the exercisability of any Award or the lapse of restrictions relating to any Award; (vi) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, promissory notes, other securities, other Awards or other property, or canceled, forfeited or suspended; (vii) determine whether, to what extent and under what circumstances cash, Shares, promissory notes, other securities, other Awards, other property and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee; (viii) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan; (ix) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Participant, any holder or beneficiary of any Award and any employee of the Company or any Affiliate.

Delegation. The Committee may delegate its powers and duties under the Plan to one or more Directors or officers of the Company, or to a committee of Directors or officers, subject to such terms, conditions and limitations as the Committee may establish in its sole discretion, provided, however, that the Committee shall not delegate its powers and duties under the Plan (i) with regard to officers or directors of the Company or any Affiliate who are subject to Section 16 of the Exchange Act or (ii) in such a manner as would cause the Plan not to comply with the requirements of Section 162(m) of the Code.

Power and Authority of the Board. Notwithstanding anything to the contrary contained herein, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan.

Section 4. Shares Available for Awards

A. Shares Available. Subject to adjustment as provided in Section 4C of the Plan, the aggregate number of Shares that may be issued under all Awards under the Plan shall be 6,000,000(2); provided that, any Shares with respect to which Awards may be issued, but are not issued, under the Plan in any Plan Year shall be carried forward and shall be available to be covered by Awards issued in any subsequent Plan Year in which Awards may be issued under the Plan. Shares to be issued under the Plan may be either authorized but unissued Shares or Shares acquired in the open market or otherwise. Any Shares that are used by a Participant as full or partial payment to the Company of the purchase price relating to an Award, or in connection with the satisfaction of tax obligations relating to an Award, shall again be available for granting Awards (other than Incentive Stock Options) under the Plan. In addition, if any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an Award otherwise terminates without delivery of any Shares, then the number of Shares counted

(2) Increased from 2,000,000 to 6,000,000 pursuant resolutions adopted by the stockholders on December 2, 2003.

against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan. Notwithstanding the foregoing, the number of Shares available for granting Incentive Stock Options under the Plan shall not exceed 2,000,000 shares subject to adjustment as provided in the Plan and subject to the provisions of Section 422 or 424 of the Code or any successor

provision.

B. Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan.

C. Adjustments. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, issuance of warrants or other rights to purchase Shares or other securities of the Company to all holders of common stock pro rata whether as a dividend or otherwise or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or other property) that thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards and (iii) the purchase or exercise price with respect to any Award; provided, however, that the number of Shares covered by any Award or to which such Award relates shall always be a whole number.

D. Award Limitations Under the Plan. No Eligible Person may be granted any Award or Awards under the Plan, the value of which Award or Awards is based solely on an increase in the value of the Shares after the date of grant of such Award or Awards, for more than 1,000,000 Shares (subject to adjustment as provided for in Section 4(c) of the Plan), in the aggregate in any calendar year. The foregoing annual limitation specifically includes the grant of any Award or Awards representing "qualified performance-based compensation" within the meaning of Section 162(m) of the Code.

Section 5. Eligibility.

Any Eligible Person shall be eligible to be designated a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to full or part-time employees (which term as used herein includes, without limitation, officers and Directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

Section 6. Awards

- A. Options. The Committee is hereby authorized to grant Options to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

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1. Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee; provided, however, that such purchase price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.
2. Option Term. The term of each Option shall be fixed by the Committee, but, shall in no event exceed 10 years from the date on which such Option is granted.
3. Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, promissory

notes, other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the applicable exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made.

4. Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options which are intended to qualify as Incentive Stock Options:

(a) The aggregate Fair Market Value (determined as of the time the option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under this Plan and all other plans of the Company and its Affiliates) shall not exceed \$100,000.

(b) All Incentive Stock Options must be granted within ten years from the earlier of the date on which this Plan was adopted by the Board or the date this Plan was approved by the shareholders of the Company.

(c) Unless sooner exercised, all Incentive Stock Options shall expire and no longer be exercisable no later than 10 years after the date of grant; provided, however, that in the case of a grant of an Incentive Stock Option to a Participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its Affiliate, such Incentive Stock Option shall expire and no longer be exercisable no later than 5 years from the date of grant.

(d) The purchase price per Share for an Incentive Stock Option shall be not less than 100% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option; provided, however, that, in the case of the grant of an Incentive Stock Option to a Participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its Affiliate, the purchase price per Share purchasable under an Incentive Stock Option shall be not less than 110% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option.

(e) Any Incentive Stock Option authorized under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain all provisions required in order to qualify the Option as an Incentive Stock Option.

5. Reload Options. The Committee may grant Reload Options, separately or together with another Option, pursuant to which, subject to the terms and conditions established by the Committee, the Participant would be granted a new Option when the payment of the exercise price of a previously granted option is made by the delivery of Shares owned by the Participant pursuant to Section 6A(3) hereof or the relevant provisions of another plan of the Company, and/or when Shares are tendered or withheld as payment of the amount to be withheld under applicable income tax laws in connection with the exercise of an Option, which new Option would be an Option to purchase the number of Shares not exceeding the sum of (A) the number of Shares so provided as consideration upon the exercise of the previously granted option to which such Reload

Option relates and (B) the number of Shares, if any, tendered or withheld as payment of the amount to be withheld under applicable tax laws in connection with the exercise of the option to which such Reload Option relates pursuant to the relevant provisions of the plan or agreement relating to such option. Reload Options may be granted with respect to Options previously granted under the Plan or any other stock option plan of the Company or may be granted in connection with any Option granted under the Plan or any other stock option plan of the Company at the time of such grant. Such Reload Options shall have a per share exercise price equal to the Fair Market Value of one Share as of the date of grant of the new Option. Any Reload Option shall be subject to availability of sufficient Shares for grant under the Plan. Shares surrendered as part or all of the exercise price of the Option to which it relates that have been owned by the optionee less than six months will not be counted for purposes of determining the number of Shares that may be purchased pursuant to a Reload Option.

B. Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. A Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (ii) the grant price of the Stock Appreciation Right as specified by the Committee, which price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

C. Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant Restricted Stock and Restricted Stock Units to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

1. Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, a waiver by the Participant of the right to vote or to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate.
 2. Stock Certificates. Any Restricted Stock granted under the Plan shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock.
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3. Forfeiture. Except as otherwise determined by the Committee, upon a Participant's termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, all Shares of Restricted Stock and Restricted Stock Units held by the Participant at such time shall be forfeited and reacquired by the Company; provided, however, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.
 4. Aggregate Limit. The maximum number of shares of Restricted Stock and Restricted Stock Units that the Committee may grant under the Plan shall not exceed 50% of the total number of shares issuable pursuant to all Awards under the Plan.(3)

D. Performance Awards. The Committee is hereby authorized to grant Performance Awards to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. A Performance Award granted under the Plan (i) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock and Restricted Stock Units), other securities, other Awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan and any applicable Award Agreement, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other terms and conditions of any Performance Award shall be determined by the Committee.

E. Dividend Equivalents. The Committee is hereby authorized to grant Dividend Equivalents to Eligible Persons under which the Participant shall be entitled to receive payments (in cash, Shares, other securities, other Awards or other property as determined in the discretion of the Committee) equivalent to the amount of cash dividends paid by the Company to holders of Shares with respect to a number of Shares determined by the Committee. Subject to the terms of the Plan and any applicable Award Agreement, such Dividend Equivalents may have such terms and conditions as the Committee shall determine.

F. Other Stock Grants. The Committee is hereby authorized, subject to the terms of the Plan and any applicable Award Agreements, to grant to Eligible Persons Shares without restrictions thereon as are deemed by the Committee to be consistent with the purpose of the Plan.

G. Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Persons, subject to the terms of the Plan and any applicable Award Agreements, such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. Shares or other securities delivered pursuant to a purchase right granted under this Section 6(G) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including, without limitation, cash, Shares, promissory notes, other securities, other Awards or other property or any combination thereof), as the Committee shall determine, the value of which consideration, as established by the Committee, shall not be less than 100% of the Fair Market Value of such Shares or other securities as of the date such purchase right is granted.

H. General

1. Consideration for Awards. Awards shall be granted for no cash consideration or for any cash or other consideration as may be determined by the Committee or required by applicable law.

- (3) Section 6.C.4 inserted pursuant resolutions adopted by the stockholders on December 2, 2003.

2. Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution, for any other Award or any award granted under any plan of the Company or any Affiliate other than the Plan. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.
3. Forms of Payment under Awards. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, promissory notes, other securities, other Awards or other property or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in

accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents with respect to installment or deferred payments.

4. Limits on Transfer of Awards. No Award (other than Other Stock Grants) and no right under any such Award shall be transferable by a Participant otherwise than by will or by the laws of descent and distribution and the Company shall not be required to recognize any attempted assignment of such rights by any Participant; provided, however, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, (a) designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any property distributable with respect to any Award upon the death of the Participant and (b) transfer Awards, except in the case of an Incentive Stock Option, to Family Members pursuant to terms determined by the Committee. Except as otherwise provided in this Plan or in any applicable Award Agreement or amendment thereto (other than an Award Agreement relating to an Incentive Stock Option), pursuant to terms determined by the Committee, each Award or right under any Award shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. Except as otherwise provided in this Plan or in any applicable Award Agreement or amendment thereto (other than an Award Agreement relating to an Incentive Stock Option), no Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.
5. Term of Awards. The term of each Award shall be for such period as may be determined by the Committee; provided, however, that in the case of an Incentive Stock Option such Option shall not be exercisable after the expiration of 10 years from the date such Option is granted.
6. Restrictions; Securities Exchange Listing. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may cause appropriate entries to be made or legends to be placed on the certificates for such Shares or other securities to reflect such restrictions. If the Shares or other securities of the Company are traded on a securities exchange, the Company shall not be required to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been admitted for trading on such securities exchange.

Section 7. Amendment and Termination; Adjustments

A. Amendments to the Plan. The Board may amend, alter, suspend, discontinue or terminate the Plan at any time; provided, however, that, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the shareholders of the Company, no such amendment, alteration, suspension, discontinuation or termination shall be made that, absent such approval would violate the rules or regulations of the Nasdaq National Market or any other securities exchange that is applicable to the Company.

B. Amendments to Awards. The Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. Except as otherwise provided herein or in an Award Agreement, the Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, if such action would adversely affect the rights of the holder of such Award, without the consent of the Participant or holder or beneficiary thereof. Notwithstanding the foregoing, without the prior approval of Enzon's stockholders, options issued under this Plan will not be repriced, replaced, or regranted through cancellation, or by

lowering the option exercise price of a previously granted Award.(4)

C. Correction of Defects, Omissions and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

Section 8. Income Tax Withholding

In order to comply with all applicable national, federal, state or local income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable national, federal, state or local payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of the national, federal, state and local taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (i) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes or (ii) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

Section 9. General Provisions

A. No Rights to Awards. No Eligible Person, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons, Participants or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

B. Plan Provisions Control. In the event that any provision of an Award Agreement conflicts with or is inconsistent in any respect with the terms of the Plan as set forth herein or subsequently amended, the terms of the Plan shall control.

C. No Rights of Shareholders. Except with respect to Shares of Restricted Stock as to which the Participant has been granted the right to vote, neither a Participant nor the Participant's legal representative shall be, or have any of the rights and privileges of, a stockholder of the Company with respect to any Shares issuable to such Participant upon the exercise or payment of any Award, in whole or in part, unless and until such Shares have been issued in the name of such Participant or such Participant's legal representative without restrictions thereto.

(4) Last sentence of Section 7.B added pursuant to resolutions adopted by the Compensation Committee on November 12, 2003.

D. No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

E. No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate such employment at any time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement. Nothing in this Plan shall confer on any person any legal or equitable right against the Company or any Affiliate, directly or indirectly, or give rise to any cause of action at law or in equity against the Company or an Affiliate. The Awards granted hereunder shall not form any part of the wages or salary of any

Eligible Person for purposes of severance pay or termination indemnities, irrespective of the reason for termination of employment. Under no circumstances shall any person ceasing to be an employee of the Company or any Affiliate be entitled to any compensation for any loss of any right or benefit under the Plan which such employee might otherwise have enjoyed but for termination of employment, whether such compensation is claimed by way of damages for wrongful or unfair dismissal, breach of contract or otherwise. By participating in the Plan, each Participant shall be deemed to have accepted all the conditions of the Plan and the terms and conditions of any rules and regulations adopted by the Committee and shall be fully bound thereby.

F. Governing Law. The validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award, shall be determined in accordance with the internal laws, and not the law of conflicts, of the State of Delaware.

G. Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

H. No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

I. Other Benefits. No compensation or benefit awarded to or realized by any Participant under the Plan shall be included for the purpose of computing such Participant's compensation under any compensation-based retirement, disability, or similar plan of the Company unless required by law or otherwise provided by such other plan.

J. No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

K. Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

Section 10. Effective Date of the Plan.

The Plan shall be effective on December 4, 2001 subject to approval by the shareholders of the Company

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on such date.

Section 11. Term of the Plan.

No Award shall be granted under the Plan ten years after the effective date or any earlier date of discontinuation or termination established pursuant to Section 7A of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond such date, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board to amend the Plan, shall extend beyond the termination of the Plan.

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AMENDMENT NO. 2
TO EMPLOYMENT AGREEMENT

Enzon Pharmaceuticals, Inc., f/k/a Enzon, Inc. (the "Company") and Arthur J. Higgins (the "Executive") agree to amend the Employment Agreement between them dated as of May 9, 2001, and amended as of May 23, 2001 (the "Agreement"), as follows:

1. Section 9(d)(i) of the Agreement is hereby amended to read in its entirety as follows:

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

2. Section 9(d)(iii) of the Agreement is hereby amended to read in its entirety as follows:

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

3. Section 10(g) of the Agreement is hereby amended as follows:

- (a) Sections 10(g)(iv) and 10(g)(v) are hereby deleted.
- (b) Section 10(g)(vi) is hereby renumbered as Section 10(g)(iv).
- (c) The first sentence of the last paragraph of Section 10(g) is amended to read in its entirety as follows:

"In the event the Executive becomes entitled to payments under this Section 10(g) and/or the accelerated vesting of options under Section 11 hereof, the Company shall cause its independent auditors promptly to review, at the Company's expense, the applicability of Section 4999 of the Internal Revenue Code (the "Code") to such payments and/or vesting."

4. The Agreement is hereby amended by adding a new Section 11 thereto, which shall read as follows:

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

- (a) all shares of restricted stock and restricted stock units awarded to Executive shall fully vest immediately prior to the Change of Control; and
- (b) all options to acquire shares of the Company held by the Executive shall become

fully vested immediately prior to the effective date of the Change of Control. Executive shall have a reasonable opportunity to exercise all or any portion of such options prior to the effective date of the Change of Control, and any options not exercised prior to the effective date of the Change of Control shall terminate as of the effective date of the Change of Control and

will be of no further force or effect. To the extent that this Section 11 is inconsistent with the provisions of the relevant plan and granting instruments under which such options were issued, the Company and Executive agree that such inconsistent provisions are hereby superceded and the provisions of this Section 11 shall govern.

5. The Agreement is hereby further amended by renumbering original Section 11 as Section 12. All references in the Agreement originally to Section 11 shall be changed to be references to Section 12.
6. Except as amended hereby, the Agreement shall remain in full force and effect. This Amendment may be executed in counterparts and each of such counterparts shall for all purposes be deemed to be an original, and such counterparts shall together constitute one and the same instrument. The parties hereto have executed this Amendment as of December 3, 2003.

ENZON PHARMACEUTICALS, INC.

By: /s/ Kenneth J. Zuerblis

Vice President, Finance and Chief Financial Officer

By: /s/ Arthur J. Higgins

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "Agreement") dated as of December 5, 2003 (the "Effective Date"), between Enzon Pharmaceuticals, Inc. (the "Company"), a Delaware corporation with offices in Bridgewater, New Jersey, and Ulrich Grau, Ph.D. (the "Executive"), a resident of New York, New York.

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

WHEREAS, Executive has extensive experience as an executive of pharmaceutical companies, and has been employed by the Company since March, 2002 as it's Chief Scientific Officer pursuant to an employment agreement dated as of March 15, 2002 ("2002 Employment Agreement") (March 15, 2002 is referred to herein as the "Commencement Date") and an employment agreement dated as of December 5, 2003 ("2003 Employment Agreement");

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

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

1. Employment; Effective Date of Agreement. The Company agrees to continue to employ the Executive, and the Executive accepts such continued employment and agrees to perform services for the Company, for the period and upon the other terms and conditions set forth in this Agreement. The provisions of this Agreement are effective as of the Effective Date. This Agreement supercedes any prior understandings, agreements, or representations, written or oral, relating to the subject matter hereof, including, but not limited to, the 2002 Employment Agreement and the 2003 Employment Agreement, which are hereby terminated.

2. Term. Unless terminated at an earlier date in accordance with Section 9 hereof, the term of the Executive's employment pursuant to this Agreement shall be from the Effective Date and shall extend through March 31, 2005, subject to automatic renewal for an additional twenty-four (24) months, unless either party hereto receives written notice from the other party no later than January 31, 2005 (a "notice of non-renewal") that such other party does not wish for the term hereof to continue beyond March 31, 2005, in which event the term hereof shall end on March 31, 2005 (the period during which the Executive is employed by the Company pursuant to this Section 2 being the "Term").

3. Position and Duties.

(a) Service with Company. During the term of the Executive's employment, the Executive agrees to perform such employment duties for the Company in an executive and managerial capacity commensurate with the position of Executive Vice President and Chief Scientific Officer of the Company. As Executive Vice President and Chief Scientific Officer, Executive shall have the authority and duty generally to supervise and direct the research and development activities of the Company, subject to the control and direction of the Chief Executive Officer of the Company, the Board of Directors of the Company (the "Board"), or any duly authorized Committee of the Board

(b) Performance of Duties. The Executive agrees to serve the Company faithfully and to the best of his ability and to devote his full time, attention and efforts to the business and affairs of the Company during his employment by the Company. Executive will not render or perform services for any other corporation, firm, entity

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

- (c) Executive Representations and Warranties. Executive represents and warrants to the Company that his entering into and performing this Agreement will not constitute a breach of any employment, consulting, non-competition or other agreement to which he is a party or any other obligation of Executive. Executive represents and warrants to the Company that he has not been debarred under the Generic Drug Enforcement Act of 1992 (Sections 306-308 of the Federal Food, Drug and Cosmetic Act) nor has Executive received notice of action or threat of action of debarment. Executive shall comply with the Company's Substance Abuse Policy during the term of this Agreement.

Compensation.

- (a) Base Salary. As compensation in full for all services to be rendered by the Executive under this Agreement, the Company shall pay to the Executive, less applicable deductions and withholdings, a ratable base salary (the "Base Salary") of Four Hundred Twenty-Five Thousand Dollars (\$425,000) per year, which Base Salary shall be paid in accordance with the Company's normal payroll procedures and policies for its senior management. The compensation payable to Executive during each year after the first year of the Executive's employment shall be established by the Board or the Compensation Committee thereof following an annual performance review by the Board, but in no event shall the Base Salary for any successive year of the Term be less than the Base Salary in effect during the previous year of the Term.
- (b) Annual Bonus. Executive shall be entitled to participate in the Company's bonus plan for management and any successor bonus plan covering management with respect to each fiscal year of the Company ending during the Term (the "Bonus Plan"). Under the Bonus Plan, the Executive shall be eligible to receive a performance-based cash bonus for each fiscal year ending during the Term in an amount, and based on individual and/or corporate objectives, targets and factors (and evaluation as to the extent of achievement thereof), to be established and determined by the Board in its discretion following consultation between the Chief Executive Officer and Executive prior to, or within sixty (60) days after the commencement of, each fiscal year. Under the Bonus Plan for the Executive, (i) the minimum cash bonus shall be zero (0), (ii) the target cash bonus shall equal 50% of the Base Salary (the "Target Bonus"), and (iii) the maximum cash bonus shall equal 82.5% of Base Salary.
- (c) Participation in Benefit Plans. While he is employed by the Company, Executive shall also be eligible to participate in any employee benefit plans or programs which may be offered by the Company to the extent that Executive meets the requirements for each individual plan and in all other plans in which Company executives participate. Notwithstanding the foregoing and subject to Section 10(h), the Company and Executive acknowledge and agree that, although the Company intends to adopt a severance plan or plans for senior executives in the near future, it is not intended that Executive participate in such severance plan(s), it being understood that severance benefits payable to Executive will be governed solely by this Agreement. Further, it is understood that the Company may enter into individual contractual arrangements with other executives for benefits, and that nothing herein shall require the Company to provide the same benefits or level of benefits to Employee. The Company provides no assurance as to the adoption or continuance of any particular employee benefit plan or program, and Executive's participation in any such plan or program shall be subject to the provisions, rules and regulations applicable thereto.
- (d) Expenses. The Company will pay or reimburse Executive for all reasonable and necessary out-of-pocket expenses incurred by him in the performance of his duties under this Agreement, subject to the Company's

- (e) Stock Options Granted in 2002 at Commencement of Employment with the Company. Pursuant to Section 4(e) of the 2002 Employment Agreement, Executive was granted options to purchase an aggregate of 150,000 shares of Common Stock of the Company, subject to the terms of the Company's Non-Qualified Stock Option Plan, as amended (the "Option Plan"), and the Notices of Option Grant attached to the 2002 Employment Agreement as Exhibits A-1 and A-2 (copies of which are also attached hereto as Exhibits A-1 and A-2). Such options are referred to herein as "Initial Options". Except as otherwise provided herein, the Option Plan shall govern the terms of the Initial Options. Executive acknowledges that he has received and reviewed a copy of the Option Plan. The Initial Options vest and become exercisable (a) as to 100,000 of such Initial Options, at the rate of 20,000 shares per year, commencing on the first anniversary of the Commencement Date, provided that any unvested portion of such 100,000 Initial Options shall immediately vest and become exercisable when the last reported sale price of a share of the Common Stock is at least one hundred dollars (\$100.00) as reported on the Nasdaq Stock Market for at least twenty (20) consecutive trading days, and (b) as to 50,000 of such Initial Options, on the fifth anniversary of the Commencement Date as defined in the 2002 Employment Agreement, provided such 50,000 Initial Options shall immediately vest and become exercisable on the date on which the audited financial statements of the Company for a fiscal year are issued, which report net annual revenues of not less than Fifty Million Dollars (\$50,000,000) from the commercial sale of product(s) used for organ rejection or autoimmune diseases ("Organ Rejection and Autoimmune Products"), provided in the case of each of clause (a) and (b) of this paragraph that, except as provided in Section 10 hereof, Executive is then employed by the Company on a full-time basis as its Executive Vice President and Chief Scientific Officer. For purposes of this Section "net annual revenues" shall mean the Company's revenues for a fiscal year of the Company derived from "net sales" of Organ Rejection and Autoimmune Products by the Company as well as royalties paid to the Company during such fiscal year by any licensee(s) from the sale of Organ Rejection and Autoimmune Products. "Net sales" shall mean the proceeds actually received by the Company from its sale of Organ Rejection and Autoimmune Products to independent, third party customers in bona fide, arm's-length transactions less (1) actual allowances for returns, damages or otherwise, and discounts, rebates and allowances to customers, including cash, credit or free goods allowances; and (2) freight or other transportation charges, including insurance, actually allowed or paid on account of the delivery of Organ Rejection and Autoimmune Products to purchasers thereof; and (3) taxes (except income taxes) or duties paid, absorbed or otherwise imposed on the sale, including, without limitation, value added taxes. The price of the Common Stock that triggers accelerated vesting of such options shall be adjusted for stock splits, stock dividends and other similar recapitalization events. Except as otherwise provided in Section 10 hereof, once such options become exercisable they shall remain exercisable until 5:00 p.m. New York City time on the tenth (10th) anniversary of the Commencement Date.
- (f) Issuance of Additional Options. At the discretion of the Board of Directors (or its applicable committee), Executive shall be entitled to receive further grants of stock options, subject to the terms of the Option Plan or the Company's 2001 Incentive Stock Plan ("2001 Incentive Stock Plan") or such other equity compensation plans that may be adopted by the Company from time to time. Nothing contained herein shall be deemed to guarantee Executive any additional grants of options, restricted stock, other equity awards or securities of the Company.
- (g) Restricted Stock. Upon execution of this Agreement, Executive shall be granted Forty Thousand (40,000) shares of restricted stock, subject to the terms of the Restricted Stock Award Agreement attached hereto as Exhibit B and the 2001 Incentive Stock Plan. Executive acknowledges that he has received and reviewed a copy of the 2001 Incentive Stock Plan. At the discretion of the Board of Directors (or its applicable committee), Executive shall be entitled to receive additional grants of restricted stock, subject to the terms of the 2001 Incentive Stock Plan or such other equity

compensation plans that may be adopted by the Company from time to time. Nothing contained herein shall be deemed to guarantee Executive any additional grants of options, restricted stock, other equity awards or securities of the Company.

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

5. Noncompetition and Confidentiality Covenant.

- (a) Noncompetition. The "Noncompete Period" shall be:

- (i) the Term of this Agreement, and
- (ii) (A) with respect to any activity covered by clause (y) or (z) below, the one (1) year period immediately following termination of Executive's employment with the Company and (B) with respect to any activity covered by clause (x) below, the two (2) year period immediately following termination of Executive's employment with the Company (whether any such termination covered by clause (A) or (B) is with or without Cause or with or without Good Reason, or whether such termination is occasioned by the Employee or the Company, or whether such termination occurs as a result of the expiration or nonrenewal of the Term).

In consideration for the compensation payable to Executive pursuant to this Agreement, including without limitation the restricted stock granted to Executive hereunder, during the Noncompete Period, Executive will not directly, or indirectly, whether as an officer, director, stockholder, partner, proprietor, associate, employee, consultant, representative or otherwise, become, or be interested in or associated with any other person, corporation, firm, partnership or entity, engaged to a significant degree in (x) developing, manufacturing, marketing or selling enzymes, protein-based biopharmaceuticals or other pharmaceuticals that are modified using polyethylene glycol ("PEG"), (y) developing, manufacturing, marketing or selling single-chain antigen-binding proteins or (z) any activity which is in competition with or resembles any proprietary technology, process, or product in which the Company is engaged or with Executive's participation has been actively planning to be engaged from time to time during the term of this Agreement. For purposes of the preceding sentence, to determine whether any entity is engaged in such activities to a "significant degree", comparison will be made to the Company's operations at that time. In other words, an entity will be deemed to be engaged in an activity to a significant degree if the number of employees and/or amount of funds devoted by such entity to such activity would be material to the Company's operations at that time. The provisions contained in this Section 5(a) shall survive the termination of Executive's employment pursuant to Section 9 hereof or otherwise. In the event Executive breaches any of the covenants set forth in this Section 5(a), the running of the period of restriction set forth herein shall be tolled for the period during which the breach exists and recommence upon Executive's compliance with the terms of this Section 5(a).

- (b) Confidentiality.

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

party in violation of an existing confidentiality

agreement with the Company or which is required to be disclosed by court order or applicable law.

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

- (c) Proprietary Information. Executive is hereby prohibited from ever using any of the Company's proprietary information or trade secrets to conduct any business, except for the Company's business while Executive is employed by the Company.
- (d) Survival of Covenants. The provisions contained in Section 5(b) and (c) shall survive the termination of Executive's employment pursuant to Section 9 hereof or otherwise.
- (e) Nonsolicitation of Employees. During the Noncompete Period (utilizing the period of time reflected in Sections 5(a)(i) and 5(a)(ii)(B) hereof), Executive shall not, directly or indirectly, personally or through others, encourage to leave employment with the Company, employ or solicit for employment, or advise or recommend to any other person, firm, business, or entity that they employ or solicit for employment, any employee of the Company or of any parent, subsidiary, or affiliate of the Company. The provisions of this Section 5(e) shall survive the termination of Executive's employment.

6. Ventures. If, during the term of his employment, the Executive is engaged in or associated with the planning or implementing of any project, program, venture or relationship involving the Company and a third party or parties, all rights in such project, program, venture or relationship shall belong to the Company. Except as approved by the Board, the Executive shall not be entitled to any interest in such project, program, venture or relationship or to any commission, finder's fee or other compensation in connection therewith other than the compensation to be paid to the Executive as provided in this Agreement and the consideration payable by the Company to Vivo Healthcare under a purchase agreement between the Company and Vivo Healthcare relating to the Company's acquisition of an immunology product under development for organ rejection and autoimmune diseases, from Vivo Healthcare.

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

- (a) Geographic Extent of Executive's Obligations Concerning Section 5. Given the nature of the Company's business, the restrictions contained in Section 5 cannot be limited to any particular geographic region. Therefore, the obligations of Executive under Section 5 shall apply to any geographic area in which the Company (i) has engaged in business during the Term through its investment or trading activities or otherwise, or (ii) has otherwise

established its goodwill, business reputation or any customer or vendor relations.

- (b) Limitation of Covenant. Ownership by Executive, as a passive investment, of less than one percent of the outstanding shares of capital stock of any corporation listed on a national securities exchange or publicly

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traded on Nasdaq shall not constitute a breach of Section 5.

- (c) Blue Pencil Doctrine. If the duration or geographical extent of, or business activities covered by, Section 5 are in excess of what is valid and enforceable under applicable law, then such provision shall be construed to cover only that duration, geographical extent or activities that are valid and enforceable. Executive acknowledges the uncertainty of the law in this respect and expressly stipulates that this Agreement be given the construction which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable law.
- (d) Disclosure. Executive shall disclose to any prospective employer, prior to accepting or continuing employment, the existence of Section 5 of this Agreement and shall provide such prospective employer with a copy of Section 5 of this Agreement. The obligation imposed by this subsection 7(d) shall terminate two years after the end of the Term.

8. Intellectual Property and Related Matters.

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

(b) Limitation on Section 8(a). The provisions of Section 8(a) shall not apply to any Development, for which no equipment, supplies, facility or trade secret information of the Company was used and which was developed entirely on Executive's own time, unless (a) the invention relates (i) directly to the business of the Company, or (ii) to the Company's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by Executive for the Company.

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

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

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

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

(g) Survival. The obligations imposed by this Section 8 on Executive shall survive termination of this Agreement pursuant to Section 9 or otherwise.

9. Termination of Employment.

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

- (i) Executive dies,
- (ii) Executive becomes disabled (as defined below), so that he cannot perform the essential functions of his position with or without reasonable accommodation,
- (iii) The Board elects to terminate Executive's employment for "Cause" and notifies Executive in writing of such election, or
- (iv) The Board elects to terminate Executive's employment without "Cause" and notifies Executive in writing of such election.

If Executive's employment is terminated pursuant to clause (i), (ii) or (iii) of this Section 9(a), such termination shall be effective immediately. If Executive's employment is terminated pursuant to subsection (iv) of this Section 9(a), such termination shall be effective 30 days after delivery of the notice of termination; provided, however, that the Company may elect to make such termination effective immediately, in which case Executive's employment shall terminate immediately upon delivery of the notice of termination, but the Company shall continue to pay him his salary during such 30-day period and the last day of such 30-day period shall be deemed to be the date of termination of his employment for purposes of any pro rata calculations and determination of post-termination periods under this agreement.

(b) "Cause" Defined. "Cause" shall mean (i) the willful engaging by Executive in illegal conduct or gross misconduct which is demonstrably and materially injurious to the Company, (ii) Executive's refusal to attempt to perform his obligations to the Company hereunder (other than any such failure resulting from illness or incapacity), which refusal is demonstrably and materially injurious to the Company, (iii) Executive's breach of his obligations under this Agreement, which breach is demonstrably and materially injurious to the Company, or (iv) the failure of Executive to maintain his immigration status with the U.S. Immigration and Naturalization Service or the Executive's failure to maintain valid employment authorization to provide services to the Company. For purposes of this Section 9(b), no act or failure to act on Executive's part shall be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that Executive's action of omission was in the best interest of the Company. Notwithstanding the foregoing, with respect to the definitions of Cause set forth in

clauses (i), (ii) and (iii) above, Executive shall not be deemed to have been terminated for Cause unless and until the Company delivers to Executive a copy of a resolution duly adopted by the affirmative vote of not less than

three-quarters of the entire membership of the Board (not including Executive if he shall then serve as a director) at a meeting of the Board called and held for such purpose (after reasonable notice to Executive and an opportunity for Executive, together with counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, Executive engaged in conduct set forth above and specifying the particulars thereof in reasonable detail.

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

(i) Any material adverse change in Executive's status or position as an officer of the Company, including, without limitation, any material adverse change in Executive's status or position as a result of a diminution in Executive's duties, responsibilities or authority as of the Effective Date (or any status or position to which Executive may be promoted after the Effective Date) or the assignment to Executive of any duties or responsibilities which are inconsistent with Executive's status or position, or any removal of Executive from or any failure to reappoint or reelect Executive to such position; provided, however, that none of the foregoing shall be deemed to have occurred as long as Executive remains the Company's most senior research and development executive; or

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

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

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

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

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

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

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

sponsored or maintained by the Company or any corporation controlled by the Company, or (C) any public offering or private placement by the Company of its voting securities; or

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

(iv) a merger of the Company following which either the Company or a corporation that, prior to the merger, was a subsidiary of the Company, shall be the surviving entity and a majority of the Outstanding Company Voting Securities is owned by a Person or Persons who were not "beneficial owners," as defined in Rule 13d-3 of the Exchange Act, of a majority of the Outstanding Company Voting Securities immediately prior to such merger; or

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

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

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

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

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

10. Effect of Termination.

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

In the event the Company terminates Executive's employment as the Company's Executive Vice President and Chief Scientific Officer without Cause pursuant to Section 9(a)(iv) hereof, Executive terminates his employment for Good Reason pursuant to Section 9(c) hereof, or the Company provides a notice of non-renewal of the Term under Section 2 hereof,

(i) Executive shall receive cash payments equal to his annual Base Salary at the time of such termination;

(ii) Executive shall receive a cash payment equal to the Target Bonus (based on the Base Salary at the time of such termination) which would have been payable for the fiscal year which commences immediately following the date of termination;

(iii) if Executive, and any spouse and/or dependents ("Family Members") has medical and dental coverage on the date of such termination under a group health plan sponsored by the Company, the Company will reimburse Executive for the total applicable premium cost for medical and dental coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986, 29 U.S.C. Sections 1161-1168; 26 U.S.C. Section 4980B(f), as amended, and all applicable regulations (referred to collectively as "COBRA")

for Executive and his Family Members for a period of up to eighteen (18) months commencing on the date of such termination; provided, that the Company shall have no obligation to reimburse Executive for the premium cost of COBRA coverage as of the date Executive and his Family Members

become eligible to obtain comparable benefits from a subsequent employer;

(iv) Executive shall receive cash payments equal to any unpaid Base Salary through the date of termination;

(v) Executive shall receive a cash payment equal to a pro rata amount of the Target Bonus (based on the Base Salary at the time of such termination) for the fiscal year during which termination occurs;

(vi) all options to acquire shares in the Company held by the Executive which have not vested at the time of such termination of employment, will terminate as of the date of such termination of employment and will be of no further force or effect; provided however that (A) with respect to the Initial Options to purchase 100,000 shares which become exercisable on a five-year vesting schedule, a pro rated portion (based on the portion of the year between anniversaries of the Commencement Date during which Executive is employed by the Company) of the tranche of unvested options which were scheduled to vest on the anniversary of such Commencement Date immediately following the date of such termination shall vest, (B) with respect to the Initial Options to purchase 50,000 shares which become exercisable on the fifth anniversary of the Commencement Date, subject to acceleration upon the achievement of an annual net revenue milestone, a pro rated portion (based on number of full months elapsed following the Commencement Date to the date of termination divided by 60) shall vest as of the date of termination of employment, (C) with respect to all other option awards, a pro rated portion (based on that portion of the year between the prior vesting date or the award date and the next vesting date during which the Executive is employed by the Company) of those options scheduled to vest on the next vesting date shall vest; and (D) all of the options which are exercisable at the date of termination of employment shall remain exercisable after such termination in accordance with the terms of the relevant plans and granting instruments.

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

(viii) All shares of restricted stock awarded to Executive under Section 4(g) shall fully vest.

(b) Termination for Cause. In the event the Company terminates Executive's employment as the Company's Executive Vice President and Chief Scientific Officer for Cause pursuant to Section 9(a) (iii) hereof, (i) Executive shall be entitled to receive payment of his Base Salary through the date of termination, (ii) Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to Executive's termination, (iii) all options to acquire shares in the Company held by the Executive which have vested prior to the date of Executive's termination of employment shall remain exercisable after such termination in accordance with the terms of the relevant plans and granting instruments, (iv) all options granted to Executive that have not vested prior to the date of Executive's termination of employment will terminate as of the date of such termination and will be of no further force and effect; and (v) all shares of restricted stock awarded to Executive that have not vested prior to the date of Executive's termination of employment shall be forfeited.

(c) Death. In the event Executive's employment with the Company is terminated as a result of Executive's death, (i) Executive's estate or Executive's duly designated beneficiaries shall be entitled to payment of his Base Salary through the date of Executive's death; (ii) Executive's estate or Executive's duly designated beneficiaries shall be entitled to a pro rata amount of the Target Bonus (based on the Base Salary at the time of death) for the fiscal year in which he dies; (iii) all options to acquire shares in the Company held by the Executive which have not vested at the time of Executive's death will continue to vest in accordance with their terms and shall remain exercisable (together with any options which had previously vested), until the earlier of (A) one year from the date of death and (B) the end of the remaining exercise term of such options; (iv) all shares of restricted stock

awarded to Executive shall fully vest; and (v) Executive's estate or Executive's

duly designated beneficiaries shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to Executive's death. If Executive's Family Members have medical and dental coverage on the date of such termination under a group health plan sponsored by the Company, the Company will reimburse such Family Member for the total applicable premium cost for medical and dental coverage under COBRA for such Family Members for a period of up to twenty-four (24) months commencing on the date of such termination; provided the Company shall have no obligation to reimburse such Family Members for the premium cost of COBRA coverage as of the date they become eligible to obtain comparable benefits from another employer.

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

(e) Voluntary Resignation or upon Executive's Notice of Non-Renewal. In the event Executive voluntarily terminates his employment with the Company, or the Executive's employment terminates following Executive having provided the Company with a notice of non-renewal of the Term under Section 2 hereof, (i) Executive shall be entitled to receive payment of his Base Salary through the date of termination, (ii) Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to Executive's termination, (iii) all options to acquire shares of the Company held by the Executive which have vested prior to the date of such termination shall remain exercisable after such termination in accordance with the terms of the relevant plans and granting instruments, (iv) all options to acquire shares of the Company held by the Executive which have not vested prior to the date of such termination will terminate as of the date of such termination and will be of no further force and effect, and (v) all shares of restricted stock awarded to Executive that have not vested prior to the date of Executive's termination of employment shall be forfeited.

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

- (i) Executive shall receive cash payments equal to any unpaid Base Salary through the date of termination, plus an amount equal to the pro rated portion of the Target Bonus (based on the Base Salary at the time of such termination) which would have been payable to Executive for the fiscal year during which such termination occurs;
- (ii) Executive shall receive cash payments equal to two (2) times the sum of the following:

(1) his Base Salary at the time of such termination and (2) the Target Bonus (based on the Base Salary at the time of such termination) for the fiscal year in which such termination occurs;

- (iii) if Executive and his Family Members have medical and dental coverage on the date of such termination under a group health plan sponsored by the Company, the Company will reimburse Executive for the total applicable premium cost for medical and dental coverage under COBRA for Executive and his Family Members for a period of up to eighteen (18) months commencing on the date of such termination and will continue to pay Executive an amount equal to such COBRA reimbursement during the eighteen (18) month period following such initial eighteen (18) month period after such termination; provided, that the Company shall have no obligation to reimburse Executive for the premium cost of COBRA coverage as of the date Executive and his Family Members become eligible to obtain comparable benefits from a subsequent employer;
- (iv) Executive shall continue to be entitled to any deferred compensation and other unpaid amounts and benefits earned and vested prior to Executive's termination.

(g) All payments made to Executive under any of the subsections of this Section 10 which are based upon Executive's salary or bonus shall be made at times and in a manner which is in accordance with the Company's standard payroll practices for senior management; provided that any such payments which are still owed to Executive under Section 10(f) hereof as of the second anniversary of the termination of Executive's employment under Section 10(f) hereof shall be paid to Executive within thirty (30) days after such second anniversary date.

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

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

(j) Notwithstanding anything stated in this Agreement to the contrary, if the amounts that are payable and the benefits that are provided to Executive under this Agreement either alone or together with other payments that Executive has a right to receive from the Company or any of its affiliates (the "Combined Amounts"), would constitute a "parachute payment" (as defined in Code Section 280G or any successor provision), the Combined Amounts shall be reduced, as necessary, to the largest amount as will result in no portion of the Combined Amounts being either not deductible as a result of Code Section 280G (or any successor provision) or subject to the excise tax imposed by Code Section 4999 (or any successor provision). The determination of any reduction in said amounts and benefits pursuant to the foregoing provision shall be made by the Company in good faith, and such determination shall be conclusive and binding on Executive; provided, however, that notwithstanding the foregoing,

the Company shall notify Executive, as soon as possible after the Termination Date (but in no event later than twenty (20) days prior to the payment date of the sums due under this Section 10) of the value attributed by the Company to the continuation of health benefits (or payments related thereto) and the value attributed by the Company to the acceleration of the vesting of options and restricted stock and/or restricted stock units, and Executive shall have the option to decline such benefits or the acceleration of the vesting of such options and restricted stock and/or restricted stock units in a notice to the Company given no later than ten (10) days prior to such payment date. If the Combined Amounts (after having accounted for the reduction by the Company described in the immediately preceding sentence) shall be disallowed in whole or part as a deductible expense in determining the income tax liability of the Company, Executive shall reimburse the company to the full extent of such disallowance. The Company's Board of Directors shall enforce this obligation to reimburse the Company immediately following such disallowance. The amounts provided to Executive under this Agreement in connection with a Change in Control, if any, shall be deemed allocated to such amounts and/or benefits to be paid and/or provided as the Company's Board of Directors in its sole discretion shall determine.

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

- (a) all shares of restricted stock and restricted stock units awarded to Executive shall fully vest immediately prior to the Change of Control; and
- (b) all options to acquire shares of the Company held by the Executive shall become fully vested immediately prior to the effective date of the Change of Control. Executive shall have a reasonable opportunity to exercise all or any portion of such options prior to the effective date of the Change of Control, and any options not exercised prior to the effective date of the Change of Control shall terminate as of the effective date of the Change of Control and will be of no further force or effect. To the extent that this Section 11 is inconsistent with the provisions of the relevant plan and granting instruments under which such options were issued, the Company and Executive agree that such inconsistent provisions are hereby superceded and the provisions of this Section 11 shall govern.

12. Miscellaneous.

- (a) Entire Agreement. This Agreement (including the exhibits, schedules and other documents referred to herein) contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes any prior understandings, agreements or representations, written or oral, relating to the subject matter hereof.
- (b) Counterparts. This Agreement may be executed in separate counterparts, each of which will be an original and all of which taken together shall constitute one and the same agreement, and any party hereto may execute this Agreement by signing any such counterpart.
- (c) Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law but if any provision of this Agreement is held to be invalid, illegal or unenforceable under any applicable law or rule, the validity, legality and enforceability of the other provision of this Agreement will not be affected or impaired thereby.

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

subsection (e), successors and assigns. The Company will require its successors to expressly assume its obligations under this Agreement.

- (e) Assignability. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable (including by operation of law) by either party without the prior written consent of the other party to this Agreement, except that the Company may, without the consent of the Executive, assign its rights and obligations under this Agreement to any corporation, firm or other business entity with or into which the Company may merge or consolidate, or to which the Company may sell or transfer all or substantially all of its assets, or of which 50% or more of the equity investment and of the voting control is owned, directly or indirectly, by, or is under common ownership with, the Company. After any such assignment by the Company, and provided that such assignment arises by operation of law or involves an express written assumption by the assignee, the Company shall be immediately released and discharged from all further liability hereunder and such assignee shall thereafter be deemed to be the Company for the purposes of all provisions of this Agreement.
- (f) Modification, Amendment, Waiver or Termination. No provision of this Agreement may be modified, amended, waived or terminated except by an instrument in writing signed by the parties to this Agreement. No course of dealing between the parties will modify, amend, waive or terminate any provision of this Agreement or any rights or obligations of any party under or by reason of this Agreement. No delay on the part of the Company in exercising any right hereunder shall operate as a waiver of such right. No waiver, express or implied, by the Company of any right or any breach by Executive shall constitute a waiver of any other right or breach by Executive.
- (g) Notices. All notices, consents, requests, instructions, approvals or other communications provided for herein shall be in writing and delivered by personal delivery, overnight courier, mail, electronic facsimile or e-mail addressed to the receiving party at the address set forth herein. All such communications shall be effective when received.

Address for the Executive:

Ulrich Grau, Ph.D.
c/o Enzon Pharmaceuticals, Inc.
685 Route 202/206
Bridgewater, New Jersey 08807

Address for the Company:

Enzon Pharmaceuticals, Inc.
685 Route 202/206
Bridgewater, New Jersey 08807
Attn: Vice President, Human Resources

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

- (h) Headings. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.
- (i) Governing Law. ALL MATTERS RELATING TO THE INTERPRETATION, CONSTRUCTION, VALIDITY AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW JERSEY,

WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW PROVISIONS THEREOF.

- (j) Resolution of Certain Claims - Injunctive Relief. The Executive acknowledges that it would be difficult to fully compensate the Company for damages resulting from any breach by him of the provisions of this Agreement. Accordingly, the Executive agrees that, in addition to, but not to the exclusion of any other

available remedy, the Company shall have the right to enforce the provisions of Sections 5 through 8 and 9(f) by applying for and obtaining temporary and permanent restraining orders or injunctions from a court of competent jurisdiction without the necessity of filing a bond therefore, and without the necessity of proving actual damages, and the Company shall be entitled to recover from the Executive its reasonable attorneys' fees and costs in enforcing the provisions of Sections 5 through 8 and 9(f).

- (k) Arbitration. Except as otherwise specifically provided for hereunder, any claim or controversy arising out of or relating to this Agreement or the breach hereof shall be settled by arbitration in accordance with the laws of the State of New Jersey. Such arbitration shall be conducted in the State of New Jersey in accordance with the rules then existing of the American Arbitration Association. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event of any dispute arising under this Agreement, the respective parties shall be responsible for the payment of their own legal fees and disbursements.
- (l) Third-Party Benefit. Nothing in this Agreement, express or implied, is intended to confer upon any other person any rights, remedies, obligations or liabilities of any nature whatsoever.
- (m) Withholding Taxes. The Company may withhold from any benefits payable under this Agreement or any other agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling. Executive hereby agrees to indemnify and hold harmless the Company should the Company fail to withhold tax from any such payment from which tax is required to be withheld.

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

ENZON PHARMACEUTICALS, INC.

By: /s/ Arthur J. Higgins,

President and Chief Executive Officer

/s/ Ulrich Grau, Ph.D.

RESTRICTED STOCK AWARD AGREEMENT

THIS AGREEMENT, made as of this 5th day of December, 2003, by and between Enzon Pharmaceuticals, Inc., a Delaware corporation (the "Company"), and Uli Grau ("Executive").

WITNESSETH, THAT:

WHEREAS, The Company wishes to grant a restricted stock award to Executive;

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

1. Award

The Company, effective as of the date of this Agreement, hereby grants to Executive a restricted stock award of 40,000 shares (the "Shares") of common stock of the Company (the "Common Stock") subject to the terms and conditions set forth herein and to the terms of the Employment Agreement between the Company and Executive, dated as of December 5, 2003, (the "Employment Agreement") which are specifically referenced herein. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Employment Agreement.

2. Vesting

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

Date	Number of Shares that Vest on such Date
----	-----
December 5, 2006	12,000
December 5, 2007	12,000
December 5, 2008	16,000

3. Restriction on Transfer

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

4. Early Vesting; Forfeiture

(a) In the event the Company terminates Executive's employment as the Company's Chief Scientific Officer without Cause pursuant to Section 9(a) (iv) of the Employment Agreement or Executive terminates such employment for Good Reason pursuant to Section 9(c) of the Employment Agreement, all of the Shares granted to Executive pursuant to Section 1 hereof shall vest immediately upon termination;

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

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

(d) Upon termination of Executive's employment as the Company's Chief Scientific Officer

Employment Agreement, all unvested Shares granted to Executive pursuant to Section 1 hereof shall vest immediately upon such termination.

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

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

5. Issuance and Custody of Certificate

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

"The shares of common stock represented by this certificate are subject to forfeiture, and the transferability of this certificate and the shares of stock represented hereby are subject to the restrictions, terms and conditions (including restrictions against transfer) contained in a Restricted Stock Award Agreement entered into between Enzon Pharmaceuticals, Inc. (formerly known as Enzon, Inc.) and the registered owner of such shares dated December 5, 2003. A Copy of the Restricted Stock Award Agreement is on file in the office of Enzon Pharmaceuticals, Inc."

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

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

(d) After any Shares subject to this Agreement vest pursuant to Sections 2 or 4(b) hereof, the Company shall promptly cause a certificate or certificates evidencing such vested Shares, (together with the stock powers relating to the Shares) to be released and delivered to Executive or Executive's legal representatives, beneficiaries or heirs.

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

6. Distributions and Adjustments

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

(b) Any additional shares of Common Stock, any other securities of the Company and any other property (except for cash dividends) distributed with respect to the Shares prior to the date the Shares vest

shall be subject to the same restrictions, terms and conditions as the Shares. Any cash dividends payable with respect to the Shares shall be distributed to Executive at the same time cash dividends are distributed to stockholders of the Company generally.

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

7. Taxes

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

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

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

8. Miscellaneous

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

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

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

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

heirs.

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

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

ENZON PHARMACEUTICALS, INC.

By: /s/ Arthur Higgins

President and Chief Executive Officer

By: /s/ Ulrich Grau, Ph.D

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

I, Arthur J. Higgins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Enzon Pharmaceuticals, Inc. ("Enzon");
2. Based on my knowledge, this quarterly 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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we 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 quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure and procedures, as of the end of the period covered by this report based on such evaluation;
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of 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 reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 17, 2004

By: /s/ Arthur J. Higgins

Arthur J. Higgins
Chief Executive Officer
(Principal Executive Officer)

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

I, Kenneth J. Zuerblis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Enzon Pharmaceuticals, Inc. ("Enzon");
2. Based on my knowledge, this quarterly 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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we 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 quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure and procedures, as of the end of the period covered by this report based on such evaluation;
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of 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 reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 17, 2004

By: /s /Kenneth J. Zuerblis

Kenneth J. Zuerblis
Vice President Finance,
Chief Financial Officer
(Principal Financial and

Accounting Officer) and
Corporate Secretary

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

In connection with the Quarterly Report of Enzon Pharmaceuticals, Inc. and Subsidiaries (the "Company") on Form 10-Q for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur Higgins, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of 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 result of operations of the Company.

By: /s/ Arthur J. Higgins

Arthur J. Higgins
Chief Executive Officer
(Principal Executive Officer)

February 17, 2004

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

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

In connection with the Quarterly Report of Enzon Pharmaceuticals, Inc. and Subsidiaries (the "Company") on Form 10-Q for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth J. Zuerblis, Vice President Finance, Chief Financial Officer and Corporate Secretary of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of 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 result of operations of the Company.

By: /s/ Kenneth J. Zuerblis

Kenneth J. Zuerblis
Vice President Finance,
Chief Financial Officer
(Principal Financial and
Accounting Officer) and
Corporate Secretary

February 17, 2004

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