

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For Quarter Ended September 30, 1996 Commission File No. 0-12957

ENZON, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-2372868 (IRS Employer Identification No.)
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20 Kingsbridge Road, Piscataway, New Jersey (Address of principal executive offices)	08854 (Zip Code)
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(908) 980-4500
(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 X No

The number of shares of common stock, \$.01 par value, outstanding as of November 7, 1996 was 27,707,643 shares.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ENZON, INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
September 30, 1996 and June 30, 1996

ASSETS	September 30, 1996 ----- (unaudited)	June 30, 1996 ----- *
Current assets:		
Cash and cash equivalents	\$12,247,734	\$12,666,050
Accounts receivable	2,181,741	2,123,691
Inventories	872,744	985,378
Other current assets	311,117	434,318
Total current assets	----- 15,613,336	----- 16,209,437
Property and equipment	15,700,608	15,640,823
Less accumulated depreciation and amortization	12,036,201	11,617,690
	----- 3,664,407	----- 4,023,133

Other assets:		
Investments	78,293	78,293
Other assets, net	176,083	55,945
Patents, net	1,558,428	1,597,048
	-----	-----
	1,812,804	1,731,286
	-----	-----
Total assets	\$21,090,547	\$21,963,856
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$2,549,716	\$2,078,924
Accrued expenses	4,028,620	4,387,052
	-----	-----
Total current liabilities	6,578,336	6,465,976
	-----	-----
Accrued rent	957,120	980,908
Royalty advance - RPR	1,307,291	1,600,786
Other liabilities	1,098	1,728
	-----	-----
	2,265,509	2,583,422
	-----	-----
Commitments and contingencies		
Preferred stock-\$0.01 par value, authorized 3,000,000 shares: issued and outstanding 169,000 shares at September 30, 1996 and June 30, 1996 (liquidation preference aggregating \$8,725,000 at September 30, 1996 and June 30, 1996)	1,690	1,690
Common stock-\$0.01 par value, authorized 40,000,000 shares; issued and outstanding 27,707,643 shares at September 30, 1996 and 27,706,396 shares at June 30, 1996	277,076	277,064
Additional paid-in capital	121,322,870	121,272,024
Accumulated deficit	(109,354,934)	(108,636,320)
	-----	-----
Total stockholders' equity	12,246,702	12,914,458
	-----	-----
Total liabilities and stockholders' equity	\$21,090,547	\$21,963,856
	=====	=====

*Condensed from audited financial statements.

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

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ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
Three Months Ended September 30, 1996 and 1995
(Unaudited)

	Three months ended	
	September 30, 1996	September 30, 1995
	-----	-----
Revenues		
Sales	\$2,720,591	\$2,809,048
Contract revenue	1,094,299	116,500
	-----	-----
Total revenues	3,814,890	2,925,548
	-----	-----
Costs and expenses		
Cost of sales	985,989	964,701
Research and development expenses	2,429,771	2,690,648
Selling, general and administrative expenses	1,276,067	1,271,970
	-----	-----
Total costs and expenses	4,691,827	4,927,319
	-----	-----
Operating loss	(876,937)	(2,001,771)
	-----	-----
Other income (expense)		
Interest and dividend income	157,141	102,345
Interest expense	(6,753)	(6,689)
Other	7,935	2,943
	-----	-----
	158,323	98,599
	-----	-----
Net loss	(\$718,614)	(\$1,903,172)
	=====	=====
Net loss per common share	(\$0.03)	(\$0.07)
	=====	=====
Weighted average number of common shares outstanding during the period	27,705,913	26,328,874
	=====	=====

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

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ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
Three Months Ended September 30, 1996 and 1995
(Unaudited)

	Three Months Ended	
	September 30, 1996	September 30, 1995

Cash flows from operating activities:		
Net loss	(\$718,614)	(\$1,903,172)
Adjustment for depreciation and amortization	457,131	536,975
Non-cash expense for issuance of stock options	48,248	-
Decrease in accrued rent	(23,788)	(2,579)
Decrease in royalty advance - RPR	(293,495)	(103,927)
Changes in assets and liabilities	169,938	38,447
	-----	-----
Net cash used in operating activities	(360,580)	(1,434,256)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(59,785)	(39,102)
	-----	-----
Net cash used in investing activities	(59,785)	(39,102)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,610	-
Principal payments of obligations under capital leases	(561)	(503)
	-----	-----
Net cash provided by (used in) financing activities	2,049	(503)
	-----	-----
Net decrease in cash and cash equivalents	(418,316)	(1,473,861)
Cash and cash equivalents at beginning of period	12,666,050	8,102,989
	-----	-----
Cash and cash equivalents at end of period	\$12,247,734	\$6,629,128
	=====	=====

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

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(1) Organization and Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared from the books and records of Enzon, Inc. and subsidiaries in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal and recurring adjustments) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for the year.

(2) Net Loss Per Common Share

Net loss per common share is based on net loss for the relevant period, adjusted for cumulative undeclared preferred stock dividends of \$55,000 for both of the three month periods ended September 30, 1996 and 1995, divided by the weighted average number of shares issued and outstanding during the period. Stock options, warrants and common stock issuable upon conversion of the preferred stock are not reflected as their effect would be antidilutive for both primary and fully diluted earnings per share computations.

(3) Inventories

The composition of inventories at September 30, 1996 and June 30, 1996 is as follows:

	September 30, 1996	June 30, 1996
Raw materials	\$321,000	\$206,000
Work in process	99,000	383,000
Finished goods	453,000	396,000
	-----	-----
	\$873,000	\$985,000
	=====	=====

(4) 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 \$7,000 for both of the three month periods ended September 30, 1996 and 1995. There were no income tax payments made for the three months ended September 30, 1996 and 1995. As part of the commission due to the real estate broker in connection with termination of the lease at 40 Kingsbridge Road, the Company issued 150,000 five-year warrants to purchase the Company's Common Stock at \$2.50 per share during the three months ended September 30, 1995. This transaction is a non-cash financing activity.

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

(5) Non-Qualified Stock Option Plan

During the three months ended September 30, 1996, the Company issued 593,000 stock options at an average exercise price of \$2.81 under the Company's Non-Qualified Stock Option Plan, as amended (the "Plan"), of which 150,000 were granted to officers. None of the options granted during the period are exercisable as of September 30, 1996.

All options were granted with exercise prices that equalled the fair market value of the underlying common stock on the date of grant. The options were granted for the purpose of encouraging the employees to remain with the

Company and to provide a long-term performance incentive. The options generally require the employees to remain with the Company for two years, in order for the options to become fully exercisable.

(6) Subsequent Events

During October 1996, the Company entered into a marketing agreement with Medac GmbH ("MEDAC") to sell ONCASPAR in Europe and Russia. MEDAC will purchase ONCASPAR from Enzon at a set price which will increase over the term of the agreement. The agreement also contains minimum annual purchase requirements.

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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. No assurance can be given that the future results covered by the forward-looking statements will be achieved. The matters set forth in Exhibit 99.0 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996, which is incorporated herein by reference, constitute cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to vary materially from the future results indicated in such forward-looking statements. Other factors could also cause actual results to vary materially from the future results indicated in such forward-looking statements.

Results of Operations

Three months ended September 30, 1996 vs. Three months ended September 30, 1995

Revenues. Revenues for the three months ended September 30, 1996 increased by 30% to \$3,815,000 as compared to \$2,926,000 for the same period in 1995. The components of revenues are sales, which consist of sales of the Company's products and royalties on the sales of such products by others, and contract revenues. Sales decreased by 3% to \$2,721,000 for the three months ended September 30, 1996, as compared to \$2,809,000 for the same period in the prior year due to a decrease in shipments of ONCASPAR(R) to the Company's marketing partner, Rhone-Poulenc Rorer Pharmaceuticals, Inc. ("RPR") which was offset in part by increased royalties on RPR sales of ONCASPAR. Sales of ADAGEN(R) for the three months ended September 30, 1996 and 1995 were \$2,126,000 and \$2,175,000, respectively. The Company expects sales of ADAGEN to continue to be limited due to the small patient population worldwide. The Company anticipates moderate growth of ONCASPAR sales and increased royalties on sales of ONCASPAR. During October 1996, the Company signed a marketing agreement with Medac GmbH ("MEDAC") to sell ONCASPAR in Europe and Russia. The Company's marketing partners, RPR and MEDAC, will conduct clinical trials to expand the use of ONCASPAR beyond its current approved indications in the United States and Germany, which could also result in additional revenues from this product. Such clinical trials are in progress in the United States. Additionally, MEDAC is responsible for obtaining registration for ONCASPAR in the remaining European countries. There can be no assurance that any particular sales levels of ONCASPAR or ADAGEN will be achieved or maintained. Contract revenue for the three months ended September 30, 1996 increased by \$977,000 to \$1,094,000, as compared to \$117,000 for the same period in 1995. The increase was due to a one-time \$1,000,000 payment received from Schering Corporation related to the transfer of know-how for the manufacturing of PEG- Intron A under the Company's June 1995 amended Schering Agreement. During the three months ended September 30, 1996 and 1995, the Company had export sales of \$582,000 and \$640,000, respectively. Sales in Europe were \$512,000 and \$554,000 for the quarters ended September 30, 1996 and September 30, 1995, respectively.

Cost of Sales. Cost of sales, as a percentage of sales, increased to 36% for the three months ended September 30, 1996 as compared to 34% for the same period in 1995. The increase was due primarily to increased ONCASPAR production costs.

Research and Development. Research and development expenses for the three months ended September 30, 1996 decreased by 10% to \$2,430,000 from \$2,691,000 for the same period in 1995. This decrease was primarily due to reductions in personnel, principally in the clinical and scientific administration areas, and related costs, such as payroll taxes, totaling approximately \$179,000 and other cost containment measures taken by the Company.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended September 30, 1996, remained relatively flat at \$1,276,000, as compared to \$1,272,000 for the same period in 1995.

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Other Income/Expense. Other income/expense increased by \$59,000 to \$158,000 for the three months ended September 30, 1996 as compared to \$99,000 for the same period last year. The increase in other income/expense for the three months ended September 30, 1996 was attributable to an increase in interest income due to an increase in interest bearing investments.

Liquidity and Capital Resources

Enzon had \$12,248,000 in cash and cash equivalents as of September 30, 1996. The Company invests its excess cash in a portfolio of high-grade marketable securities and United States government-backed securities.

The Company's cash reserves as of September 30, 1996 decreased by \$418,000 from June 30, 1996. The decrease in cash reserves was principally caused by the funding of operations.

The Company's exclusive U.S. marketing rights license with RPR for ONCASPAR, as amended, (the "Amended RPR License Agreement") provides for a payment of \$3,500,000 in advance royalties, which was received in January 1995. Royalties due under the Amended RPR License Agreement will be offset against an original credit of \$5,970,000, which represents the royalty advance plus reimbursement of certain amounts due RPR under the original agreement and interest expense, before cash payments will be made under the agreement. The royalty advance is shown as a long term liability with the corresponding current portion included in accrued expenses on the consolidated condensed balance sheets and will be reduced as royalties are recognized under the agreement. Through September 30, 1996, an aggregate of \$1,446,000 in royalties payable by RPR has been offset against the original credit.

As of September 30, 1996, 940,808 shares of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock") had been converted into 3,093,411 shares of Common Stock. Accrued dividends on the converted Series A Preferred Stock in the aggregate of \$1,792,000 were settled by the issuance of 232,383 shares of Common Stock. The Company does not presently intend to pay cash dividends on the Series A Preferred Stock. As of September 30, 1996, there were \$1,422,000 of accrued and unpaid dividends on the Series A Preferred Stock. Dividends accrue on the outstanding Series A Preferred Stock at the rate of \$218,000 per year. As of September 30, 1996, there had been no conversion of the Company's Series B Convertible Preferred Stock or Series C Convertible Preferred Stock. Neither the Series B Convertible Preferred Stock nor the Series C Convertible Preferred Stock carry stated dividends.

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

Upon exhaustion of the Company's current cash reserves, the Company's continued operations will depend on its ability to realize significant revenues from the commercial sale of its products, raise additional funds through equity or debt financing, or obtain significant licensing, technology transfer or

contract research and development fees. There can be no assurance that these sales, financings or revenue generating activities will be successful.

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PART II OTHER INFORMATION

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(I)	Certificate of Incorporation, as amended	^
3(ii)	By-laws, as amended	* (4.2)
10.0	Employment Agreement dated March 25, 1994 with Peter G. Tombros	# (10.17)
10.1	Form of Change of Control Agreements dated as of January 20, 1995 entered into with the Company's Executive Officers	~ (10.2)
10.2	Lease - 300-C Corporate Court, South Plainfield, New Jersey	*** (10.3)
10.3	Modification of Lease - 300-C Corporate Court, South Plainfield New Jersey	++ (10.3)
10.4	Lease Termination Agreement dated March 31, 1995 for 20 Kingsbridge Road and 40 Kingsbridge Road, Piscataway, New Jersey	~ (10.6)
10.5	Option Agreement dated April 1, 1995 regarding 20 Kingsbridge Road, Piscataway, New Jersey	~ (10.7)
10.6	Form of Lease - 40 Cragwood Road, South Plainfield, New Jersey	**** (10.9)
10.7	Lease 300A-B Corporate Court, South Plainfield, New Jersey	+++ (10.10)
10.8	Stock Purchase Agreement dated March 5, 1987 between the Company and Eastman Kodak Company	**** (10.7)
10.9	Amendment dated June 19, 1989 to Stock Purchase Agreement between the Company and Eastman Kodak Company	** (10.10)
10.10	Form of Stock Purchase Agreement between the Company and the purchasers of the Series A Cumulative Convertible Preferred Stock	+ (10.11)
10.11	Amendment to License Agreement and Revised License Agreement between the Company and RCT dated April 25, 1985	++++ (10.5)
10.12	Amendment dated as of May 3, 1989 to Revised License Agreement dated April 25, 1985 between the Company and Research Corporation	** (10.14)
10.13	License Agreement dated September 7, 1989 between the Company and Research Corporation Technologies, Inc.	** (10.15)
10.14	Master Lease Agreement and Purchase Leaseback Agreement dated October 28, 1994 between the Company and Comdisco, Inc.	## (10.16)
10.15	Amendment dated as of May 15, 1995 to Employment Agreement with Peter G. Tombros	~~ (10.17)
10.16	Stock Purchase Agreement dated as of June 30, 1995	~~~
10.17	Securities Purchase Agreement dated as of January 31, 1996	~~~
10.18	Registration Rights Agreements dated as of January 31, 1996	~~~
10.19	Warrants dated as of February 7, 1996 and issued pursuant to the Securities Purchase Agreement dated as of January 31, 1996	~~~

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10.20	Securities Purchase Agreement dated as of March 15, 1996	^
10.21	Registration Rights Agreement dated as of March 15, 1996	^
10.22	Warrant dated as of March 15, 1996 and issued pursuant to the Securities Purchase Agreement dated as of March 15, 1996	^
27.0	Financial Data Schedule	@
99.0	Factors to Consider in Connection with Forward-Looking Statements	^^

@ Filed herewith.

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

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

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

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

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

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

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

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

Previously filed as an exhibit to the Company's Current Report on Form 8-K dated April 5, 1994 and incorporated herein by reference thereto.

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

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

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

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

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



^^ Previously filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended June 30, 1996 and incorporated herein by reference thereto.

(b) Reports on Form 8-K

On July 22, 1996, the Company filed with the Commission a Current Report on Form 8-K dated June 24, 1996 relating to the Company's commencement of a multi-dose, multi-center clinical trial of its hemoglobin-based oxygen carrier, PEG-hemoglobin, in cancer patients receiving radiation therapy (Item 5).

On July 22, 1996, the Company filed with the Commission a Current Report on Form 8-K dated July 17, 1996 relating to the receipt of three additional Single-Chain Antigen Binding ("SCA") patents (Item 5).

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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, INC.  
(Registrant)

Date: November 14, 1996

By: /s/ Peter G. Tombros  
Peter G. Tombros  
President and Chief Executive  
Officer

By: /s/ Kenneth J. Zuerblis  
Kenneth J. Zuerblis  
Vice President, Finance  
(Principal Financial  
and Accounting Officer)

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<ARTICLE>

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<LEGEND>This schedule contains summary financial information extracted from the Enzon, Inc. and Subsidiaries Consolidated Condensed Balance Sheet as of September 30, 1996 and the Consolidated Condensed Statement of Operations for the three months ended September 30, 1996 and is qualified in its entirety by reference to such financial statements.

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