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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the fiscal year ended June 30, 2001

Commission
File Number 0-12957

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

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

Registrant's telephone number, including area code: (732) 980-4500

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 par value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

The aggregate market value of the Common Stock, par value $.01 per share, held by non-affiliates based upon the reported last sale price of the Common Stock on September 20, 2001 was approximately $1,933,080,976. There is no market for the Series A Cumulative Convertible preferred stock, the only other class of stock outstanding.

As of September 20, 2001, there were 42,202,109 shares of Common Stock, par value $.01 per share, outstanding.

The Index to Exhibits appears on page 45.

Documents Incorporated by Reference

The registrant's definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on December 4, 2001, to be filed with the Commission not later than 120 days after the close of the registrant's fiscal year, has been incorporated by reference, in whole or in part, into Part III Items 10, 11, 12 and 13 of this Annual Report on Form 10-K.

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Information contained in this Annual Report 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 the section entitled Risk Factors, 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.

PART I

Item 1. BUSINESS

Overview

We are a biopharmaceutical company that develops and commercializes enhanced therapeutics for life-threatening diseases through the application of our two proprietary platform technologies: PEG and single-chain antibodies. We apply our PEG, or polyethylene glycol, technology to improve the delivery, safety and efficacy of proteins and small molecules with known therapeutic efficacy. We apply our single-chain antibody, or SCA, technology to discover and produce antibody-like molecules that offer many of the therapeutic benefits of monoclonal antibodies while addressing some of their limitations.

PEG Products

PEG-INTRON(TM) is a PEG-enhanced version of Schering-Plough's alpha-interferon product, INTRON(R) A. We have designed PEG-INTRON to allow for less frequent dosing and to yield greater efficacy as compared to INTRON A. Our worldwide partner for PEG-INTRON, Schering-Plough, received approval for the treatment of adult patients with chronic hepatitis C in May 2000 in the European Union and in January 2001 in the United States. PEG-INTRON was also recently approved in the European Union and the United States for use in combination with REBETOL(R) (ribavirin, USP) Capsules for the treatment of chronic hepatitis C in adult patients not previously treated with alpha-interferon. A Phase III clinical trial is also being conducted for PEG-INTRON for the treatment of malignant melanoma, and earlier stage clinical trials of PEG-INTRON are being conducted for other indications, including HIV. Schering-Plough's worldwide sales of INTRON A, REBETRON(TM) Combination Therapy and PEG-INTRON for all indications in 2000 totaled $1.4 billion.

PROTHECAN(R) is a PEG-enhanced version of camptothecin, a compound in the class of molecules called topoisomerase I inhibitors. Camptothecin has been shown in clinical testing to be potent against certain tumor types, but it possesses limited clinical utility due to significant side effects and poor solubility. We have shown in pre-clinical studies that PROTHECAN preferentially accumulates in tumors and has better efficacy compared to camptothecin as well as other topoisomerase I inhibitors. In July 2001, we initiated a Phase II clinical trial of PROTHECAN in patients with small-cell lung cancer.

PEG-paclitaxel is a PEG-modified version of paclitaxel. We have designed PEG-paclitaxel to be delivered without the need for solubilizing agents or premedications and to be more efficacious than TAXOL(R) (paclitaxel). We filed an Investigational New Drug, or IND, application with the FDA for PEG-paclitaxel in December 2000. In May 2001, we initiated the patient dosing in a Phase I clinical trial for PEG-paclitaxel. The trial is designed to determine the safety, tolerability and pharmacology of PEG-paclitaxel in patients with advanced solid tumors and lymphomas.

We have commercialized two additional products based on our PEG technology: ADAGEN(R) for the treatment of a congenital enzyme deficiency disease called Severe Combined Immunodeficiency Disease, or SCID, and ONCASPAR(R) for the treatment of acute lymphoblastic leukemia. Each of these products is a PEG-enhanced version of a naturally occurring enzyme. Both products have been on the market for several years and have demonstrated the safe and effective application of our PEG technology.

Single-Chain Antibodies

SCAs are genetically engineered proteins which possess the binding specificity and affinity of monoclonal antibodies and are designed to expand on the therapeutic and diagnostic applications possible with monoclonal antibodies. Preclinical studies have shown that SCAs allow for greater tissue penetration and faster clearance from the body. We believe that we possess strong intellectual property in the area of

SCAs. The most clinically advanced SCA based on our technology is being developed by one of our licensees, Alexion Pharmaceuticals, for complications arising during cardiopulmonary bypass surgery, for which a Phase IIb clinical trial has been completed, and myocardial infarction, for which Phase II clinical trials are ongoing.

Strategy

To further realize the potential value of our PEG and SCA technologies, we intend to pursue the following strategic initiatives:

- continue to identify proteins and small molecules of known therapeutic value that we believe can be improved by our PEG technology and develop PEG-enhanced versions of such compounds;
- acquire technologies and companies which are complementary to our technologies and clinical focus;
- enter into license agreements with third parties to apply our PEG technology to their existing compounds; and

- advance our SCA technology through in-licensing, collaborations and entering into license agreements with third parties.

PEG Technology

Our proprietary PEG technology involves chemically attaching PEG to therapeutic proteins or small molecules for the purpose of enhancing therapeutic value. PEG is a relatively non-reactive and non-toxic polymer that is frequently used in food and pharmaceutical products. We have demonstrated, both in our marketed products and our products under development, that for some proteins and small molecules, we can impart significant pharmacologic advantages over the unmodified forms of the compound by modifying a compound using our PEG technology.

These advantages include:

- extended circulating life,
- lower toxicity,
- increased drug stability, and
- enhanced drug solubility.

[GRAPHIC OMITTED]

A depiction of a PEG-enhanced molecule.

For many years, we have applied our PEG technology to enhance the pharmacologic characteristics of potential or existing protein therapeutics. When we modify proteins with our PEG technology, it often causes these proteins to have properties, such as improved circulating life and reduced toxicities that significantly improve their therapeutic performance. In some cases, PEG can render a protein therapeutically effective, where the unmodified form had been ineffective. For example, proteins are often limited in their use as therapeutics because they frequently induce an immunologic response. When PEG is attached, it disguises the compound and reduces recognition by the patient's immune system. As a result, many of the favorable characteristics listed above are achieved. Given such improvement, frequency of dosing can be reduced without diminishing potency and the delay in clearance can achieve an improved therapeutic effect due to the prolonged exposure to the protein.

We have developed a next generation PEG technology that allows us to apply PEG to small molecules. We are currently applying this technology to develop PEG-enhanced versions of anti-cancer compounds. Like proteins, many anti-cancer compounds of potentially significant therapeutic value possess undesired pharmacologic characteristics such as toxicity, poor solubility, and limited half-life. The attachment of PEG to anti-cancer compounds not only disguises the molecule, thereby lowering potential immunogenicity and extending its circulatory life, but also greatly increases the solubility of these compounds. We attach PEG to anti-cancer compounds by means of a covalent bond that is designed to temporarily inactivate the compound, and then deteriorate over time, releasing the compound in the proximity of targeted tissue. By inactivating and then reactivating the compound in the body we create a Pro Drug version of such compounds. These attributes may significantly enhance the therapeutic value of new chemicals, drugs already marketed by others and off-patent drugs with otherwise limited utility. We believe that this technology has broad usefulness and that it can be applied to a wide range of small molecules, such as:

- cancer chemotherapy agents,
- antibiotics,
- anti-fungals, and
- immunosuppressants.

We also believe that we will be able to use this PEG technology to impart Pro Drug attributes to proteins and peptides, including enzymes and growth factors.

We have significant expertise and intellectual property in the methods by which PEG can be attached to a compound, the selection of appropriate sites on the compound to which PEG is attached, and the amount and type of PEG used. If PEG is attached to the wrong site on the protein, it can result in a loss of the protein's activity or therapeutic effect. Similarly, inappropriate linkers or the incorrect type or amount of PEG applied to a compound will typically fail to produce the desired outcome. Given our expertise, we are able to tailor the PEG technology to produce the desired results for the particular substance being modified.

PEG Products

PEG-INTRON

PEG-INTRON is a PEG-enhanced version of Schering-Plough's recombinant alpha-interferon product called INTRON A. We have modified the INTRON A compound by attaching PEG to it, to allow for less frequent dosing and to yield greater efficacy as compared to unmodified INTRON-A. We have developed PEG-INTRON in conjunction with Schering-Plough. Schering-Plough currently markets

INTRON A for 16 major antiviral and oncology indications worldwide. The largest indication for INTRON A is hepatitis C. INTRON A is also used to treat certain types of cancer. Our worldwide partner for PEG-INTRON, Schering-Plough, received approval for the treatment of adult patients with chronic hepatitis C in May 2000 in the European Union and in January 2001 in the United States. PEG-INTRON was also recently approved in the United States and the European Union for use in combination with REBETOL (ribavirin, USP) Capsules for the treatment of chronic hepatitis C in adult patients not previously treated with alpha-interferon. A clinical trial is being conducted for PEG-INTRON as combination therapy with REBETOL in patients with chronic hepatitis C who did not respond to or had relapsed following previous interferon-based therapy. A Phase III clinical trial is also being conducted for PEG-INTRON for the treatment of malignant melanoma and earlier stage clinical trials of PEG-INTRON are being conducted for other indications, including HIV. Schering-Plough's worldwide sales of INTRON A, REBETRON Combination Therapy and PEG-INTRON for all indications in 2000 totaled $1.4 billion.

Hepatitis C

According to an article published in the New England Journal of Medicine, approximately 3.9 million people in the United States are infected with the hepatitis C virus. Approximately 2.7 million of these people are characterized as having chronic hepatitis C infection. We believe that the number of people infected with the hepatitis C virus in Europe is comparable to that in the United States. According to the World Health Organization, there were approximately 170 million chronic cases of hepatitis C worldwide. A substantial number of people in the United States who were infected with hepatitis C more than 10 years ago are thought to have contracted the virus through blood transfusions. Prior to 1992, the blood supply was not screened for the hepatitis C virus. In addition, the majority of people infected with the virus are thought to be unaware of the infection because the hepatitis C virus can incubate for up to 10 years before patients become symptomatic. We estimate that only 10 to 15 percent of patients with hepatitis C have been treated.

The current standard of care for hepatitis C infection is alpha-interferon administered three times per week for one year in combination with ribavirin, another antiviral drug. The alpha-interferon plus ribavirin therapy was approved in the United States for the treatment of hepatitis C in December 1998. Prior to such approval, hepatitis C infection was typically treated with alpha-interferon alone. In clinical studies, alpha-interferon stand-alone therapy for 48 weeks has reduced viral loads below the detectable levels in 10% to 15% of patients treated. In clinical studies, alpha-interferon plus ribavirin in combination therapy has reduced viral loads below detectable levels in 31% to 38% of patients treated. The clinical efficacy of alpha-interferon, both as a stand-alone or combination therapy, has been limited by serious side effects, which include flu-like symptoms, gastro-intestinal disorders and depression, in addition to undesirable dosing requirements. The requirement of three times per week dosing for the treatment of hepatitis C has also limited patient compliance.

Schering-Plough reported the following results of clinical trials conducted with PEG-INTRON for the treatment of hepatitis C. In a clinical study comparing PEG-INTRON to INTRON A as stand-alone therapy, 24% of patients treated with PEG-INTRON had sustained virologic response at the end of the 24 week follow-up period following completion of 48 weeks of therapy, compared to 12% of patients treated with INTRON A who had sustained virologic response. Sustained virologic response is the reduction of viral loads below detectable levels. In a clinical study comparing PEG-INTRON plus REBETOL to REBETRON Combination Therapy containing REBETOL Capsules and INTRON A, when analyzed based upon optimal body weight dosing, 61% of patients treated with PEG-INTRON plus REBETOL had sustained virologic response compared to 47% of patients treated with REBETRON combination therapy who had sustained virologic response. When the results of this clinical trial were analyzed without using optimal body weight dosing, 54% of the patients treated with PEG-INTRON plus REBETOL had sustained virologic response compared to 47% of patients treated with REBETRON who had sustained virologic response. Of the patients in this study who received at least 80% of their treatment of PEG-INTRON plus REBETOL, 72% had sustained virologic response compared to sustained virologic response in 46% of

patients who received less than 80% of their treatment.

Under our licensing agreement with Schering-Plough, we earned milestone payments and will earn royalties on worldwide sales of PEG-INTRON. We received a $1.0 million milestone payment based on the FDA's acceptance in February 2000 of Schering-Plough's U.S. marketing application for the use of PEG-INTRON in the treatment of hepatitis C. We received a final $2.0 million milestone payment based on the FDA's approval of PEG-INTRON in January 2001. Schering-Plough is responsible for all marketing and development activities for PEG-INTRON.

Cancer

INTRON A is also used in the treatment of cancer. Of the 16 indications for which INTRON A is approved throughout the world, 12 are cancer indications. Currently, INTRON A is approved in the U.S. for three cancer indications and used in some cases for other indications on an off-label basis.

INTRON A may be prescribed in the U.S. for the treatment of late stage malignant melanoma, follicular NHL (low grade), chronic myelogenous leukemia and AIDS-related Kaposi's sarcoma.

In June 2001, we reported that Schering-Plough completed its Phase III study comparing PEG-INTRON to INTRON A in patients with newly diagnosed chronic myelogenous leukemia, or CML. In this study, PEG-INTRON administered once weekly demonstrated clinical comparability to INTRON A administered daily, with a comparable safety profile. Despite demonstrating clinical comparability, the efficacy results for PEG-INTRON did not meet the protocol-specified statistical criteria for non-inferiority, the primary endpoint of the study. The major cytogenic response rates at month 12 for both PEG-INTRON and INTRON A were similar to those previously reported in the literature for alpha interferon. The results of this Phase III study have not yet been presented or published, and are not publicly available at this time.

In addition to conducting this Phase III study of PEG-INTRON in CML, Schering-Plough has advised us that it is working with independent investigators to research initiatives with PEG-INTRON in oncology indications through a comprehensive medical affairs program. This program includes ongoing studies with PEG-INTRON in high-risk melanoma, myeloma and non-Hodgkin's lymphoma, both as monotherapy and in combination with other agents. A Phase III clinical trial of PEG-INTRON for high-risk malignant melanoma is ongoing.

Published data from a Phase I clinical trial of PEG-INTRON in various cancer types showed that some patients who previously did not respond to unmodified INTRON A treatment did respond to PEG-INTRON. In that trial, PEG-INTRON was administered once per week as opposed to up to five times per week, which is a typical therapy regimen using unmodified INTRON A, and we expect that the once per week dosing regimen may be used in treating various cancer types.

Potential Other Indications

We believe that PEG-INTRON may be applied in treating other diseases,

including HIV, hepatitis B and multiple sclerosis. A Phase I clinical trial of PEG-INTRON has been conducted for HIV. In this study, 58% of the 30 patients had substantial reductions in their levels of HIV after adding a weekly injection of PEG-INTRON to their combination treatments.

PROTHECAN

PROTHECAN is a PEG-enhanced version of a small molecule called camptothecin, which is an anticancer compound in the class of drugs called topoisomerase I inhibitors. Camptothecin, which was originally developed at the National Institutes of Health and is now off patent, is believed to be a potent topoisomerase I inhibitor.

For many years camptothecin has been known to be a very effective oncolytic agent but its drug delivery problems have limited its use. Two camptothecin derivatives, topotecan and irinotecan, have been approved by the FDA for the treatment of small-cell lung, ovarian and colorectal cancers. While these two new products are more soluble than camptothecin, their efficacy rate is relatively low. Despite their limitations, these two products together achieved 2000 worldwide sales of approximately $700 million.

We believe that by adjusting the way PEG is covalently attached to camptothecin, the PEG attachment can be used to inactivate the compound's toxic mechanism, which allows it to circulate in the bloodstream for longer periods of time. This allows the compound to accumulate in the proximity of tumor sites. Preliminary animal tests have shown that camptothecin modified with our PEG technology preferentially accumulates in tumors and has better efficacy compared to camptothecin, as well as other topoisomerase I inhibitions. The covalent bond used in PROTHECAN to attach PEG to the camptothecin is designed to deteriorate over time, resulting in the PEG falling off and allowing the compound once again to become active.

We are currently conducting a Phase II clinical trial of PROTHECAN in small cell lung cancer and expect to inititate additional Phase II clinical trials in non-small cell lung, pancreatic and gastric cancers.

PEG-paclitaxel

PEG-paclitaxel is a PEG-modified version of paclitaxel formulated for ease of administration. TAXOL (paclitaxel) is a powerful chemotherapeutic agent with delivery limitations. It is used to treat various types of cancers, including ovarian, breast, non-small cell lung, and AIDS-related Kaposi's sarcoma. In 2000, sales of TAXOL were reported to be approximately $1.6 billion. Using our proprietary PEG technology, our scientists have modified paclitaxel through the chemical attachment of PEG using a linker designed to deteriorate over time, giving PEG-paclitaxel prodrug attributes. We designed PEG-paclitaxel to be delivered without the need for solubilizing agents or premedications and to be more efficacious than TAXOL. TAXOL, a commercial formulation of paclitaxel, contains the solubilizing agent CREMOPHOR and patients are required to take premedications prior to treatment to reduce the potential for adverse reactions, which may be caused by CREMOPHOR.

In May 2001, we initiated the patient dosing in a Phase I clinical trial for PEG-paclitaxel. The trial is designed to determine the safety, tolerability and pharmacology of PEG-paclitaxel in patients with advanced solid tumors and lymphomas.

ADAGEN

ADAGEN, our first FDA-approved PEG product, is used to treat patients afflicted with a type of Severe Combined Immunodeficiency Disease, or SCID, also known as the Bubble Boy Disease, which is caused by the chronic deficiency of the adenosine deaminase enzyme, or ADA. ADAGEN represents the first successful application of enzyme replacement therapy for an inherited disease. SCID results in children being born without fully functioning immune systems, leaving them susceptible to a wide range of infectious diseases. Currently, the only alternative to ADAGEN treatment is a well-matched bone marrow transplant. Injections of unmodified ADA are not effective because of its short circulating life (less than 30 minutes) and the potential for immunogenic reactions to a bovine-sourced enzyme. The attachment of PEG to ADA allows ADA to achieve its full therapeutic effect by increasing its circulating life and masking the ADA to avoid immunogenic reactions.

The adenosine deaminase or the ADA enzyme in ADAGEN is obtained from bovine intestine. We purchase this enzyme from the world's only FDA-approved supplier which, until recently, has obtained it from cattle of German origin. Bovine spongiform encephalopathy (BSE or mad cow disease) has been detected in cattle herds in the United Kingdom and more recently, in other European countries. In November 2000, BSE was identified for the first time in cattle in Germany. There is evidence of a link

between the agent that causes BSE in cattle and a new variant form of Creutzfeld-Jakob disease or nvCJD in humans. The ADA that has been used in ADAGEN and will be used through early 2002, is derived from bovine intestines harvested prior to November 2000, when herds were identified in Germany as BSE-free. The BSE agent has not been detected in the herds from which ADA was derived for ADAGEN and we have no reason to believe that these herds were infected with that agent. Based upon the timing of the harvest of the intestines, the use of certain purification steps taken in the manufacture of ADAGEN and from our analysis of relevant information concerning this issue, we consider the risk of product contamination to be extremely low. However, the lengthy incubation period of BSE and the absence of a validated test for the BSE agent in pharmaceutical products makes it impossible to be absolutely certain that ADAGEN is free of the agent that causes nvCJD. To date, cases of nvCJD have been rare in the United Kingdom, where large numbers of BSE-infected cattle are known to have entered the human food chain. To date, no cases of nvCJD have been linked to ADAGEN or, to our knowledge, any other pharmaceutical product, including vaccines manufactured using bovine derived materials from countries where BSE has been detected.

We have been in discussions with the FDA concerning our continued distribution of ADAGEN. Given the significant benefit to the patients who take this product and the likely significant adverse consequences to these patients if this product were not available, we have agreed with the FDA to continue to distribute the product. In order to avoid any potential BSE-related risk from ADAGEN and to be consistent with recommendations from the FDA, our supplier has secured a new source of bovine intestines from New Zealand, which has no confirmed cases of BSE. We are working closely with our supplier to expedite the delivery of ADA from New Zealand herds, but do not anticipate being able to supply ADAGEN derived from this source until early in 2002. In the longer term, we are pursuing development of a recombinant form of human ADA, but a product based on this technology will not be available for several years, if ever.

We are marketing ADAGEN on a worldwide basis. We utilize outside distributors in certain territories including the United States, Europe and Japan. Currently, 69 patients in twelve countries are receiving ADAGEN therapy. We believe many newborns with ADA-deficient SCID go undiagnosed and we are therefore focusing our marketing efforts for ADAGEN on new patient identification. Our sales of ADAGEN for the fiscal years ended June 30, 2001, 2000 and 1999 were $13.4 million, $12.2 million and $11.2 million respectively.

ONCASPAR

ONCASPAR, our second FDA-approved product, is a PEG-enhanced version of a naturally occurring enzyme called L-asparaginase. It is currently approved in the United States, Canada and Germany, and is used in conjunction with other chemotherapeutics to treat patients with acute lymphoblastic leukemia who are hypersensitive, or allergic, to native, or unmodified, forms of L-asparaginase. Aventis Pharmaceuticals (formerly Rhone-Poulenc Rorer Pharmaceuticals) has the exclusive license to market ONCASPAR in the U.S. and Canada, and MEDAC GmbH has the exclusive right to market ONCASPAR in Europe.

L-asparaginase is an enzyme, which depletes the amino acid asparagine upon which certain leukemic cells are dependent for survival. Other companies market unmodified L-asparaginase in the United States for pediatric acute lymphoblastic leukemia and in Europe to treat adult acute lymphoblastic leukemia and non-Hodgkin's lymphoma, as well as pediatric acute lymphoblastic leukemia.

The therapeutic value of unmodified L-asparaginase is limited by its short half-life, which requires every-other-day injections, and its propensity to cause a high incidence of allergic reactions. We believe that ONCASPAR offers significant therapeutic advantages over unmodified L-asparaginase. ONCASPAR has a significantly increased half-life in blood, allowing every-other-week

administration, and it causes fewer allergic reactions. Based upon the current use of unmodified L-asparaginase, we believe that

ONCASPAR may potentially be used in other cancer indications, including lymphoma.

Other PEG Products

Our PEG technology may be applicable to other potential products. We are currently conducting pre-clinical studies for additional PEG-enhanced compounds. We will continue to seek opportunities to develop other PEG-enhanced products.

SCA Proteins

General

Antibodies are proteins produced by the immune system in response to the presence in the body of bacteria, viruses or other disease causing agents. Antibodies of identical molecular structure that bind to a specific target are called monoclonal antibodies. Over the past few years, several monoclonal antibodies have been approved for therapeutic use and have achieved significant clinical and commercial success. Much of the clinical utility of monoclonal antibodies results from the affinity and specificity with which they bind to their targets, as well as a long circulating life due to their relatively large size. Monoclonal antibodies, however, are not well suited for use in indications where a short half-life is advantageous or where their large size inhibits them physically from reaching the area of potential therapeutic activity.

SCAs are genetically engineered proteins designed to expand on the therapeutic and diagnostic applications possible with monoclonal antibodies. SCAs have the binding specificity and affinity of monoclonal antibodies and, in their native form, are about one-fifth to one-sixth of the size of a monoclonal antibody, typically giving them very short half lives. We believe that human SCAs offer the following benefits compared to most monoclonal antibodies:

- faster clearance from the body,
- greater tissue penetration for both diagnostic imaging and therapy,
- a significant decrease in immunogenic problems when compared with mouse-based antibodies,
- easier and more cost effective scale-up for manufacturing when compared with monoclonal antibodies,
- enhanced screening capabilities which allow for the more rapid assessment of SCA proteins of desired specificity using high throughput screening methods, and
- a better opportunity to be used orally, intranasally, transdermally or by inhalation.

[GRAPHIC OMITTED]

Comparison of a standard monoclonal antibody and a single-chain antibody.

In addition to these benefits, fully human SCAs can be isolated directly from human SCA libraries without the need for costly and time consuming humanization procedures. SCAs are also readily produced through intracellular expression (inside cells) allowing for their use in gene therapy applications where SCA molecules act as specific inhibitors of cell function.

We, along with numerous other academic and industrial laboratories, have demonstrated through in vitro testing the binding specificity of dozens of SCAs. We, in collaboration with the National Cancer Institute, have shown in published preclinical studies that SCAs localize to specific tumors and rapidly penetrate the tumors.

SCAs Under Development

We believe that we have a strong patent position in the area of SCAs. We also believe that all products made by or incorporating SCA-based proteins or genes will require a license under our patents. However, we cannot assure you that this will prove to be the case. We have granted licenses to a number of corporations and intend to issue additional licenses. To date, we have granted SCA product licenses to more than 15 companies, including Bristol-Myers Squibb, Baxter Healthcare and the Gencell Division of Aventis. These product licenses generally provide for upfront payments, milestone payments and royalties on sales of any SCA products developed. Some of the areas being explored with SCAs are cancer therapy, cardiovascular indications and AIDS.

One of our licensees, Alexion Pharmaceuticals, Inc., is developing an SCA directed against complement protein C5, which is a component of the body's normal defense against foreign pathogens. Inappropriate complement activation during cardiopulmonary bypass and myocardial infarction can lead to clinical problems. In Phase I trials during cardiopulmonary bypass, this SCA improved cardiac and neurological function and reduced blood loss. Alexion reported that it and its partner, Procter & Gamble, completed a Phase IIb study to evaluate this SCA in patients undergoing cardiopulmonary bypass surgery and are currently conducting two additional 1,000 patient Phase II trials to evaluate this SCA in heart

attack patients. This product has been given fast track review status by the FDA for bypass surgery.

Internal Development

Internally, our research staff is currently working on a SCA protein candidate, as well as evaluating the feasibility of partnering with other companies that are currently developing SCA proteins that are already in clinical development. We are also developing new technology which combines our proprietary SCA and PEG technologies. We have shown that it is possible to increase the half life of an SCA, by a factor of two to twenty-fold, by attaching PEG to it.

Strategic Alliances and Licenses

In addition to internal product development, we seek to enter into joint development and licensing arrangements with other pharmaceutical and biopharmaceutical companies to expand the pipeline of products utilizing our proprietary PEG and SCA protein technologies. We believe that our technologies can be used to improve products that are already on the market or that are under development to produce therapeutic products that provide a safer, more effective and more convenient therapy.

Schering-Plough Agreement

In November 1990, we entered into an agreement with Schering-Plough. Under this agreement, Schering-Plough agreed to apply our PEG technology to develop a modified form of Schering-Plough's INTRON A. Schering-Plough is responsible for conducting and funding the clinical studies, obtaining regulatory approval and marketing and manufacturing the product worldwide on an exclusive basis and we will receive royalties on worldwide sales of PEG-INTRON for all indications. The royalty percentage to which we are entitled will be lower in any country where a pegylated alpha-interferon product is being marketed by a third party in competition with PEG-INTRON, where such third party is not Hoffmann-La Roche.

In June 1999, we amended our agreement with Schering-Plough, which resulted in an increase in the effective royalty rate that we receive for PEG-INTRON sales. In exchange, we relinquished our option to retain exclusive U.S. manufacturing rights for this product. In addition, we granted Schering-Plough a non-exclusive license under some of our PEG patents relating to Branched or U-PEG technology. This license gives Schering-Plough the ability to sublicense rights under these patents to any party developing a competing interferon product. During August 2001, Schering-Plough, pursuant to a cross license agreement entered into as part of the settlement of certain patent lawsuits, granted Hoffmann-La Roche a sublicense under our Branched PEG patents to allow Hoffmann-La Roche to make, use, and sell its pegylated alpha-interferon product,

PEGASYS.

In February 2000, we earned a $1.0 million milestone payment when the FDA accepted the marketing application for PEG-INTRON filed by Schering-Plough and in January 2001 we earned a final $2.0 million milestone payment upon the FDA's approval of PEG-INTRON. Schering-Plough's obligation to pay us royalties on sales of PEG-INTRON terminates, on a country-by-country basis, upon the later of the date the last patent of ours to contain a claim covering PEG-INTRON expires in the country or 15 years after the first commercial sale of PEG-INTRON in such country.

Schering-Plough has the right to terminate this agreement at any time if we fail to maintain the requisite liability insurance of $5,000,000.

Aventis License Agreements

We have entered into a license agreement with Aventis Pharmaceuticals (formerly Rhone-Poulenc

Rorer Pharmaceutical, Inc.), as amended, under which we granted Aventis an exclusive license to sell in the United States ONCASPAR and any other asparaginase or PEG-asparaginase product developed by us or Aventis during the term of the amended license agreement. During July 2000, we further amended our license agreement with Aventis to increase the base royalty payable to us on net sales of ONCASPAR from 23.5% to 27.5% on annual sales up to $10 million and 25% on annual sales exceeding $10 million. These royalty payments will include Aventis' cost of purchasing ONCASPAR from us under our supply agreement. The term of the agreement was also extended until 2016. Additionally, the amended license agreement eliminated the super royalty of 43.5% on net sales of ONCASPAR which exceed certain agreed-upon amounts. The Aventis U.S. License Agreement also provided for a payment of $3.5 million in advance royalties, which was received in January 1995.

The payment of royalties to us under the amended license agreement will be offset by an original credit of $5.9 million, which represents a royalty advance plus reimbursement of certain amounts due to Aventis under the original license agreement and interest expense. The royalty advance is shown as a long term liability, with the corresponding current portion included in accrued expenses on our consolidated balance sheets as of June 30, 2001 and 2000. The royalty advance will be reduced as royalties are recognized under the agreement.

The amended license agreement prohibits Aventis from making, using or selling an asparaginase product in the U.S. or a competing PEG-asparaginase product anywhere in the world until the later of the expiration of the agreement or, if the agreement is terminated earlier, five years after termination. The agreement terminates in December 2016 but automatically renews for additional one-year periods unless either party notifies the other in writing that it intends not to renew the agreement at least three months prior to the end of the current term. It can be terminated earlier by either party due to a default by the other. In addition, Aventis may terminate the agreement at any time upon one year's prior notice to us or if we are unable to supply product for more than 60 days under our separate supply agreement with Aventis. When the amended license agreement terminates, all rights we granted to Aventis under the agreement will revert to us. Under its supply agreement with us, Aventis is required to purchase from us all of its product requirements for sales of ONCASPAR in North America. If we are unable to supply product to Aventis under the supply agreement for more than 60 days for any reason other than a force majeure event, Aventis may terminate the supply agreement and we will be required to exclusively license Aventis the know-how required to manufacture ONCASPAR for the period of time during which the agreement would have continued had the license agreement not been terminated.

During August 2000 we made a $1.5 million payment to Aventis, which was accrued for at June 30, 2000, to settle a disagreement over the purchase price of ONCASPAR under the supply agreement and to settle Aventis' claim that we should be responsible for its lost profits while ONCASPAR was under the temporary labeling and distribution restrictions described in "Raw Materials and Manufacturing." The settlement also calls for a payment of $100,000 beginning in May 2000 and for each month thereafter that expires prior to the resumption of normal distribution and labeling of this product by Aventis. During the quarter ended December 31, 2000, the FDA gave final approval to our manufacturing

changes, which were made to correct these problems, and all previously imposed restrictions on ONCASPAR were lifted. This will allow for resumption of normal distribution and labeling of this production by Aventis, which is expected to occur during the first quarter of calendar year 2002.

Under separate license agreements, Aventis has exclusive rights to sell ONCASPAR in Canada and Mexico. These agreements provide for Aventis to seek to obtain marketing approval of ONCASPAR in Canada and Mexico and for us to receive royalties on net sales of ONCASPAR in these countries, if any. These agreements expire 10 years after the first commercial sale of ONCASPAR in each country, but automatically renew for consecutive five-year periods unless either party elects to terminate at least three

months prior to the end of the current term. Aventis may terminate these agreements on one year's prior notice to us.

We also have a license agreement with Aventis for the Pacific Rim region, specifically, Australia, New Zealand, Japan, Hong Kong, Korea, China, Taiwan, the Philippines, Indonesia, Malaysia, Singapore, Thailand, Laos, Cambodia and Vietnam. Under the license agreement, Aventis is responsible for obtaining approvals for indications in the licensed territories. Our supply agreement for the Pacific Rim region provides for Aventis to purchase ONCASPAR for the region from us at established prices, which increase over the term of the agreement. The license agreement also provides for minimum purchase requirements for the first four years of the agreement. These agreements expire on a country-by-country basis 10 years after the first commercial sale of ONCASPAR in each country, but automatically renew for consecutive five-year periods unless either party elects to terminate at least three months prior to the end of the current term. Aventis may terminate these agreements on one year's prior notice to us.

MEDAC License Agreement

We have also granted an exclusive license to MEDAC to sell ONCASPAR and any PEG-asparaginase product developed by us or MEDAC during the term of the agreement in Western Europe, Turkey and Russia. Our supply agreement with MEDAC provides for MEDAC to purchase ONCASPAR from us at certain established prices, which increase over the initial five-year term of the agreement. Under the license agreement, MEDAC is responsible for obtaining additional approvals and indications in the licensed territories, beyond the currently approved hypersensitive indication in Germany. Under the agreement, MEDAC is required to meet certain minimum purchase requirements. The MEDAC license terminates in October 2001. We are currently in negotiations with MEDAC to enter into a new license agreement.

Welfide Agreements

We have two license agreements with the Welfide Corporation (formerly Yoshitomi Pharmaceutical Industries, Ltd.) for the development of a recombinant human serum albumin, or rHSA, as a blood volume expander. In 1998, Yoshitomi Pharmaceutical Industries, Ltd. and Green Cross Corporation merged to form Yoshitomi Pharmaceutical Industries, Ltd. and during 2000 such entity was renamed Welfide Corporation. Yoshitomi had reported that it filed for approval of this product in Japan in November 1997. The agreements, which were assigned to us in connection with our acquisition of Genex Corporation in 1991, entitle us to a royalty on sales of a rHSA product sold by Welfide in much of Asia and North and South America. We believe, this product is currently being developed only for the Japanese market. A binding arbitration was concluded in February 2000 regarding the royalty rate required under the agreements. The arbitrators awarded us a 1% royalty on Welfide sales of rHSA in Japan, South East Asia, India, China, Australia, New Zealand and North and South America for a period of 15 years after the first commercial sale of Yoshitomi's rHSA following market approval of that product in Japan or the United States.

Marketing

Other than ADAGEN, which we market on a worldwide basis to a small patient population, we do not engage in the direct commercial marketing of any of our products and therefore do not have an established sales force. For some of our products, we have provided exclusive marketing rights to our corporate partners in return for royalties on sales. We have an agreement with Gentiva Health

Services to purchase and distribute ADAGEN and ONCASPAR in the United States and Canada. The agreement provides for Gentiva to purchase ADAGEN and ONCASPAR from us at certain prices established in the agreement. We pay Gentiva a service fee for the distribution of the products. The agreement with Gentiva will terminate as to ONCASPAR when Aventis resumes distribution of that product.

We expect to evaluate whether to create or acquire a sales force to market certain products in the United States or to continue to enter into licensing and marketing agreements with others for United States and foreign markets. These agreements generally provide that our licensees or marketing partners will conduct all or a significant portion of the marketing of these products.

Raw Materials and Manufacturing

In the manufacture of our products, we couple activated forms of PEG with unmodified proteins. We do not have a long-term supply agreement for the raw polyethylene glycol material that we use to manufacture the PEG we require. Instead, we maintain a level of inventory, which we believe should provide us sufficient time to find an alternate supplier of PEG, in the event it becomes necessary, without materially disrupting our business.

During 1998, we began to experience manufacturing problems with one of our FDA-approved products, ONCASPAR. The problems were due to increased levels of white particulates in batches of ONCASPAR, which resulted in an increased rejection rate for this product. During fiscal 1999, we agreed with the FDA to temporary labeling and distribution restrictions for ONCASPAR and instituted additional inspection and labeling procedures prior to distribution. During May 1999, the FDA required us to limit distribution of ONCASPAR to only those patients who are hypersensitive to native L-asparaginase. As a result of certain manufacturing changes we made, the FDA withdrew this distribution restriction in November 1999.

In July 1999, the FDA conducted an inspection of our manufacturing facility in connection with our product license for ADAGEN. Following that inspection, the FDA documented several deviations from Current Good Manufacturing Practices, known as cGMP, in a Form 483 report. We provided the FDA with a corrective action plan. In November 1999, the FDA issued a warning letter citing the same cGMP deviations listed in the July 1999 Form 483, but it also stated that the FDA was satisfied with our proposed corrective actions. As a result of the deviations, the FDA decided not to approve product export requests from us for ONCASPAR until it determined that all noted cGMP deviations were either corrected or in the process of being corrected. This restriction was removed in August 2000.

Since January 2000, the FDA has conducted follow-up inspections as well as routine inspections of our manufacturing facility related to ONCASPAR and ADAGEN. Following certain of these inspections, the FDA issued Form 483 reports, citing deviations from cGMP. We have or are in the process of responding to such reports with corrective action plans and are currently in discussion with the FDA concerning some observations set forth in the Form 483s.

In March 2001, we voluntarily replaced a batch of ADAGEN that was found to have an impurity which we believe was introduced in the filling process.

Research and Development

Our primary source of new products is our internal research and development activities. Research and development expenses for the fiscal years ended June 30, 2001, 2000 and 1999 were approximately $13.0 million, $8.4 million, and $6.8 million, respectively.

Our research and development activities during fiscal 2001 concentrated primarily on the Phase I clinical trials of PROTHECAN, pre-clinical studies, and continued research and development of our proprietary technologies. We expect our research and development expenses for fiscal 2002 and beyond to be at significantly higher levels as we continue clinical trials for PROTHECAN and PEG-paclitaxel, and additional compounds enter clinical trials.

Patents

We have licensed, and been issued, a number of patents in the United States and other countries and have other patent applications pending to protect our proprietary technology. Although we believe that our patents provide adequate protection for the conduct of our business, we cannot assure you that such patents:

- will be of substantial protection or commercial benefit to us,
- will afford us adequate protection from competing products, or
- will not be challenged or declared invalid.

We also cannot assure you that additional United States patents or foreign patent equivalents will be issued to us.

The patent covering our original PEG technology, which we had licensed from Research Corporation Technologies, Inc., contained broad claims covering the attachment of PEG to polypeptides. However, this United States patent and its corresponding foreign patents have expired. Based upon the expiration of the Research Corporation patent, other parties will be permitted to make, use, or sell products covered by the claims of the Research Corporation patent, subject to other patents, including those which we hold. We have obtained and intend to continue to pursue patents with claims covering improved methods of attaching or linking PEG to therapeutic compounds. We also have obtained patents relating to the specific composition of the PEG-modified compounds that we have identified or created. We will continue to seek such patents as we develop additional PEG-enhanced products. We cannot assure you that any of these patents will enable us to prevent infringement or that competitors will not develop competitive products outside the protection that may be afforded by our patents.

We are aware that others have also filed patent applications and have been granted patents in the United States and other countries with respect to the application of PEG to proteins and other compounds. Owners of any such patents may seek to prevent us or our collaborators from selling our products.

We also believe that there are PEG-modified products being developed by third parties that infringe on one or more of our current PEG technology patents. On December 7, 1998, we filed a patent infringement suit against Shearwater Polymers Inc., a company that reportedly has developed a Branched PEG, or U-PEG, used in Hoffmann-La Roche's product, PEGASYS, a PEG-modified version of its alpha-interferon product ROFERON-A. Shearwater has filed a counterclaim in this litigation alleging that our Branched PEG patent is invalid and unenforceable.

During August 2001, Schering-Plough granted a sub-license to Hoffmann-La Roche under our Branched PEG patents to allow Hoffmann-La Roche to make, use and sell its pegylated alpha interferon product, PEGASYS. We plan to continue to prosecute our suit against Shearwater for Shearwater's infringement of our branched PEG patents based upon Shearwater's making, using and selling branched PEG reagents to parties other than Hoffmann-La Roche solely with regard to PEGASYS. During August 2001, we dismissed a similar infringement suit against Hoffmann-La Roche as a result of the sublicense by Schering-Plough of our Branched PEG patents for PEGASYS to Hoffmann-La Roche.

In the field of SCA proteins, we have several United States and foreign patents and pending patent applications, including a patent granted in August 1990 covering the genes needed to encode SCA proteins. Curis Inc. (formerly known as Creative BioMolecules Inc.) or Curis, provoked an interference with this patent and on June 28, 1991, the United States Patent and Trademark Office entered summary judgment terminating the interference proceeding and upholding our patent. Curis subsequently lost its

appeal of this decision in the United States Court of Appeals and did not file a petition for review of this decision by the United States Supreme Court within the required time period.

In November 1993, Curis signed cross license agreements with us in the field of our SCA protein technology and Curis' Biosynthetic Antibody Binding

Site protein technology. Under the agreements, each company is free, under a non-exclusive, worldwide license, to make, use and sell products utilizing the technology claimed by both companies' SCA patents, without paying royalties to the other. Each company may grant sublicenses under the other company's antibody engineering patents to third parties to use and sell products developed or conceived and reduced to practice by the company granting such sublicense. If such a sublicense is granted, the company granting the sublicense will be required to pay to the other company a portion of any license fees or royalties received by such company under the sublicense. Our limited right to grant sublicenses under Curis' patents may require a licensee of ours to obtain a license from Curis if the product being developed by such licensee would infringe Curis' patents. We cannot assure you that any such license could be obtained on terms that are favorable to our licensee, if at all. In addition, the agreements provide for the release and discharge by each company of the other from any and all claims based on past infringement of the technology, which is the subject of the agreements. The agreements also provide for any future disputes between the companies regarding new patents in the area of engineered monoclonal antibodies to be resolved pursuant to agreed-upon procedures. In July 2001, Curis reported that it had entered into a purchase and sale agreement with Micromet AG, a German corporation, pursuant to which Curis assigned its single chain polypeptide technology to Micromet. We have been advised that Curis assigned its cross license agreement with us to Micromet as part of its sale of its single chain polypeptide assets.

The degree of patent protection to be afforded to biotechnological inventions is uncertain and our products are subject to this uncertainty. There may be issued third party patents or patent applications containing subject matter which we or our licensees or collaborators will require in order to research, develop or commercialize at least some of our products. We cannot assure you that we will be able to obtain a license to such subject matter on acceptable terms, or at all.

In addition to the litigation described above, we expect that there may be significant litigation in the industry regarding patents and other proprietary rights and, to the extent we become involved in such litigation, it could consume a substantial amount of our resources. An adverse decision in any such litigation could subject us to significant liabilities. In addition, we rely heavily on our proprietary technologies for which pending patent applications have been filed and on unpatented know-how developed by us. Insofar as we rely on trade secrets and unpatented know-how to maintain our competitive technological position, we cannot assure you that others may not independently develop the same or similar technologies. Although we have taken steps to protect our trade secrets and unpatented know-how, third parties nonetheless may gain access to such information.

Government Regulation

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements on the clinical development, manufacture and marketing of pharmaceutical products. These agencies and other federal, state and local entities regulate research and development activities and the testing, manufacture, quality control, safety, effectiveness, labeling, storage, record keeping, approval and promotion of our products. All of our products will require regulatory approval before commercialization. In particular, therapeutic products for human use are subject to rigorous pre-clinical and clinical testing and other requirements of the Federal Food, Drug, and Cosmetic Act and the Public Health Service Act, implemented by the FDA, as well as similar statutory and regulatory requirements of foreign countries. Obtaining these marketing approvals and subsequently complying with ongoing statutory and regulatory requirements is costly and time consuming. Any failure by us or our collaborators, licensors or licensees to obtain, or any delay in obtaining, regulatory approval or in complying with other requirements, could adversely affect the commercialization of products that we are then developing and our ability to receive product or royalty revenues.

The steps required before a new drug or biological product may be distributed commercially in the United States generally include:

- conducting appropriate pre-clinical laboratory evaluations of the product's chemistry, formulation and stability, and animal studies to

assess the potential safety and efficacy of the product,

- submitting the results of these evaluations and tests to the FDA, along with manufacturing information and analytical data, in an Investigational New Drug Application, or IND,

- making the IND effective after the resolution of any safety or regulatory concerns of the FDA,

- obtaining approval of Institutional Review Boards, or IRBs, to introduce the drug or biological product into humans in clinical studies,

- conducting adequate and well-controlled human clinical trials that establish the safety and efficacy of the drug or biological product candidate for the intended use, typically in the following three sequential, or slightly overlapping stages:

  Phase I. The drug or biologic is initially introduced into healthy human subjects or patients and tested for safety, dose tolerance, absorption, metabolism, distribution and excretion,

  Phase II. The drug or biologic is studied in patients to identify possible adverse effects and safety risks, to determine dose tolerance and the optimal dosage, and to collect initial efficacy data,

  Phase III. The drug or biologic is studied in an expanded patient population at multiple clinical study sites, to confirm efficacy and safety at the optimized dose, by measuring a primary endpoint established at the outset of the study,

- submitting the results of preliminary research, pre-clinical studies, and clinical studies as well as chemistry, manufacturing and control information on the drug or biological product to the FDA in a New Drug Application, or NDA, for a drug product, a Biologics License Application, or BLA, for a biological product, and

- obtaining FDA approval of the NDA or BLA prior to any commercial sale or shipment of the drug or biological product.

An NDA or BLA must contain, among other things, data derived from nonclinical laboratory and clinical studies which demonstrate that the product meets prescribed standards of safety, purity and potency, and a full description of manufacturing methods. The biological product may not be marketed in the United States until a biological license is issued.

The approval process can take a number of years and often requires substantial financial resources. The results of pre-clinical studies and initial clinical trials are not necessarily predictive of the results from large-scale clinical trials, and clinical trials may be subject to additional costs, delays or modifications due to a number of factors, including the difficulty in obtaining enough patients, clinical investigators, drug supply, or financial support. The FDA has issued regulations intended to accelerate the approval process for the development, evaluation and marketing of new therapeutic products intended to treat life-threatening or severely debilitating diseases, especially where no alternative therapies exist. If applicable, this procedure may shorten the traditional product development process in the United States. Similarly, products that represent a substantial improvement over existing therapies may be eligible for

priority review with a target approval time of six months. Nonetheless, approval may be denied or delayed by the FDA or additional trials may be required. The FDA also may require testing and surveillance programs to monitor the effect of approved products that have been commercialized, and the agency has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs. Upon approval, a drug product or a biological product may be marketed only in those dosage forms and for those indications approved in the NDA or BLA, although information about off-label indications may be distributed in certain circumstances.

In addition to obtaining FDA approval for each indication to be treated with each product, each domestic drug product manufacturing establishment must register with the FDA, list its drug products with the FDA, comply with Current Good Manufacturing Practices and permit and pass inspections by the FDA. Moreover, the submission of applications for approval may require additional time to complete manufacturing stability studies. Foreign establishments manufacturing drug products for distribution in the United States also must list their products with the FDA and comply with Current Good Manufacturing Practices. They also are subject to periodic inspection by the FDA or by local authorities under agreement with the FDA.

Any products manufactured or distributed by us pursuant to FDA approvals are subject to extensive continuing regulation by the FDA, including record-keeping requirements and a requirement to report adverse experiences with the drug. In addition to continued compliance with standard regulatory requirements, the FDA also may require post-marketing testing and surveillance to monitor the safety and efficacy of the marketed product. Adverse experiences with the product must be reported to the FDA. Product approvals may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning safety or efficacy of the product are discovered following approval.

The Federal Food, Drug, and Cosmetic Act also mandates that drug products be manufactured consistent with Current Good Manufacturing Practices. In complying with the FDA's regulations on Current Good Manufacturing Practices, manufacturers must continue to spend time, money and effort in production, record-keeping, quality control, and auditing to ensure that the marketed product meets applicable specifications and other requirements. The FDA periodically inspects drug product manufacturing facilities to ensure compliance with Current Good Manufacturing Practices. Failure to comply subjects the manufacturer to possible FDA action, such as:

- warning letters,
- suspension of manufacturing,
- seizure of the product,
- voluntary recall of a product,
- injunctive action, or
- possible civil or criminal penalties.

To the extent we rely on third parties to manufacture our compounds and products, those third parties will be required to comply with Current Good Manufacturing Practices.

Even after FDA approval has been obtained, and often as a condition to expedited approval, further studies, including post-marketing studies, may be required. Results of post-marketing studies may limit or expand the further marketing of the products. If we propose any modifications to the product, including changes in indication, manufacturing process, manufacturing facility or labeling, an NDA or BLA supplement may be required to be submitted to the FDA.

Products manufactured in the United States for distribution abroad will be subject to FDA regulations regarding export, as well as to the requirements of the country to which they are shipped. These latter requirements are likely to cover the conduct of clinical trials, the submission of marketing applications, and all aspects of product manufacture and marketing. Such requirements can vary significantly from country to country. As part of our strategic relationships our collaborators may be responsible for the foreign regulatory approval process of our products, although we may be legally liable for noncompliance.

We are also subject to various federal, state and local laws, rules, regulations and policies relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents, used in connection with our research work. Although we believe that our safety procedures for handling and disposing of such materials comply with current federal, state and local laws, rules,

regulations and policies, the risk of accidental injury or contamination from these materials cannot be entirely eliminated.

We cannot predict the extent of government regulation which might result from future legislation or administrative action. In this regard, although the Food and Drug Administration Modernization Act of 1997 modified and created requirements and standards under the Federal Food, Drug, and Cosmetic Act with the intent of facilitating product development and marketing, the FDA is still in the process of implementing the Food and Drug Administration Modernization Act of 1997. Consequently, the actual effect of these developments on our business is uncertain and unpredictable.

Moreover, we anticipate that Congress, state legislatures and the private sector will continue to review and assess controls on health care spending. Any such proposed or actual changes could cause us or our collaborators to limit or eliminate spending on development projects and may otherwise impact us. We cannot predict the likelihood, nature or extent of adverse governmental regulation that might result from future legislative or administrative action, either in the United States or abroad. Additionally, in both domestic and foreign markets, sales of our proposed products will depend, in part, upon the availability of reimbursement from third-party payors, such as government health administration authorities, managed care providers, private health insurers and other organizations. Significant uncertainty often exists as to the reimbursement status of newly approved health care products. In addition, third-party payors are increasingly challenging the price and cost-effectiveness of medical products and services. There can be no assurance that our proposed products will be considered cost-effective or that adequate third-party reimbursement will be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product research and development.

PEG-INTRON was approved in the European Union and the United States for the treatment of hepatitis C in May 2000 and January 2001, respectively. ONCASPAR was approved for marketing in the United States and Germany in 1994 and in Canada in December 1997 for patients with acute lymphoblastic leukemia who are hypersensitive to native forms of L-asparaginase, and in Russia in April 1993 for therapeutic use in a broad range of cancers. ADAGEN was approved by the FDA in March 1990. Except for these approvals, none of our other products have been approved for sale and use in humans in the United States or elsewhere.

With respect to patented products, delays imposed by the government approval process may materially reduce the period during which we will have the exclusive right to exploit them.

Competition

Competition in the biopharmaceutical industry is intense and based significantly on scientific and technological factors. These factors include the availability of patent and other protection of technology and products, the ability to commercialize technological developments and the ability to obtain

governmental approval for testing, manufacturing and marketing. We compete with specialized biopharmaceutical firms in the United States, Europe and elsewhere, as well as a growing number of large pharmaceutical companies that are applying biotechnology to their operations. These companies, as well as academic institutions, governmental agencies and private research organizations, also compete with us in recruiting and retaining highly qualified scientific personnel and consultants.

We are aware that other companies are conducting research on chemically modified therapeutic proteins and that certain companies are modifying pharmaceutical products, including proteins, by attaching PEG. Other than PEG-INTRON and our ONCASPAR and ADAGEN products, and Hoffmann-La Roche's PEGASYS, which has been approved in Switzerland, we are not aware of any PEG-modified therapeutic proteins that are currently available commercially for therapeutic use. Nevertheless, other drugs or treatments that are currently available or that may be developed in the future, and which treat the same diseases as those that our products are designed to treat, may compete with our products.

Prior to the development of ADAGEN, the only treatment available to

patients afflicted with ADA-deficient SCID was a bone marrow transplant. Completing a successful transplant depends upon finding a matched donor, the probability of which is low. More recently, researchers at the National Institutes of Health, or NIH, have been attempting to treat SCID patients with gene therapy, which if successfully developed, would compete with, and could eventually replace ADAGEN as a treatment. The patients in these trials are also receiving ADAGEN treatment in addition to the gene therapy. The theory behind gene therapy is that cultured T-lymphocytes that are genetically engineered and injected back into the patient will express adenosine deaminase, the deficient enzyme in people afflicted with ADA-deficient SCID, permanently and at normal levels. To date, patients in gene therapy clinical trials have not been able to stop ADAGEN treatment and, therefore, the trials have been inconclusive.

Current standard treatment of patients with acute lymphoblastic leukemia includes administering unmodified L-asparaginase along with the drugs vincristine, prednisone and daunomycin. Studies have shown that long-term treatment with L-asparaginase increases the disease-free survival in high risk patients. ONCASPAR, our PEG-modified L-asparaginase product, is used to treat patients with acute lymphoblastic leukemia who are hypersensitive to unmodified forms of L-asparaginase. Currently, there is one unmodified form of L-asparaginase (Elspar) available in the United States and several available in Europe. We believe that ONCASPAR has two advantages over these unmodified forms of L-asparaginase: increased circulating blood life and generally reduced immunogenicity.

The current market for INTRON A, Schering-Plough's interferon alpha-2b product, is highly competitive, with Hoffmann-La Roche, Amgen, Inc. and several other companies selling similar products. We believe that PEG-INTRON may have several potential advantages over the interferon products currently approved for marketing in the United States and the European Union, including:

- once per week dosing versus the current three times per week dosing, and
- increased efficacy.

It has also been reported that Hoffmann-La Roche's PEGASYS product is a pegylated longer lasting version of its interferon product, ROFERON-A. Hoffmann-La Roche filed for United States marketing approval for PEGASYS in May 2000. Currently the product has not received FDA or European Union approval or approval in any other countries, with the exception of Switzerland where it received marketing clearance in August 2001.

There are several technologies which compete with our SCA protein technology, including chimeric antibodies, humanized antibodies, human monoclonal antibodies, recombinant antibody Fab fragments, low molecular weight peptides and mimetics. These competing technologies can be categorized into two areas:

- those modifying monoclonal antibodies to minimize immunological reaction to a foreign protein, which is the strategy employed with chimerics, humanized antibodies and human monoclonal antibodies, and
- those creating smaller portions of monoclonal antibodies, which are more specific to the target and have fewer side effects, as is the case with Fab fragments and low molecular weight peptides.

We believe that the smaller size of our SCA proteins should permit better penetration into the tumor, result in rapid clearance from the blood and cause a significant decrease in the immunogenic problems associated with conventional monoclonal antibodies. A number of organizations have active programs in SCA proteins. We believe that our patent position on SCA proteins will likely require companies that have not licensed our SCA protein patents to obtain licenses from us in order to commercialize their products, but we cannot assure you this will prove to be the case.

Employees

As of June 30, 2001, we employed 106 persons, including 21 persons with Ph.D. degrees. At that date, 52 employees were engaged in research and development activities, 31 were engaged in manufacturing, and 23 were engaged in

administration and management. None of our employees are covered by a collective bargaining agreement. All of our employees are covered by confidentiality agreements. We consider our relations with our employees to be good.

Item 2. Properties

We own no real property. The following are all of the facilities that we currently lease:

Location	Principal Operations	Approx. Square Footage	Approx. Annual Rent	Lease Expiration
20 Kingsbridge Road Piscataway, NJ	Research & Development and Administrative	56,000	$496,000(1)	June 15, 2007
300 Corporate Ct. S. Plainfield, NJ	Manufacturing	24,000	183,000	March 31, 2007

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

We believe that our facilities are well maintained and generally adequate for our present and future anticipated needs.

Item 3. Legal Proceedings

In December 1998, we filed a patent infringement suit against Shearwater Polymers Inc., a company that has manufactured, used and sold a Branched PEG, or U-PEG, reagent to Hoffmann-La Roche for its use to make its PEGASYS product, a pegylated version of its alpha-interferon product called ROFERON-A. This case is being heard in the U.S. District Court for the Northern District of Alabama. During September 2000, we filed a similar infringement suit in Federal Court in New Jersey against Hoffmann-La Roche.

In January 2000, Hoffmann-LaRoche filed lawsuits in both the United States and France against Schering-Plough alleging that PEG-INTRON infringes certain patents held by Hoffmann-La Roche. Hoffmann-La

Roche filed a similar suit in Germany. During August 2001, Schering-Plough entered into a licensing agreement with Hoffmann-La Roche that settled all patent disputes relative to the two companies' respective peginterferon products. The settlement agreement included a Schering-Plough sublicense of our branched PEG patents (among others) to Hoffmann-La Roche. The sublicense of our patents pertains only to pegylated versions of alpha interferon. Consequently, we agreed to dismiss the patent infringement lawsuit we filed against Hoffmann-La Roche asserting that PEGASYS infringes our branched PEG patents. We plan to continue to prosecute the patent infringement lawsuit against Shearwater for infringement of our branched PEG patents based upon Shearwater's making, using, and selling branched PEG reagents to parties other than Hoffmann-La Roche solely with regard to Hoffmann-La Roche's PEG interferon product, PEGASYS. Shearwater has filed a counter-claim in this litigation alleging that our Branched PEG patent is invalid and unenforceable.

The licensing agreement between Schering-Plough and Hoffmann-La Roche provides for each company to manufacture and market worldwide its peginterferon products free from liability for infringement under the other's existing patent rights. Additionally, Schering-Plough and Hoffmann-La Roche dismissed all patent litigation in the United States and Europe involving the two companies' respective peginterferon products. Schering-Plough and Hoffmann-La Roche cross licensed to each other all patents applicable to their pegylated alpha interferon products, PEG-INTRON (peginterferon alfa-2b) and PEGASYS (peginterferon alfa-2a), respectively. In addition, each party will license to the other its patents applicable to peginterferon as combination therapy with ribavirin.

There is no other pending material litigation to which we are a party or to

which any of our property is subject.

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

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded in the over-the-counter market and is quoted on the NASDAQ National Market under the trading symbol "ENZN".

The following table sets forth the high and low sale prices for our common stock for the years ended June 30, 2001 and 2000, as reported by the NASDAQ National Market. The quotations shown represent inter-dealer prices without adjustment for retail markups, markdowns or commissions, and may not necessarily reflect actual transactions.

	High	Low
Year Ended June 30, 2001		
First Quarter	74.13	41.38
Second Quarter	84.13	50.75
Third Quarter	67.75	33.13
Fourth Quarter	79.40	39.56
Year Ended June 30, 2000		
First Quarter	34.63	20.08
Second Quarter	46.25	26.63
Third Quarter	70.50	37.69
Fourth Quarter	47.63	25.69

As of September 20, 2001 there were 1,743 holders of record of our common stock.

We have never declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings to fund the development and growth of our business. Holders of our Series A preferred stock are entitled to an annual dividend of $2.00 per share, payable semiannually, but only when and if declared by our board of directors, out of funds legally available. As of June 30, 2001 there were 7,000 shares of Series A preferred stock issued and outstanding. Dividends on the Series A preferred stock are cumulative and accrue and accumulate but will not be paid, except in liquidation or upon conversion, until such time as the board of directors deems it appropriate. No dividends are to be paid or set apart for payment on our common stock, nor are any shares of common stock to be redeemed, retired or otherwise acquired for valuable consideration unless we have paid in full or made appropriate provision for the payment in full of all dividends which have then accumulated on the Series A preferred stock.

On June 21, 2001 we completed a private placement of $400 million principal amount of 4.5% convertible subordinated notes due 2008. The sale of the notes was made in reliance on the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended. Following this sale, resales were permitted by the initial purchasers to qualified institutional buyers under Rule 144A of the Securities Act. The initial purchasers were Morgan Stanley & Co. Inc., CIBC World Markets Corp., SG Cowen Securities Corp. and Legg Mason Wood Walker Inc. The aggregate discount to the initial purchasers was $12,000,000. We received net proceeds of approximately $387,200,000 from the sale of

the notes. The notes are convertible, subject to prior redemption, in whole or in part, into shares of common stock at any time on or before July 1, 2008 at a conversion price of $70.98 per share, subject to adjustment upon certain events.

We will not issue fractional shares of common stock upon conversion of the notes. Instead, we will pay cash equal to the market price of the common stock on the business day prior to the conversion date. We may redeem all or some of the notes at any time on or after July 7, 2004 at redemption prices declining from 102.57% of their principal amount in 2004 to 100% of the principal amount in 2008, plus accrued and unpaid interest.

Item 6. Selected Financial Data

Set forth below is our selected financial data for the five fiscal years ended June 30, 2001.

Consolidated Statement of Operations Data:

	Year Ended June 30				
	2001	2000	1999	1998	1997
Revenues	$ 31,587,709	$ 17,017,797	$ 13,158,207	$ 14,644,032	$ 12,727,052
Net Income (Loss)	11,525,064	(6,306,464)	(4,919,208)	(3,617,133)	(4,557,025)
Net Income (Loss) per Diluted Share	$ .26	$ (0.17)	$ (0.14)	$ (0.12)	$ (0.16)
Dividends on Common Stock	None	None	None	None	None

Consolidated Balance Sheet Data:

	June 30,				
	2001	2000	1999	1998	1997
Total Assets	$ 549,675,817	$ 130,252,250	$ 34,916,315	$ 13,741,378	$ 16,005,278
Long-Term Obligations	$ 400,000,000	--	--	--	--

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

Results of Operations

Fiscal Years Ended June 30, 2001, 2000, and 1999

Revenues. Revenues for the year ended June 30, 2001 were $31,588,000 compared to $17,018,000 for the year ended June 30, 2000 and $13,158,000 for the year ended June 30, 1999. The components of revenues are sales of our products, royalties we earn on the sale of our products by others, and contract revenues.

Sales increased by 35% to $20,941,000 for the year ended June 30, 2001, as compared to $15,558,000 for the year ended June 30, 2000 primarily due to increased ONCASPAR sales. The increase in ONCASPAR sales was due to the lifting of all of the FDA distribution and labeling restrictions, which were in place during the prior year. These restrictions were put in place in fiscal 1999 as a result of manufacturing problems that caused an increase in the levels of particulates in batches of ONCASPAR, which in turn resulted in an increased rejection rate for this product. Our marketing partner, Aventis Pharmaceuticals (formerly Phone-Poulenc Rorer Pharmaceuticals, Inc.) stopped distributing ONCASPAR in fiscal 1999 and we took over distribution of ONCASPAR directly to patients on an as-needed basis. During the year ended June 30, 2001, the FDA gave final approval to manufacturing changes which we made to correct these manufacturing problems, and all previously imposed restrictions have been lifted. This will allow for the resumption of normal distribution and labeling of this product by Aventis, which is expected to take place during the first quarter of calendar year 2002. Net sales of ADAGEN were $13,369,000 for the year ended June 30, 2001 and $12,159,000 for the year ended June 30, 2000. The

increase in ADAGEN sales resulted from an increase in the number of patients receiving ADAGEN treatment.

Sales increased by 21% to $15,558,000 for the year ended June 30, 2000 as compared to

$12,856,000 for the prior year due to increased ONCASPAR and ADAGEN sales. ONCASPAR sales for the year ended June 30, 2000 increased due to the lifting in November 1999 of some of the temporary labeling and distribution restrictions which were placed on ONCASPAR by the FDA as a result of certain difficulties encountered in our manufacturing process discussed above. The increase was also due to an increase in ADAGEN sales of approximately 8%, resulting from an increase in the number of patients receiving ADAGEN treatment.

Royalties for the year ended June 30, 2001, increased to $8,254,000 compared to $34,000 in the prior year. The increase in royalties was due to the commencement of sales of PEG-INTRON in the U.S. and Europe. Schering-Plough, our marketing partner for PEG-INTRON, began selling PEG-INTRON in the European Union in June 2000 and in the U.S. in February 2001. PEG-INTRON received marketing approval as once-weekly monotherapy for the treatment of chronic hepatitis C in the European Union in May 2000 and in the U.S. in January 2001. PEG-INTRON also received marketing approval for use in combination with REBETOL for the treatment of hepatitis C in the European Union in March 2001 and in the U.S. in August 2001. We did not recognize any royalties related to PEG-INTRON in the year ended June 30, 1999.

Sales of ADAGEN are expected to increase at rates comparable to those achieved during the last two years as additional patients are treated. We anticipate ONCASPAR revenues will decline significantly when Aventis resumes distribution of the product and our revenues related to the product will revert back to a 27.5% royalty on net sales. We expect royalties on PEG-INTRON to increase in future quarters with the U.S. approval of PEG-INTRON as combination therapy with REBETOL for hepatitis C in August 2001. Schering-Plough is also conducting clinical trials for additional indications for PEG-INTRON. We cannot assure you that any particular sales levels of ADAGEN, ONCASPAR or PEG-INTRON will be achieved or maintained.

Contract revenues for the year ended June 30, 2001 increased by $966,000, as compared to the prior year. The increase in contract revenues was due to a $2,000,000 milestone payment from Schering-Plough, which was earned as a result of the FDA's approval of PEG-INTRON in January 2001. During the prior year a $1,000,000 milestone payment was recognized as a result of the FDA's acceptance in February 2000 of Schering-Plough's U.S. marketing application for the use of PEG-INTRON in the treatment of chronic hepatitis C. Contract revenues for the year ended June 30, 2000 increased by $1,124,000, as compared to the prior year as a result of this $1,000,000 milestone payment from Schering-Plough.

We had export sales and royalties recognized on export sales of $11,115,000 for the year ended June 30, 2001, $4,137,000 for the year ended June 30, 2000 and $3,075,000 for the year ended June 30, 1999. Of these amounts, sales in Europe and royalties recognized on sales in Europe, were $10,418,000 for the year ended June 30, 2001, $3,617,000 for the year ended June 30, 2000 and $2,559,000 for the year ended June 30, 1999.

Cost of Sales. Cost of sales, as a percentage of net sales improved to 18% for the year ended June 30, 2001, as compared to 31% for the prior year. The improvement was primarily due to the prior year's write-off of ONCASPAR finished goods related to the previously discussed manufacturing problems.

Cost of sales, as a percentage of sales, for the year ended June 30, 2000 was 31% as compared to 34% in 1999. During each of the years ended June 30, 2000 and 1999, we recorded a charge related to a write-off of ONCASPAR finished goods on hand.

Research and Development. Research and development expenses increased by $4,669,000 or 56% to $13,052,000 for the year ended June 30, 2001, as compared to $8,383,000 for the same period last year. The increase was due to increased payroll and related expenses due to increases in research personnel and increased contracted services related to clinical trials and pre-clinical studies for products under

development, including PROTHECAN (PEG-camptothecin) and PEG-paclitaxel. Research and development activities are expected to continue to increase significantly as we continue the advancement of the current and additional Phase II clinical trials for PROTHECAN, we continue our Phase I clinical trials for PEG-paclitaxel, and as we conduct clinical trials for additional compounds.

Research and development expenses for the year ended June 30, 2000 increased by 23% to $8,383,000 as compared to $6,836,000 in 1999. The increase in research and development expenses resulted from an increase in expenses related to the clinical development of PROTHECAN and other PEG products in pre-clinical development.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended June 30, 2001 decreased by $1,161,000 to $11,795,000, as compared to $12,956,000 in 2000. The decrease was primarily due to a net charge of $2,600,000 recorded in the prior year, which was the result of a binding arbitration award in a lawsuit brought by a former financial advisor, as discussed below. The decrease was partially offset by increased legal fees associated with patent filings and patent litigation costs.

Selling, general and administrative expenses for the year ended June 30, 2000 increased by 59% to $12,956,000, as compared to $8,133,000 in 1999. The increase in selling, general and administrative expenses was principally due to a net charge to earnings of $2,600,000 recorded in the third quarter. This net charge was the result of a $6,000,000 payment we made, pursuant to a binding arbitration in a lawsuit brought by LBC Capital Resources Inc., a former financial advisor, for fees related to our 1996 private placement, partially offset by the reversal of certain other contingency reserves. The increase in selling, general and administrative expenses was also due to an increase in legal fees associated with patent filing and litigation costs.

Other Income/Expense. Other income/expense increased by $5,234,000 to $8,137,000 for the year ended June 30, 2001, as compared to $2,903,000 for the prior year. The increase in other income/expense is attributable to an increase in interest income as a result of an increase in interest bearing investments.

Other income/expense increased by $1,702,000 to $2,903,000 for the year ended June 30, 2000, as compared to $1,201,000 for the prior year. The increase was attributable to an increase in interest income due to an increase in interest bearing investments.

Provision for taxes. We were profitable for the year ended June 30, 2001, and accordingly we have recognized a tax provision for the year ended June 30, 2001. The tax provision represents our anticipated Alternative Minimum Tax liability based on the fiscal 2001 taxable income. The tax provision was offset by the sale of a portion of our net operating losses for the state of New Jersey. During March 2001, we sold approximately $9,255,000 of our state net operating loss carry forwards and recognized a tax benefit of $728,000 from this sale.

Liquidity and Capital Resources

Total cash reserves, including cash, cash equivalents and marketable securities, as of June 30, 2001 were $516,379,000, as compared to $118,413,000 as of June 30, 2000. We invest our excess cash primarily in United States government-backed securities. The increase in total cash reserves was primarily the result of our sale of $400,000,000 of 4.5% convertible subordinated notes during June 2001. We received net proceeds of $387,200,000 from this offering after deducting costs. The notes bear interest at an annual rate of 4.5%. Interest is payable on January 1 and July 1 of each year beginning January 1, 2002. Accrued interest on the notes was approximately $250,000 as of June 30, 2001. 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 on July 1, 2008 unless earlier converted, redeemed at our option or redeemed at the option of the noteholder 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.

To date, our sources of cash have been the proceeds from the sale of our stock through public offerings and private placements, the issuance of the notes, sales of and royalties on sales of ADAGEN, ONCASPAR, and PEG-INTRON, sales of our products for research purposes, contract research and development fees, technology transfer and license fees and royalty advances.

Under our amended license agreement with Aventis, we received a payment of $3,500,000 in advance royalties in January 1995. Royalties due under the amended license agreement will be offset against an original credit of $5,970,000, which represents the royalty advance plus reimbursement of certain amounts due Aventis 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. The corresponding current portion of the advance is included in accrued expense on the consolidated balance sheets. We will reduce the advance as royalties are recognized under the agreement. Through June 30, 2001, an aggregate of $4,307,000 in royalties payable by Aventis has been offset against the original credit.

As of June 30, 2001, 1,043,000 shares of Series A preferred stock had been converted into 3,325,000 shares of common stock. Accrued dividends on the converted Series A preferred stock in the aggregate of $3,770,000 were settled by the issuance of 235,000 shares of common stock and cash payments of $1,947,000. The shares of Series A preferred stock outstanding at June 30, 2001 are convertible into approximately 16,000 shares of common stock. Dividends accrue on the remaining outstanding shares of Series A preferred stock at a rate of $14,000 per year. As of June 30, 2001, there were accrued and unpaid dividends totaling $158,000 on the 7,000 shares of Series A preferred stock outstanding. We have the option to pay these dividends in either cash or common stock.

Our current sources of liquidity are cash, cash equivalents and interest earned on such cash reserves, sales of and royalties on sales of ADAGEN, ONCASPAR, and PEG-INTRON, and sales of our products for research purposes and license fees. Based upon our currently planned research development activities and related costs and our current sources of liquidity, we anticipate our current cash reserves will be sufficient to meet our capital, debt service and operational requirements 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.

Recently Issued Accounting Standards

In July 2001, the FASB issued SFAS No. 141, Business Combination, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 requires that all business combinations be accounted for under a single method - the purchase method. Use of the pooling-of-interests method no longer is permitted. SFAS 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. SFAS 142 has no impact on our historical financial statements as we do not have any goodwill or intangible assets, which resulted from business combinations.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible

long-lived assets. Since the requirement is to recognize the obligation when incurred, approaches that have been used in the past to accrue the asset retirement obligation over the life of the asset are no longer acceptable. SFAS 143 also requires the enterprise to record the contra to the initial obligation as an increase to the carrying amount of the related long-lived asset (i.e., the associated asset retirement costs) and to depreciate that cost over the life of the asset. The liability is increased at the end of each period to reflect the passage of time (i.e., accretion expense) and changes in the estimated future cash flows underlying the initial fair value measurement. Enterpreises are required to adopt Statement 143 for fiscal years beginning after June 15, 2002. We are in the process of evaluating this SFAS and the effect that it will have on our consolidated financial statements and current impairment policy.

Risk Factors

Our near term success is heavily dependent on Schering-Plough's effective marketing of PEG-INTRON.

In the near term, our results of operations are heavily dependent on Schering-Plough's sales of PEG-INTRON. Under our agreement with Schering-Plough, pursuant to which we applied our PEG technology to develop a modified form of Schering-Plough's INTRON A, we will receive royalties on worldwide sales of PEG-INTRON. Schering-Plough is responsible for conducting and funding the clinical studies, obtaining regulatory approval and marketing the product worldwide on an exclusive basis. Schering-Plough received marketing authorization for PEG-INTRON in the United States in January 2001 and in the European Union in May 2000 for the treatment of hepatitis C. Schering-Plough has also been granted marketing approval for the sale of PEG-INTRON and REBETOL Capsules as combination therapy for the treatment of hepatitis C in March 2001 in the European Union and in August 2001 in the U.S. If Schering-Plough fails to effectively market PEG-INTRON or discontinues the marketing of PEG-INTRON for these indications this would have a material adverse effect on our business, financial condition and results of operations.

Even though the use of PEG-INTRON as a stand alone therapy and as combination therapy with REBETOL received FDA approval, we cannot assure you that Schering-Plough will be successful in marketing PEG-INTRON or that Schering-Plough will not continue to market INTRON A, either as a stand-alone product or in combination therapy with REBETOL. The amount and timing of resources dedicated by Schering-Plough to the marketing of PEG-INTRON is not within our control. If Schering-Plough breaches or terminates its agreement with us, the commercialization of PEG-INTRON could be slowed or blocked completely. Our revenues will be negatively affected if Schering-Plough continues to market INTRON A in competition with PEG-INTRON or if it cannot meet the manufacturing demands of the market. If Schering-Plough breaches the agreement, a dispute may arise between us. A dispute would be both expensive and time-consuming and may result in delays in the commercialization of PEG-INTRON, which would likely have a material adverse effect on our business, financial condition and results of operations.

We have a history of losses and we may not sustain profitability.

We have incurred substantial losses since our inception. As of June 30, 2001, we had an accumulated deficit of approximately $118 million. Although we earned a profit for the year ended June

30, 2001, we cannot assure you that we will be able to remain profitable. Our ability to remain profitable will depend primarily on Schering-Plough's effective marketing of PEG-INTRON, as well as on the rate of growth in our other product sales or royalty revenue and on the level of our expenses. Our ability to achieve long-term profitability will depend upon our or our licensees' ability to obtain regulatory approvals for additional product candidates. Even if our product candidates receive regulatory approval, we cannot assure you that our products will achieve market acceptance or will be commercialized successfully or that our operations will sustain profitability.

We are subject to extensive regulation. Compliance with these regulations can be costly, time consuming and subject us to unanticipated delays in developing our products.

The manufacturing and marketing of pharmaceutical products in the United

States and abroad are subject to stringent governmental regulation. The sale of any of our products for use in humans in the United States will require the prior approval of the FDA. Similar approvals by comparable agencies are required in most foreign countries. The FDA has established mandatory procedures and safety standards that apply to the clinical testing, manufacture and marketing of pharmaceutical products. Obtaining FDA approval for a new therapeutic product may take several years and involve substantial expenditures. ADAGEN was approved by the FDA in 1990. ONCASPAR was approved in the United States and in Germany in 1994, and in Canada in 1997, in each case for patients with acute lymphoblastic leukemia who are hypersensitive to native forms of L-asparaginase. ONCASPAR was approved in Russia in April 1993 for therapeutic use in a broad range of cancers. PEG-INTRON was approved in Europe and the United States for the treatment of hepatitis C in May 2000 and January 2001, respectively. Except for these approvals, none of our other products have been approved for sale and use in humans in the United States or elsewhere.

We cannot assure you that we or our licensees will be able to obtain FDA or other relevant marketing approval for any of our other products. In addition, any approved products are subject to continuing regulation. If we or our licensees fail to comply with applicable requirements it could result in:

- criminal penalties,
- civil penalties,
- fines,
- recall or seizure,
- injunctions requiring suspension of production,
- orders requiring ongoing supervision by the FDA, or
- refusal by the government to approve marketing or export applications or to allow us to enter into supply contracts.

If we or our licensees fail to obtain or maintain requisite governmental approvals or fail to obtain or maintain approvals of the scope requested, it will delay or preclude us or our licensees or marketing partners from marketing our products. It could also limit the commercial use of our products. Any such failure or limitation may have a material adverse effect on our business, financial condition and results of operations.

We have experienced problems complying with the FDA's regulations for manufacturing

our products, and we may not be able to resolve these problems.

Manufacturers of drugs also must comply with the applicable FDA good manufacturing practice regulations, which include quality control and quality assurance requirements as well as the corresponding maintenance of records and documentation. Manufacturing facilities are subject to ongoing periodic inspection by the FDA and corresponding state agencies, including unannounced inspections, and must be licensed as part of the product approval process before they can be used in commercial manufacturing. We or our present or future suppliers may be unable to comply with the applicable good manufacturing practice regulations and other FDA regulatory requirements. We manufacture ONCASPAR and ADAGEN, and Schering-Plough is responsible for the manufacture of PEG-INTRON.

During 1998, we began to experience manufacturing problems with one of our FDA-approved products, ONCASPAR. The problems were due to increased levels of white particulates in batches of ONCASPAR, which resulted in an increased rejection rate for this product. During fiscal 1999, we agreed with the FDA to temporary labeling and distribution restrictions for ONCASPAR and instituted additional inspection and labeling procedures prior to distribution. During May 1999, the FDA required us to limit distribution of ONCASPAR to only those patients who are hypersensitive to native L-asparaginase. In November 1999, as a result of manufacturing changes we implemented the FDA withdrew this distribution restriction.

In July 1999, the FDA conducted an inspection of our manufacturing facility in connection with our product license for ADAGEN. Following that inspection, the FDA documented several deviations from Current Good Manufacturing Practices, known as cGMP, in a Form 483 report. We provided the FDA with a corrective action plan. In November 1999, the FDA issued a warning letter citing the same cGMP deviations listed in the July 1999 Form 483, but it also stated that the FDA was satisfied with our proposed corrective actions. As a result of the deviations, the FDA decided not to approve product export requests from us for ONCASPAR until it determined that all noted cGMP deviations were either corrected or in the process of being corrected. This restriction was removed in August 2000.

Since January 2000, the FDA has conducted follow-up inspections as well as routine inspections of our manufacturing facility related to ONCASPAR and ADAGEN. Following certain of these inspections, the FDA issued Form 483 reports, citing deviations from cGMP. We have or are in the process of responding to such reports with corrective action plans and are currently in discussion with the FDA concerning some observations set forth in the Form 483s.

We are aware that the FDA has conducted inspections of certain of the manufacturing facilities of Schering-Plough and those inspections have resulted in the issuance of Form 483s citing deviations from cGMP.

In March 2001, we voluntarily replaced a batch of ADAGEN that was found to have an impurity, which we believe was introduced in the filling process.

If we or our licensees, including Schering-Plough, face additional manufacturing problems in the future or if we or our licensees are unable to satisfactorily resolve current or future manufacturing problems, the FDA could require us or our licensees to discontinue the distribution of our products or to delay continuation of clinical trials. If we or our licensees, including Schering-Plough, cannot market and distribute our products for an extended period, sales of the products will suffer, which would adversely affect our financial results.

Our clinical trials could take longer to complete and cost more than we expect.

We will need to conduct significant additional clinical studies of all of our product candidates, which have not yet been approved for sale. These studies are costly, time consuming and unpredictable.

Any unanticipated costs or delays in our clinical studies could harm our business, financial condition and results of operations.

A Phase III clinical trial is being conducted for PEG-INTRON for one cancer indication. Schering-Plough is also in early stage clinical trials for PEG-INTRON in other cancer indications. We are currently conducting early stage clinical trials of two other PEG products, PROTHECAN currently in Phase II and PEG-paclitaxel currently in Phase I. The rate of completion of clinical trials depends upon many factors, including the rate of enrollment of patients. If we or the other sponsors of these clinical trials are unable to accrue sufficient clinical patients in such trials during the appropriate period, such trials may be delayed and will likely incur significant additional costs. In addition, FDA or institutional review boards may require us to delay, restrict, or discontinue our clinical trials on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

The cost of human clinical trials varies dramatically based on a number of factors, including:

- the order and timing of clinical indications pursued,
- the extent of development and financial support from corporate collaborators,
- the number of patients required for enrollment,
- the difficulty of obtaining clinical supplies of the product candidate, and

- the difficulty in obtaining sufficient patient populations and clinicians.

All statutes and regulations governing the conduct of clinical trials are subject to change in the future, which could affect the cost of our clinical trials. Any unanticipated costs or delays in our clinical studies could harm our business, financial condition and results of operations.

In some cases, we rely on corporate collaborators or academic institutions to conduct some or all aspects of clinical trials involving our product candidates. We will have less control over the timing and other aspects of these clinical trials than if we conducted them entirely on our own. We cannot assure you that these trials will commence or be completed as we expect or that they will be conducted successfully.

If pre-clinical and clinical trials do not yield positive results, our product candidates will fail.

If pre-clinical and clinical testing of one or more of our product candidates do not demonstrate the safety and efficacy of the desired indications, those potential products will fail. Numerous unforeseen events may arise during, or as a result of, the testing process, including the following:

- the results of pre-clinical studies may be inconclusive, or they may not be indicative of results that will be obtained in human clinical trials,

- potential products may not have the desired effect or may have undesirable side effects or other characteristics that preclude regulatory approval or limit their commercial use if approved,

- results attained in early human clinical trials may not be indicative of results that are obtained in later clinical trials, and

- after reviewing test results, we or our corporate collaborators may abandon projects which we might previously have believed to be promising.

Clinical testing is very costly and can take many years. The failure to adequately demonstrate the safety and efficacy of a therapeutic product under development would delay or prevent regulatory approval, which could adversely affect our business and financial performance.

In June 2001, we reported that Schering-Plough completed its Phase III clinical trial which compared PEG-INTRON to INTRON A in patients with newly diagnosed chronic myelogenous leukemia, or CML. In the study, although PEG-INTRON demonstrated clinical comparability and a comparable safety profile with INTRON A, the efficacy results for PEG-INTRON did not meet the protocol-specified statistical criteria for non-inferiority, the primary endpoint of the study. The results of this Phase III study have not yet been presented or published, and are not publicly available at this time. We cannot assure you that those results will support any marketing approval of PEG-INTRON for the treatment of CML.

Even if we obtain regulatory approval for our products, they may not be accepted in the marketplace.

The commercial success of our products will depend upon their acceptance by the medical community and third-party payors as clinically useful, cost-effective and safe. Even if our products obtain regulatory approval, we cannot assure you that they will achieve market acceptance of any kind. The degree of market acceptance will depend on many factors, including:

- the receipt, timing and scope of regulatory approvals,

- the timing of market entry in comparison with potentially competitive products,

- the availability of third-party reimbursement, and

- the establishment and demonstration in the medical community of the

clinical safety, efficacy and cost-effectiveness of drug candidates, as well as their advantages over existing technologies and therapeutics.

If any of our products do not achieve market acceptance, we will likely lose our entire investment in that product.

We depend on our collaborative partners. If we lose our collaborative partners or they do not apply adequate resources to our collaborations, our product development and financial performance may suffer.

We rely heavily and will depend heavily in the future on collaborations with corporate partners, primarily pharmaceutical companies, for one or more of the research, development, manufacturing, marketing and other commercialization activities relating to many of our product candidates. If we lose our collaborative partners, or if they do not apply adequate resources to our collaborations, our product development and financial performance may suffer.

The amount and timing of resources dedicated by our collaborators to their collaborations with us is not within our control. If any collaborator breaches or terminates its agreements with us, or fails to conduct its collaborative activities in a timely manner, the commercialization of our product candidates could be slowed or blocked completely. We cannot assure you that our collaborative partners will not change their strategic focus or pursue

alternative technologies or develop alternative products as a means for developing treatments for the diseases targeted by these collaborative programs. Our collaborators could develop competing products. In addition, our revenues will be affected by the effectiveness of our corporate partners in marketing any successfully developed products.

We cannot assure you that our collaborations will be successful. Disputes may arise between us and our collaborators as to a variety of matters, including financing obligations under our agreements and ownership of intellectual property rights. These disputes may be both expensive and time-consuming and may result in delays in the development and commercialization of products.

We are dependent upon a single outside supplier for each of the crucial raw materials necessary to the manufacture of each of our products and product candidates.

We cannot assure you that sufficient quantities of our raw material requirements will be available to support the continued research, development or manufacture of our products. We purchase the unmodified compounds utilized in our approved products and products under development from outside suppliers. We may be required to enter into supply contracts with outside suppliers for certain unmodified compounds. We do not produce the unmodified adenosine deaminase used in the manufacture of ADAGEN or the unmodified forms of L-asparaginase used in the manufacture of ONCASPAR. We have a supply contract with an outside supplier for the supply of each of these unmodified compounds. If we experience a delay in obtaining or are unable to obtain any unmodified compound, including unmodified adenosine deaminase or unmodified L-asparaginase, on reasonable terms, or at all, it could have a material adverse effect on our business, financial condition and results of operations.

If we are required to obtain an alternate source for an unmodified compound utilized in a product, the FDA and relevant foreign regulatory agencies will likely require that we perform additional testing to demonstrate that the alternate material is biologically and chemically equivalent to the unmodified compound previously used in our clinical trials. This testing could delay or stop development of a product, limit commercial sales of an approved product and cause us to incur significant additional expenses. If we are unable to demonstrate that the alternate material is chemically and biologically equivalent to the previously used unmodified compound, we will likely be required to repeat some or all of the pre-clinical and clinical trials conducted for the compound. The marketing of an FDA approved drug could be disrupted while such tests are conducted. Even if the alternate material is shown to be chemically and biologically equivalent to the previously used compound, the FDA or relevant foreign regulatory agency may require that we conduct additional clinical trials with the alternate material.

There is one FDA-approved supplier of the adenosine deaminase enzyme, or ADA, in ADAGEN. The ADA enzyme, until recently, was obtained by our supplier from bovine intestines in cattle of German origin. Bovine spongiform encephalopathy (BSE or mad cow disease) has been detected in cattle herds in Germany after we acquired the ADA enzyme and at a time when the herds were identified by the supplier as BSE-free. The FDA has advised us that we may continue to distribute our current inventory of ADAGEN which contains the ADA enzyme obtained from cattle of German origin until such time as we are able to obtain FDA approval of the use of the ADA enzyme obtained from cattle of New Zealand origin. We cannot assure you that the FDA will approve the use of the ADA obtained in New Zealand prior to the time that our current inventory of ADAGEN is exhausted. If we do not receive such timely approval, we will be unable to distribute ADAGEN.

The United States and foreign patents upon which our original PEG technology was based have expired. We depend on patents and proprietary rights, which may offer only limited protection against potential infringement and the development by our competitors of competitive products.

Research Corporation Technologies, Inc. held the patent upon which our original PEG technology was based and had granted us a license under such patent. Research Corporation's patent contained broad claims covering the attachment of PEG to polypeptides. However, this United States patent and its corresponding foreign patents have expired. Based upon the expiration of the Research Corporation patent, other parties will be permitted to make, use or sell products covered by the claims of the Research Corporation patent, subject to other patents, including those which we hold. We have obtained several patents with claims covering improved methods of attaching or linking PEG to therapeutic compounds. We cannot assure you that any of these patents will enable us to prevent infringement or that competitors will not develop alternative methods of attaching PEG to compounds potentially resulting in competitive products outside the protection that may be afforded by our patents. We are aware that others have also filed patent applications and have been granted patents in the United States and other countries with respect to the application of PEG to proteins and other compounds. We cannot assure you that the expiration of the Research Corporation patent or other patents related to PEG that have been granted to third parties will not have a material adverse effect on our business, financial condition and results of operations.

The pharmaceutical industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. Our success depends, in part, on our ability to develop and maintain a strong patent position for our products and technologies both in the United States and in other countries. We have been licensed, and been issued, a number of patents in the United States and other countries, and we have other patent applications pending to protect our proprietary technology. Although we believe that our patents provide certain protection from competition, we cannot assure you that such patents will be of substantial protection or commercial benefit to us, will afford us adequate protection from competing products, or will not be challenged or declared invalid. In addition we cannot assure you that additional United States patents or foreign patent equivalents will be issued to us. The scope of patent claims for biotechnological inventions is uncertain, and our patents and patent applications are subject to this uncertainty.

To facilitate development of our proprietary technology base, we may need to obtain licenses to patents or other proprietary rights from other parties. If we are unable to obtain such licenses, our product development efforts may be delayed or blocked.

We are aware that certain organizations are engaging in activities that infringe certain of our PEG and SCA technology patents. We cannot assure you that we will be able to enforce our patent and other rights against such organizations.

We expect that there will continue to be significant litigation in the biotechnology and pharmaceutical industries regarding patents and other proprietary rights. We have become involved in patent litigation, and we may likely become involved in additional patent litigation in the future. We may incur substantial costs in asserting any patent rights and in defending suits against us related to intellectual property rights. Such disputes could substantially delay our product development or commercialization activities and

could have a material adverse effect on our business, financial condition and results of operations. We are involved in one pending litigation matter in which we are seeking to enforce certain of our patents.

We also rely on trade secrets, know-how and continuing technological advancements to protect our proprietary technology. We have entered into confidentiality agreements with our employees, consultants, advisors and collaborators. However, these parties may not honor these agreements, and we may not be able to successfully protect our rights to unpatented trade secrets and know-how. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets and know-how.

We have limited sales and marketing experience, which makes us dependent on our marketing partners.

Other than ADAGEN, which we market on a worldwide basis to a small patient population, we have not engaged in the direct commercial marketing of any of our products and therefore we do not have significant experience in sales, marketing or distribution. For some of our products, we have provided exclusive marketing rights to our corporate partners in return for milestone payments and royalties to be received on sales. To the extent that we enter into licensing arrangements for the marketing and sale of our products, any revenues we receive will depend primarily on the efforts of these third parties. We will not control the amount and timing of marketing resources that such third parties devote to our products. In addition, if we market products directly, significant additional expenditures and management resources would be required to increase the size of our internal sales force. In any sales or marketing effort, we would compete with many other companies that currently have extensive and well-funded sales operations. Our marketing and sales efforts may be unable to compete successfully against other such companies.

We may acquire other companies and may be unable to successfully integrate such companies with our operations.

We may expand and diversify our operations with acquisitions. If we are unsuccessful in integrating any such company with our operations, or if integration is more difficult than anticipated, we may experience disruptions that could have a material adverse effect on our business, financial condition and results of operations. Some of the risks that may affect our ability to integrate or realize any anticipated benefits from any acquisition include those associated with:

- unexpected losses of key employees or customers of the acquired company;
- conforming the acquired company's standards, processes, procedures and controls with our operations;
- coordinating our new product and process development;
- diversion of existing management relating to the integration and operation of the acquired company;
- hiring additional management and other critical personnel; and
- increasing the scope, geographic diversity and complexity of our operations.

We may need to obtain additional financing to meet our future capital needs, and this financing may not be available when we need it.

Our current development projects require substantial capital. We may require substantial additional funds to conduct research activities, pre-clinical studies, clinical trials and other activities relating to the successful commercialization of potential products. In addition, we may seek to acquire additional technologies and companies, which could require substantial capital. We do not expect to achieve significant sales or royalty revenue from our current FDA-approved products, ADAGEN and ONCASPAR. In addition, we cannot be sure that we will be able to obtain significant revenue from PEG-INTRON. Additional funds from other sources may not be available on acceptable terms, if

at all. If adequate funds are unavailable from operations or additional sources of financing, we may have to delay, reduce the scope of or eliminate one or more of

our research or development programs or one or more of our proposed acquisitions of technologies or companies which could materially and adversely affect our business, financial condition and operations.

While we believe that our cash, cash equivalents and investments will be adequate to satisfy our capital needs for the foreseeable future, our actual capital requirements will depend on many factors, including:

- the level of revenues we receive from our FDA-approved products and product candidates,
- continued progress of our research and development programs,
- our ability to establish additional collaborative arrangements,
- changes in our existing collaborative relationships,
- progress with pre-clinical studies and clinical trials,
- the time and costs involved in obtaining regulatory clearance for our products,
- the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims,
- competing technological and market developments, and
- our ability to market and distribute our products and establish new collaborative and licensing arrangements.

We may seek to raise any necessary additional funds through equity or debt financings, collaborative arrangements with corporate partners or other sources which may be dilutive to existing stockholders. We cannot assure you that we will be able to obtain additional funds on acceptable terms, if at all. If adequate funds are not available, we may be required to:

- delay, reduce the scope or eliminate one or more of our development projects,
- obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to technologies, product candidates or products that we would otherwise seek to develop or commercialize ourselves, or
- license rights to technologies, product candidates or products on terms that are less favorable to us than might otherwise be available.

We depend on key personnel and may not be able to retain these employees or recruit additional qualified personnel, which would harm our business.

Because of the specialized scientific nature of our business, we are highly dependent upon qualified scientific, technical and managerial personnel. There is intense competition for qualified personnel in the pharmaceutical field. Therefore, we may not be able to attract and retain the qualified personnel necessary for the development of our business. The loss of the services of existing personnel, as well as the failure to recruit additional key scientific, technical and managerial personnel in a timely manner, would harm our research and development programs and our business.

Risks Related To Our Industry

We face rapid technological change and intense competition, which could harm our business and results of operations.

The biopharmaceutical industry is characterized by rapid technological change. Our future success will depend on our ability to maintain a competitive position with respect to technological advances. Rapid technological development by others may result in our products and technologies becoming obsolete.

We face intense competition from established biotechnology and pharmaceutical companies, as well as academic and research institutions that are pursuing competing technologies and products. We know that competitors are developing or manufacturing various products that are used for the prevention, diagnosis or treatment of diseases that we have targeted for product development. Many of our competitors have substantially greater research and development capabilities and experiences and greater manufacturing, marketing and financial resources than we do. Accordingly, our competitors may develop technologies and products that are superior to those we or our collaborators are developing and render our technologies and products or those of our collaborators obsolete and noncompetitive. In addition, many of our competitors have much more experience than we do in pre-clinical testing and human clinical trials of new drugs, as well as obtaining FDA and other regulatory approval. If we cannot compete effectively, our business and financial performance would suffer.

We may be sued for product liability.

Because our products and product candidates are new treatments with limited, if any, past use on humans, their use during testing or after approval could expose us to product liability claims. We maintain product liability insurance coverage in the total amount of $40.0 million for claims arising from the use of our products in clinical trials prior to FDA approval and for claims arising from the use of our products after FDA approval. We cannot assure you that we will be able to maintain our existing insurance coverage or obtain coverage for the use of our other products in the future. Also, this insurance coverage and our resources may not be sufficient to satisfy any liability resulting from product liability claims, and a product liability claim may have a material adverse effect on our business, financial condition or results of operations.

Sales of our products could be adversely affected if the costs for these products are not reimbursed by third-party payors.

In recent years, there have been numerous proposals to change the health care system in the United States. Some of these proposals have included measures that would limit or eliminate payments for medical procedures and treatments or subject the pricing of pharmaceuticals to government control. In addition, government and private third-party payors are increasingly attempting to contain health care costs by limiting both the coverage and the level of reimbursement of drug products. Consequently, significant uncertainty exists as to the reimbursement status of newly-approved health care products.

Our ability to commercialize our products will depend, in part, on the extent to which reimbursement for the cost of the products and related treatments will be available from third-party payors. If we or any of our collaborators succeeds in bringing one or more products to market, we cannot assure you that third-party payors will establish and maintain price levels sufficient for realization of an appropriate return on our investment in product development. In addition, lifetime limits on benefits included in most private health plans may force patients to self-pay for treatment. For example, patients who receive ADAGEN are expected to require injections for their entire lives. The cost of this treatment

may exceed certain plan limits and cause patients to self-fund further treatment. Furthermore, inadequate third-party coverage may lead to reduced market acceptance of our products. Significant changes in the health care system in the United States or elsewhere could have a material adverse effect on our business and financial performance.

Risks Related To Our Subordinated Notes and Common Stock

The price of our common stock has been, and may continue to be, volatile which may significantly affect the trading price of our notes.

Historically, the market price of our common stock has fluctuated over a wide range, and it is likely that the price of our common stock will fluctuate in the future. The market price of our common stock could be impacted due to a variety of factors, including:

- the results of pre-clinical testing and clinical trials by us, our corporate partners or our competitors,
- announcements of technical innovations or new products by us, our corporate partners or our competitors,
- the status of corporate collaborations and supply arrangements,
- regulatory approvals,
- government regulation,
- developments in patent or other proprietary rights,
- public concern as to the safety and efficacy of products developed by us or others,
- litigation,
- acts of war or terrorism in the United States or worldwide, and
- general market conditions in our industry.

In addition, due to one or more of the foregoing factors in one or more future quarters, our results of operations may fall below the expectations of securities analysts and investors. In that event, the market price of our common stock could be materially and adversely affected.

The stock market has recently experienced extreme price and volume fluctuations. These fluctuations have especially affected the market price of the stock of many high technology and healthcare-related companies. Such fluctuations have often been unrelated to the operating performance of these companies. Nonetheless, these broad market fluctuations may negatively affect the market price of our common stock.

Our notes are subordinated.

Our 4.5% convertible subordinated notes are unsecured and subordinated in right of payment to all of our existing and future senior indebtedness. In the event of our bankruptcy, liquidation or reorganization, or upon acceleration of the notes due to an event of default under the indenture and in

certain other events, our assets will be available to pay obligations on the notes only after all senior indebtedness has been paid. As a result, there may not be sufficient assets remaining to pay amounts due on any or all of the outstanding notes. We are not prohibited from incurring debt, including senior indebtedness, under the indenture. If we were to incur additional debt or liabilities, our ability to pay our obligations on the notes could be adversely affected. As of June 30, 2001, we had no senior indebtedness outstanding.

We may be unable to redeem our notes upon a fundamental change.

We may be unable to redeem our notes in the event of a fundamental change. Upon a fundamental change, holders of the notes may require us to redeem all or a portion of the notes. If a fundamental change were to occur, we may not have enough funds to pay the redemption price for all tendered notes. Any future credit agreements or other agreements relating to our indebtedness may contain similar provisions, or expressly prohibit the repurchase of the notes upon a fundamental change or may provide that a fundamental change constitutes an event of default under that agreement. If a fundamental change occurs at a time when we are prohibited from purchasing or redeeming notes, we could seek the consent of our lenders to redeem the notes or could attempt to refinance this debt. If we do not obtain a consent, we could not purchase or redeem the notes. Our failure to redeem tendered notes would constitute an event of default under the indenture. In such circumstances, or if a fundamental change would constitute an event of default under our senior indebtedness, the subordination provisions of

the indenture would restrict payments to the holders of notes. A "fundamental change" is any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in connection with which all or substantially all of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration which is not all or substantially all common stock that:

- is listed on, or immediately after the transaction or event will be listed on, a United States national securities exchange, or

- is approved, or immediately after the transaction or event will be approved, for quotation on the Nasdaq National Market or any similar United States system of automated dissemination of quotations of securities prices.

The term fundamental change is limited to certain specified transactions and may not include other events that might adversely affect our financial condition or the market value of the notes or our common stock. Our obligation to offer to redeem the notes upon a fundamental change would not necessarily afford holders of the notes protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving us.

A public market for our notes may fail to develop or be sustained.

The initial purchasers of the notes, although they have advised us that they intend to make a market in the notes, are not obligated to do so and may discontinue this market making activity at any time without notice. In addition, market making activity by the initial purchasers will be subject to the limits imposed by the Securities Act and the Exchange Act of 1934, as amended. As a result, we cannot assure you that any market for the notes will develop or, if one does develop, that it will be maintained. If an active market for the notes fails to develop or be sustained, the trading price of the notes could be materially adversely affected.

Events with respect to our share capital could cause the price of our common stock to decline.

Sales of substantial amounts of our common stock in the open market, or the availability of such shares for sale, could adversely affect the price of our common stock. An adverse effect on the price of our common stock may adversely affect the trading price of the notes. We had 41,990,859 shares of common stock outstanding as of June 30, 2001. The following securities that may be exercised for, or are convertible into, shares of our common stock were issued and outstanding as of June 30, 2001:

- Options. Stock options to purchase 3,283,817 shares of our common stock at a weighted average exercise price of approximately $24.98 per share; of this total, 1,939,502 were exercisable at a weighted average exercise price of $6.23 per share as of such date.

- Series A preferred stock. 7,000 shares of our Series A preferred stock are outstanding, which were convertible into an aggregate of 15,909 shares of our common stock as of such date.

The shares of our common stock that may be issued under the options are currently registered with the SEC. The shares of common stock that may be issued upon conversion of the Series A preferred stock are eligible for sale without any volume limitations pursuant to Rule 144(k) under the Securities Act.

We have a significant amount of indebtedness.

As a result of the initial offering of the notes, our long-term debt is $400,000,000. This indebtedness has affected us by:

- significantly increasing our interest expense and related debt service costs, and

- making it more difficult to obtain additional financing.

We may not generate sufficient cash flow from operations to satisfy the

annual debt service payments that will be required under the notes. This may require us to use a portion of the proceeds of the notes to pay interest or borrow additional funds or sell additional equity to meet our debt service obligations. If we are unable to satisfy our debt service requirements, substantial liquidity problems could result, which would negatively impact our future prospects.

The market for unrated debt is subject to disruptions, which could have an adverse effect on the market price of the notes.

Our notes have not been rated. As a result, holders of the notes have the risks associated with an investment in unrated debt. Historically, the market for unrated debt has been subject to disruptions that have caused substantial volatility in the prices of such securities and greatly reduced liquidity for the holders of such securities. If the notes are traded, they may trade at a discount from their initial offering price, depending on, among other things, prevailing interest rates, the markets for similar securities, general economic conditions and our financial condition, results of operations and prospects. The liquidity of, and trading markets for, the notes also may be adversely affected by general declines in the market for unrated debt. Such declines may adversely affect the liquidity of, and trading markets for, the notes, independent of our financial performance or prospects. In addition, certain regulatory restrictions prohibit certain types of financial institutions from investing in unrated debt, which may further suppress demand for such securities. We cannot assure you that the market for the notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on the holders of the notes.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges was negative for all periods presented, other than the year ended June 30, 2001, because we incurred net losses in the periods prior to the year ended June 30, 2001. The dollar amounts of the deficiencies for these periods and the ratio of earnings to fixed charges for the year ended June 30, 2001 are disclosed below (dollars in thousands):

	Year Ended June 30,					
	2001	2000	1999	1998	1997	1996
Ratio of earnings to fixed charges*	22:1	N/A	N/A	N/A	N/A	N/A
Deficiency of earnings available to cover fixed charges*	N/A	($6,306)	($4,919)	($3,617)	($4,557)	($5,175)

*Earnings consist of net income (loss) plus fixed charges less capitalized interest and preferred stock dividends. Fixed charges consist of interest expense, including amortization of debt issuance costs and that portion of rental expense we believe to be representative of interest.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

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

Our holdings of financial instruments are comprised of debt securities, and time deposits. All such instruments are classified as securities available-for-sale. We do not invest in portfolio equity securities or commodities or use financial derivatives for trading purposes. Our debt security portfolio represents funds held temporarily pending use in our business and operations. We manage these funds accordingly. We seek reasonable assuredness of the safety of principal and market liquidity by investing in rated fixed income securities while at the same time seeking to achieve a favorable rate of return. Our market risk exposure consists principally of exposure to changes in interest rates. Our holdings are also exposed to the risks of changes in the credit quality of issuers. We typically invest the majority of our investments in the shorter-end of the maturity spectrum, and at June 30, 2001 all of our holdings were in instruments maturing in 3 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 June 30, 2001.

	2002	2003	2004	Total	Fair Value
Fixed Rate	$124,715,000	$ 46,136,000	$ 30,499,000	$201,350,000	$202,281,000
Average Interest Rate	5.01%	4.29%	5.98%	4.90%	--
Variable Rate	3,920,000	--	--	3,920,000	--
Average Interest Rate	4.0%	--	--	4.8%	3,874,000
	$128,635,000	$ 46,136,000	$ 30,499,000	$205,270,000	$206,155,000

Item 8. Financial Statements and Supplementary Data

The response to this item is submitted as a separate section of this report commencing on Page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

The information required by Item 10 - Directors and Executive Officers of the Registrant; Item 11 - Executive Compensation; Item 12 - Security Ownership of Certain Beneficial Owners and Management; and Item 13 - Certain Relationships and Related Transactions is incorporated into Part III of this Annual Report on Form 10-K by reference to the Proxy Statement for our Annual Meeting of Stockholders scheduled to be held on December 4, 2001.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) and (2). The response to this portion of Item 14 is submitted as a separate section of this report commencing on page F-1.

(a)(3) and (c). Exhibits (numbered in accordance with Item 601 of Regulation S-K).

Exhibit Number	Description	Page Number or Incorporation By Reference
3(i)	Certificate of Incorporation as amended	~~
3(ii)	By laws, as amended	*(4.2)
3(iv)	Amendment to Certificate of Incorporation dated January 5, 1998	##3(iv)
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 Note due 2008 attached as Exhibit A thereto	++++(4.1)
4.2	Registration Rights Agreement dated as of June 26, 2001, between the Company and the initial purchasers	++++(4.2)
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	Lease dated April 1, 1995 regarding 20 Kingsbridge Road, Piscataway, New Jersey	###(10.7)
10.4	Lease 300A-B Corporate Court, South Plainfield, New Jersey	++(10.10)
10.5	Form of Stock Purchase Agreement between the Company and the purchasers of the Series A Cumulative Convertible Preferred Stock	+(10.11)
10.6	Employment Agreement with Peter G. Tombros dated as of August 10, 2000	//(10.15)
10.7	Stock Purchase Agreement dated as of June 30, 1995	~(10.16)
10.8	Independent Directors' Stock Plan	~~~(10.24)
10.9	Underwriting Agreement dated March 20, 2000 with Morgan Stanley & Co. Inc., CIBC World Markets Corp., and SG Cowen Securities Corporation	/(10.29)
10.10	Employment Agreement dated May 9, 2001, between the Company and Arthur J. Higgins	///(10.30)
10.11	Amendment dated May 23, 2001, to Employment Agreement between the Company and Arthur J. Higgins dated May 9, 2001	///(10.31)
10.12	Form of Restricted Stock Award Agreement between the Company and Arthur J. Higgins	////(4.3)
10.13	Form of Employee Retention Agreement dated as of August 3, 2001 between the Company and certain key employees	!
12.1	Computation of Ratio of Earnings to Fixed Charges	!
21.0	Subsidiaries of Registrant	!
23.0	Consent of KPMG LLP	!

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

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

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

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

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

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

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

reference thereto.

/ Previously filed as an exhibit to the Company's Registration Statement on Form S-3 (File No. 333-30818) 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 year ended June 30, 2000 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 June 13, 2001 and incorporated herein by reference thereto.

//// Previously filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-64110) filed with the Commission and incorporated herein by reference thereto.

(b) Reports on Form 8-K.

On May 7, 2001, we filed with the Commission a Current Report on Form 8-K dated May 7, 2001 reporting the initiation of patient dosing in a Phase I clinical trial for PEG-paclitaxel designed to determine the safety, tolerability, and pharmacology of PEG-paclitaxel in patients with advanced solid tumors and lymphomas.

On May 9, 2001, we filed with the Commission a Current Report on Form 8-K dated May 8, 2001 reporting our financial results for the third quarter of fiscal year 2001.

On May 23, 2001, we filed with the Commission a Current Report on Form 8-K dated May 22, 2001 reporting that Schering-Plough released the interim results of two ongoing investigational clinical studies with once-weekly PEG-INTRON(TM) (peginterferon alfa-2b) Injection plus daily REBETOL(R) (Ribavirin, USP) Capsules in patients with chronic hepatitis C who did not respond to, or had relapsed following previous interferon-based therapy. The study evaluating two different doses of both PEG-INTRON(TM) and REBETOL(R) showed that 35 percent of patients who did not respond to prior combination therapy had a virologic response after 24 weeks of treatment (half way through the therapy).

On May 24, 2001, we filed with the Commission a Current Report on Form 8-K dated May 24, 2001 reporting that Arthur J. Higgins became our President and Chief Executive Officer.

On June 13, 2001, we filed with the Commission a Current Report on Form 8-K dated June 7, 2001 reporting that Schering-Plough completed its Phase III study comparing PEG-INTRON(TM) (peginterferon alfa-2b) Injection to INTRON(R) A (interferon alfa-2b) Injection in patients with newly diagnosed chronic myelogenous leukemia (CML). In the study, although PEG-INTRON(TM) administered once weekly demonstrated clinical comparability to INTRON(R) A administered daily, the efficacy result for PEG-INTRON(TM) did not meet the protocol-specified statistical criteria for non-inferiority - the primary endpoint in the study. In addition, we reported that Peter Tombros resigned as one of our Directors as of June 7, 2001.

On June 14, 2001, we filed with the Commission a Current Report on Form 8-K dated June 14, 2001 reporting that we intended to make a private offering of $400 million of Convertible Subordinated Notes due 2008 with an option to issue an additional $60 million of notes.

On June 21, 2001, we filed with the Commission a Current Report on Form 8-K dated June 21, 2001 reporting the private placement of $400 million principal amount of 4 1/2 % Convertible Subordinated Notes due 2008 with an option for the initial purchasers to purchase an additional $60 million of notes.

Dated: September 28, 2001 by: /s/ ARTHUR J. HIGGINS

Arthur J. Higgins
President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ ARTHUR J. HIGGINS Arthur J. Higgins	President, Chief Executive Officer and Director (Principal Executive Officer)	September 28, 2001
/s/ KENNETH J. ZUERBLIS Kenneth J. Zuerblis	Vice President, Finance, Chief Financial Officer and Corporate Secretary (Principal Financial and Accounting Officer)	September 28, 2001
/s/ RANDY H. THURMAN Randy H. Thurman	Chairman of the Board	September 28, 2001
/s/ DAVID S. BARLOW David S. Barlow	Director	September 28, 2001
/s/ ROLF A. CLASSON Rolf A. Classon	Director	September 28, 2001
/s/ ROSINA B. DIXON Rosina B. Dixon	Director	September 28, 2001
/s/ DAVID W. GOLDE David W. Golde	Director	September 28, 2001
/s/ ROBERT LEBUHN Robert LeBuhn	Director	September 28, 2001

ENZON, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Enzon, Inc.:

We have audited the consolidated financial statements of Enzon, Inc. and subsidiaries as listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Enzon, Inc. and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Short Hills, New Jersey
August 21, 2001

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2001 and 2000

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 310,223,837	$ 31,935,410
Short-term investments	129,520,083	16,986,278
Accounts receivable	11,087,748	5,442,455
Inventories	1,852,144	946,717
Other current assets	2,837,199	2,269,884
Total current assets	455,521,011	57,580,744
Property and equipment	13,181,671	12,439,729
Less accumulated depreciation and amortization	9,761,999	10,650,859
	3,419,672	1,788,870
Other assets:		
Investments	76,675,557	69,557,482
Deposits	528,150	426,731
Deferred offering costs	12,774,951	--
Patents, net	756,476	898,423
	90,735,134	70,882,636
Total assets	$ 549,675,817	$ 130,252,250

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,670,259	$ 2,465,360
Accrued expenses	4,740,081	5,706,811
Total current liabilities	9,410,340	8,172,171
Accrued rent	581,438	607,914
Unearned revenue	694,814	510,001
Notes payable	400,000,000	--
	401,276,252	1,117,915
Commitments and contingencies		
Stockholders' equity:		
Preferred stock-$.01 par value, authorized 3,000,000 shares; issued and outstanding 7,000 shares in 2001 and 2000 (liquidation preference aggregating $333,000 in 2001 and $319,000 in 2000)	70	70
Common stock-$.01 par value, authorized 60,000,000 shares; shares issued and outstanding 41,990,859 shares in 2001 and 40,838,115 shares in 2000	419,909	408,381
Additional paid-in capital	257,682,479	250,567,774
Accumulated other comprehensive income	884,935	--
Deferred compensation	(1,509,171)	--
Accumulated deficit	(118,488,997)	(130,014,061)
Total stockholders' equity	138,989,225	120,962,164
Total liabilities and stockholders' equity	$ 549,675,817	$ 130,252,250

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

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended June 30, 2001, 2000 and 1999

	2001	2000	1999
Revenues:			
Net sales	$ 20,940,633	$ 15,557,906	$ 12,855,995
Royalties	8,254,368	33,582	--
Contract revenue	2,392,708	1,426,309	302,212
Total revenues	31,587,709	17,017,797	13,158,207
Costs and expenses:			
Cost of sales	3,864,284	4,888,357	4,309,956
Research and development expenses	13,051,714	8,382,772	6,835,521
Selling, general and administrative expenses	11,795,398	12,956,118	8,133,366
Total costs and expenses	28,711,396	26,227,247	19,278,843
Operating income (loss)	2,876,313	(9,209,450)	(6,120,636)
Other income (expense):			
Interest and dividend income	8,401,526	2,943,311	1,145,009
Interest expense	(275,049)	(4,051)	(8,348)
Other	10,627	(36,274)	64,767
	8,137,104	2,902,986	1,201,428
Net income (loss) before taxes	11,013,417	(6,306,464)	(4,919,208)
Tax benefit	511,647	--	--

Net income (loss)	$ 11,525,064	($ 6,306,464)	($ 4,919,208)
Basic earnings (loss) per common share	$0.28	($0.17)	($0.14)
Diluted earnings (loss) per common share	$0.26	($0.17)	($0.14)
Weighted average number of common shares outstanding - basic	41,602,104	38,172,515	35,699,133
Weighted average number of common shares and dilutive potential common shares outstanding	43,606,194	38,172,515	35,699,133

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

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended June 30, 2001, 2000 and 1999

	Preferred stock			Common stock			
	Amount per share	Number of Shares	Par Value	Amount per share	Number of Shares	Par Value	Additional paid-in capital
Balance, July 1, 1998		107,000	$1,070		31,341,353	313,414	$123,453,874
Common stock issued for exercise of non-qualified stock options	--	--	--	4.40	1,000,919	10,009	4,396,477
Common stock issued for exercise of common stock warrants	--	--	--	2.50	150,000	1,500	373,500
Net proceeds from Private Placement, July 1998	--	--	--	4.75	3,983,000	39,830	17,510,265
Common stock issued for Independent Directors' Stock Plan	--	--	--	8.88	8,514	84	75,539
Common stock options and warrants issued for consulting services	--	--	--	--	--	--	1,130,683
Common stock issued for consulting services	--	--	--	6.13	4,898	49	29,951
Net loss	--	--	--	--	--	--	--
Balance, June 30, 1999		107,000	1,070		36,488,684	364,886	146,970,289
Common stock issued for exercise of non-qualified stock options	--	--	--	4.25	807,181	8,072	3,286,246
Common stock issued for conversion of Series A preferred stock	25.00	(100,000)	(1,000)	11.00	227,271	2,273	(1,273)
Dividends issued on Series A preferred stock	--	--	--	--	--	--	--
Common stock issued for exercise of common stock warrants	--	--	--	4.57	1,012,116	10,121	4,395,803
Net Proceeds from common stock offering				44.50	2,300,000	23,000	95,647,262
Common stock issued for Independent Directors' Stock Plan	--	--	--	30.82	2,863	29	88,208
Common stock options issued for consulting services	--	--	--	--	--	--	181,239
Net loss	--	--	--	--	--	--	--
Balance, June 30, 2000, carried forward		7,000	$70		40,838,115	$408,381	$250,567,774

	Other Comprehensive Income	Deferred Compensation	Accumulated Deficit	Total
Balance, July 1, 1998	--	--	($116,841,818)	$6,926,540
Common stock issued for exercise of non-qualified stock options	--	--	--	4,406,486
Common stock issued for exercise of common stock warrants	--	--	--	375,000
Net proceeds from Private Placement, July 1998	--	--	--	17,550,095

Common stock issued for Independent Directors' Stock Plan	--	--	--	75,623
Common stock options and warrants issued for consulting services	--	--	--	1,130,683
Common stock issued for consulting services	--	--	--	30,000
Net loss	--	--	(4,919,208)	(4,919,208)
Balance, June 30, 1999			(121,761,026)	25,575,219
Common stock issued for exercise of non-qualified stock options	--	--	--	3,294,318
Common stock issued for conversion of Series A preferred stock	--	--	--	--
Dividends issued on Series A preferred stock			(1,946,571)	(1,946,571)
Common stock issued for exercise of common stock warrants	--	--	--	4,405,924
Net Proceeds from common stock offering	--	--	--	95,670,262
Common stock issued for Independent Directors' Stock Plan	--	--	--	88,237
Common stock options issued for consulting services	--	--	--	181,239
Net loss	--	--	(6,306,464)	(6,306,464)
Balance, June 30, 2000, carried forward	--	--	($130,014,061)	$120,962,164

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

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
Years ended June 30, 2001, 2000 and 1999

	Preferred stock			Common stock			
	Amount per share	Number of Shares	Par Value	Amount per share	Number of Shares	Par Value	Additional paid-in capital
Balance June 30, 2000, brought forward		7,000	$70	5.25	40,838,115	$408,381	$250,567,774
Common stock issued for exercise of non-qualified stock options	--	--	--	--	1,032,468	10,325	5,345,647
Issuance of restricted common stock	--	--	--	61.40	25,000	250	1,534,750
Common stock issued on conversion of common stock warrants	--	--	--	1.79	93,993	940	167,810
Common stock issued for Independent Directors' Stock Plan	--	--	--	51.84	1,283	13	66,498
Amortization of deferred compensation	--	--	--	--	--	--	--
Unrealized gain on securities	--	--	--	--	--	--	--
Net income	--	--	--	--	--	--	--
Balance, June 30, 2001		7,000	$70		41,990,859	$419,909	$257,682,479

	Other Comprehensive Income	Deferred Compensation	Accumulated Deficit	Total
Balance June 30, 2000, brought forward	--	--	($130,014,061)	$120,962,164
Common stock issued for exercise of non-qualified stock options	--	--	--	5,355,972
Issuance of restricted common stock	--	(1,534,750)	--	250
Common stock issued on conversion of common stock warrants	--	--	--	168,750
Common stock issued for Independent Directors' Stock Plan	--	--	--	66,511
Amortization of deferred compensation	--	25,579	--	25,579
Unrealized gain on securities	884,935	--	--	884,935

Net income	--	--	11,525,064	11,525,064
Balance, June 30, 2001	$884,935	($1,509,171)	($118,488,997)	$138,989,225

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

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2001, 2000 and 1999

	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	$11,525,064	($6,306,464)	($4,919,208)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	587,495	499,245	835,503
Amortization of Bond Premium/Discount	(830,481)	--	--
Loss (gain) on retirement of assets	2,746	36,274	(38,521)
Non-cash expense for issuance of restricted common stock, warrants, and options	92,090	269,476	1,236,306
Changes in operating assets and liabilities:			
Increase in accounts receivable	(5,645,293)	(837,608)	(2,304,801)
(Increase) decrease in inventories	(905,427)	379,884	(304,071)
Increase in other current assets	(567,315)	(1,232,483)	(586,375)
(Increase) decrease in deposits	(101,419)	326,952	(288,936)
Increase in accounts payable	2,204,899	749,271	4,233
(Decrease) Increase in accrued expenses	(966,730)	(473,442)	2,691,353
Decrease in accrued rent	(26,476)	(26,476)	(92,770)
Increase (decrease) in unearned revenue	184,814	(300,363)	(76,558)
Net cash provided by (used in) operating Activities	5,553,967	(6,915,734)	(3,843,845)
Cash flows from investing activities:			
Capital expenditures	(2,082,621)	(768,415)	(424,670)
Proceeds from sale of equipment	3,525	--	131,932
Proceeds from sale of investments	24,972	--	--
Purchase of investments	(163,244,000)	(90,478,010)	--
Maturities of investments	45,303,000	4,000,000	--
Decrease in long-term investments	(20,437)	--	179
Net cash used in investing activities	(120,015,561)	(87,246,425)	(292,559)
Cash flows from financing activities:			
Proceeds from issuance of common stock	5,524,972	103,370,504	22,331,581
Proceeds from issuance of notes	400,000,000	--	--
Deferred offering costs	(12,774,951)	--	--
Preferred stock dividends paid	--	(1,946,571)	--
Net cash provided by financing activities	392,750,021	101,423,933	22,331,581
Net increase in cash and cash equivalents	278,288,427	7,261,774	18,195,177
Cash and cash equivalents at beginning of year	31,935,410	24,673,636	6,478,459
Cash and cash equivalents at end of year	$310,223,837	$31,935,410	$24,673,636

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

ENZON, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) Company Overview

Enzon, Inc. ("Enzon" or "Company") is a biopharmaceutical company that develops, manufactures and markets enhanced therapeutics for life-threatening diseases through the application of its proprietary technologies. The Company was originally incorporated in 1981. To date, the Company's sources of cash have been the proceeds from the sale of its equity and debt securities through public offerings and private placements, sales of ADAGEN(R), and ONCASPAR(R), royalties on sales of PEG-INTRON(TM), sales of its products for research purposes, contract research and development fees, technology transfer and license fees and royalty advances. The manufacturing and marketing of pharmaceutical products in the United States is subject to stringent governmental regulation, and the sale of any of the Company's products for use in humans in the United States will require the prior approval of the United States Food and Drug Administration ("FDA"). To date, ADAGEN, ONCASPAR and PEG-INTRON are the only products of the Company which have been approved by the FDA, all of which utilize the Company's PEG technology.

(2) Summary of Significant Accounting Policies

Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for Derivative and Hedging Activities

Effective July 1, 2000, the Company adopted the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which establishes new accounting and reporting guidelines for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. SFAS 133 requires the recognition of all derivative financial instruments as either assets or liabilities in the consolidated balance sheet and measurement of those derivatives at fair value. The adoption of SFAS 133 did not have any effect on the Company's results of operations or financial position, as the Company does not use any derivatives.

Investments

The Company classifies its debt and marketable equity securities into held-to-maturity or available-for-sale categories. Debt and marketable equity securities classified as available-for-sale are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in stockholders' equity. As of June 30, 2001, all of the Company's debt and marketable equity securities were classified as available-for sale as the Company does not have the intent to hold them to maturity.

The amortized cost, gross unrealized holding gains or losses, and fair value for the Company's available-for-sale securities by major security type at June 30, 2001 were as follows:

Gross

	Amortized Cost	Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Market Value
U.S. Government agency debt	$19,921,000	$467,000	--	$20,388,000
U.S. Corporate debt	171,807,000	520,000	(253,000)	172,074,000
Foreign corporate debt	13,542,000	151,000	--	13,693,000
	$205,270,000	$1,138,000	($253,000)	$206,155,000

Maturities of debt securities classified as available-for-sale were as follows at June 30, 2001:

Years ended June, 30	Amortized Cost	Fair Market Value
2002	$128,635,000	$129,485,000
2003	46,136,000	46,108,000
2004	30,499,000	30,562,000
	$205,270,000	$206,155,000

Gross realized gains from the sale of investment securities included in income for the year ended June 30, 2001 were $178,000.

At June 30, 2000, the Company's debt and marketable equity securities were classified as held-to-maturity. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheet based on contractual maturity date and are stated at amortized cost.

As of June 30, 2000, the amortized cost, gross unrealized holding gains or losses, and fair value for securities held-to-maturity by major security type were as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Market Value
U.S. Government agency debt	$3,630,000	$134,000	--	$3,764,000
U.S. Corporate debt	87,881,000	112,000	(143,000)	87,850,000
Foreign corporate debt	13,649,000	--	(86,000)	13,563,000
	$105,160,000	$246,000	($229,000)	$105,177,000

Included in cash and cash equivalents at June 30, 2000 were $18,681,000 of debt securities, which matured prior to October 30, 2000.

The fair value of substantially all securities is determined by quoted market prices. Gains or losses on securities sold are based on the specific identification method.

Inventory Costing and Idle Capacity

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method and includes the cost of raw materials, labor and overhead.

Costs associated with idle capacity at the Company's manufacturing

facility are charged to cost of sales as incurred.

Patents

The Company has licensed, and been issued, a number of patents in the United States and other countries and has other patent applications pending to protect its proprietary technology. Although the Company believes that its patents provide adequate protection for the conduct of its business, there can be no assurance that such patents will be of substantial protection or commercial benefit to the Company, will afford the Company adequate protection from competing products, or will not be challenged or declared invalid, or that additional United States patents or foreign patent equivalents will be issued to the Company. The degree of patent protection to be afforded to biotechnological inventions is uncertain, and the Company's products are subject to this uncertainty.

Patents related to the acquisition of SCA Ventures, Inc., formerly Genex Corporation, were recorded at their fair value at the date of acquisition and are being amortized over the estimated useful lives of the patents ranging from 8 to 17 years. Accumulated amortization as of June 30, 2001 and 2000 was $1,372,000 and $1,230,000, respectively.

Costs related to the filing of patent applications related to the Company's products and technology are expensed as incurred.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. The cost of repairs and maintenance is charged to operations as incurred; significant renewals and improvements are capitalized.

Long-lived Assets

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

Revenue Recognition

Revenues from the sale of the Company's products that are sold are recognized at the time of shipment and provision is made for estimated returns. Reimbursement for ADAGEN sold directly to third party payers is handled on an individual basis due to the high cost of treatment and limited patient population. Because of the uncertainty of reimbursement and the Company's commitment of supply to the patient regardless of whether or not the Company will be reimbursed, revenues for the sale of ADAGEN are recognized when reimbursement from third party payers becomes likely.

Royalties under the Company's license agreements with third parties are recognized when earned (See note 10).

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. Non-refundable payments received upon entering into license and other collaborative agreements where the Company has continuing involvement are recorded as deferred revenue and recognized ratably over the estimated service period.

Research and Development

Research and development costs are expensed as incurred.

Stock Compensation

The Company maintains a Non-Qualified Stock Option Plan (the "Stock Option Plan") for which it applies Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for the Stock Option Plan. Stock options issued to employees are granted with an exercise price equal to the market price and in accordance with APB No. 25, compensation expense is not recognized. The Company records compensation expense equal to the value of stock options granted for consulting services rendered to the Company by non-employees. The value of the options granted to non-employees is determined by the Black-Scholes option-pricing model.

The Company issued 25,000 shares of restricted stock to its President and Chief Executive Officer in conjunction with his commencement of employment. The fair value of the shares on the grant date will be expensed over the vesting period of the stock.

Financial Instruments

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The interest rates on notes payable approximates rates for similar types of borrowing arrangements at June 30, 2001 and therefore the fair value of the notes payable approximates the carrying value at June 30, 2001.

Cash Flow Information

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

There were no conversions of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock" or "Series A Preferred Shares") during the years ended June 30, 2001 and 1999. During the year ended June 30, 2000, 100,000 shares of Series A Preferred Stock were converted to 227,271 shares of Common Stock. Accrued dividends of $1,947,000 on the Series A Preferred Shares that were converted, were settled by cash payments. Additionally, cash payments totaling $19 were made for fractional shares related to the conversions.

Cash payments for interest were approximately $25,000, $4,000 and $8,000 for the years ended June 30, 2001, 2000 and 1999, respectively. There were no income tax payments made for the years ended June 30, 2001, 2000 and 1999.

(3) Comprehensive Income

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

	Years ended June 30,		
	2001	2000	1999
Net income (loss)	$11,525,000	($6,306,000)	($4,919,000)
Unrealized gain on securities	885,000	--	--
Total comprehensive income (loss)	$12,410,000	($6,306,000)	($4,919,000)

(4) Earnings (loss) Per Common Share

Basic earnings (loss) per share is computed by dividing the net income (loss) 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 year ended June 30, 2001, 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 the outstanding Series A Preferred Stock. The number of shares issuable upon conversion of the Company's 4.5% Convertible Subordinated Notes due 2008 (the "Notes") have not been included as the effect of their inclusion would be antidilutive. For the years ended June 30, 2000 and 1999, the exercise or conversion of all dilutive potential common shares is not included for purposes of the diluted loss per share calculation as the effect of their inclusion would be antidilutive due to the net loss recorded for those periods. As of June 30, 2001, the Company had 9,866,000 dilutive potential common shares outstanding that could potentially dilute future earnings per share calculations.

The following table reconciles the basic and diluted earnings (loss) per share calculation:

	Years ended June 30,		
	2001	2000	1999
Net income (loss)	$11,525,000	($6,306,000)	($4,919,000)
Less: preferred stock dividends	14,000	14,000	214,000
Net income (loss) available to common stockholders	$11,511,000	($6,320,000)	($5,133,000)
Weighted average number of common shares issued and outstanding - basic	41,602,104	38,172,515	35,699,133
Effect of dilutive common stock equivalents:			
Conversion of preferred stock	16,000	--	--
Exercise of non-qualified stock options	1,988,090	--	--
	43,606,194	38,172,515	35,699,133

(5) Inventories

Inventories consist of the following:

	June 30,	
	2001	2000
Raw materials	$421,000	$283,000
Work in process	737,000	504,000
Finished goods	694,000	160,000
	$1,852,000	$947,000

(6) Property and Equipment

Property and equipment consist of the following:

		Estimated
2001	2000	useful lives

Equipment	$8,692,000	$8,356,000	3-7 years
Vehicles	1,446,000	1,440,000	7 years
Leasehold improvements	24,000	24,000	3 years
	3,020,000	2,619,000	3-15 years
	$13,182,000	$12,439,000	

During the years ended June 30, 2001 and 2000, the Company's fixed asset disposals were approximately $991,000 and $383,000, respectively.

Depreciation and amortization charged to operations relating to property and equipment totaled $442,000, $348,000 and $692,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

(7) Long-term debt

In June 2001, the Company completed a private placement of $400,000,000 in 4.5% Convertible Subordinated Notes due July 1, 2008 (the "Notes"). The Company received net proceeds from this offering of $387,200,000, after deducting costs associated with the offering. The Notes bear interest at an annual rate of 4.5%. Accrued interest on the Notes was approximately $250,000 as of June 30, 2001. 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 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, the Company may redeem any or all of the Notes at specified redemption prices, plus accrued and unpaid interest to the day preceding the redemption date. Upon the occurrence of a "fundamental change", as defined in the indenture governing the Notes, holders of the Notes may require the Company to redeem the Notes at a price equal to 100 percent of the principal amount. In August 2001, the Company filed a registration statement with the U.S. Securities and Exchange Commission covering the resale of the Notes and the Common Stock issuable upon conversion of the Notes.

(8) Stockholders' Equity

During the year ended June 30, 2001, the Company issued 25,000 shares of restricted Common Stock to its President and Chief Executive Officer. Such shares were issued in conjunction with an employment agreement and vest ratably over five years. Total compensation expense of approximately $1.5 million shall be recognized over the five year vesting period.

During the year ended June 30, 2000, the Company sold 2,300,000 shares of Common Stock in a public offering at a gross offering price of $44.50 per share. The offering resulted in gross proceeds of approximately $102,350,000 and net proceeds of approximately $95,670,000.

During the year ended June 30, 1999, the Company sold 3,983,000 shares of Common Stock in a private placement to a small group of investors. The private placement resulted in gross proceeds of approximately $18,919,000 and net proceeds of approximately $17,550,000.

The board of directors has the authority to issue up to 3,000,000 shares of preferred stock, par value $0.01 per share, and to determine the price and terms, including preferences and voting rights, of those shares without stockholder approval.

Series A Preferred Stock

The Company's Series A Preferred Shares are convertible into Common Stock at a conversion rate of $11 per share. The value of the Series A Preferred Shares for conversion purposes is $25 per share. Holders of the Series A Preferred Shares are entitled to an annual dividend of $2 per share, payable semiannually, but only when and if declared by the Board of Directors, out of funds legally available. Dividends on the Series A

Preferred Shares are cumulative and accrue and accumulate but will not be paid, except in liquidation or upon conversion, until such time as the Board of Directors deems it appropriate in light of the Company's then current financial condition. No dividends are to be paid or set apart for payment

on the Company's Common Stock, nor are any shares of Common Stock to be redeemed, retired or otherwise acquired for valuable consideration unless the Company has paid in full or made appropriate provision for the payment in full of all dividends which have then accumulated on the Series A Preferred Shares. Holders of the Series A Preferred Shares are entitled to one vote per share on matters to be voted upon by the stockholders of the Company. As of June 30, 2001 and 2000, undeclared accrued dividends in arrears were $158,000 or $22.54 per share and $144,000 or $20.54 per share, respectively. All Common Shares are junior in rank to the Series A Preferred Shares, with respect to the preferences as to dividends, distributions and payments upon the liquidation, dissolution or winding up of the Company.

Common Stock

Holders of shares of Common Stock are entitled to one vote per share on matters to be voted upon by the stockholders of the Company.

As of June 30, 2001, the Company has reserved its common shares for special purposes as detailed below:

Shares issuable upon conversion of Series A Preferred Shares	30,000
Non-Qualified Stock Option Plan	4,201,000
Shares issuable upon conversion of Notes	5,635,000
	9,866,000

Common Stock Warrants

As of June 30, 2001, there were no warrants outstanding.

During the year ended June 30, 2001, warrants were exercised to purchase 94,000 shares of the Company's Common Stock. Of this amount 34,000 warrants were issued in connection with the Company's January and March 1996 private placements of Common Stock and 60,000 were issued during the year ended June 30, 1999 as compensation for consulting services.

During the year ended June 30, 2000, warrants were exercised to purchase 1,012,000 shares of the Company's Common Stock. Of this amount, 702,000 warrants were issued in connection with our January 1996 private placement and 134,000 were issued during the year ended June 30, 1999 as compensation for consulting services. The exercise price of and the number of shares issuable under these warrants were adjusted under standard anti-dilution provisions, as defined in the warrants.

During the year ended June 30, 1999, 150,000 warrants were exercised to purchase 150,000 shares of the Company's Common Stock at $2.50 per share. These warrants were issued during the year ended June 30, 1996, as part of the commission due to a real estate broker in connection with the termination of the Company's former lease at 40 Kingsbridge Road.

During the year ended June 30, 1999, the Company issued 200,000

five-year warrants to purchase its Common Stock at $6.50 per share, the closing price of the Common Stock on the date of grant. The warrants are consideration for consulting services to be rendered through February 2002. The estimated fair value of the warrants of approximately $917,000 is being amortized over the service period of three years. The unamortized portion is included as a component of other assets with the corresponding current portion included in other current assets on the consolidated balance sheet as of June 30, 2001 and 2000.

(9) Independent Directors' Stock Plan

On December 3, 1996, the stockholders voted to approve the Company's Independent Directors' Stock Plan, which provides for compensation in the form of quarterly grants of Common Stock to non-executive, independent directors serving on the Company's Board of Directors. Each independent director is granted shares of Common Stock equivalent to $2,500 per quarter plus $500 per Board of Director's meeting attended. The number of shares issued is based on the fair market value of Common Stock on the last trading day of the applicable quarter. In October 2000, the Compensation Committee of the Board of Directors amended the Plan to provide that the Independent Directors will be entitled to elect to receive up to 50% of the fees payable in cash with the remainder of the fee to be paid in Common Stock. During the years ended June 30, 2001, 2000 and 1999, the Company issued 1,000, 3,000 and 9,000 shares of Common Stock, respectively, to independent directors, pursuant to the Independent Directors' Stock Plan.

(10) Non-Qualified Stock Option Plan

In November 1987, the Company's Board of Directors adopted a Non-Qualified Stock Option Plan (the "Stock Option Plan"). As of June 30, 2001, 4,201,000 shares of Common Stock were reserved for issuance pursuant to options, which may be granted to employees, non-employee directors or consultants to the Company. The exercise price of the options granted must be at least 100% of the fair market value of the stock at the time the option is granted. Options may be exercised for a period of up to ten years from the date they are granted. The other terms and conditions of the options generally are to be determined by the Board of Directors, or an option committee appointed by the Board, at their discretion.

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

The following pro forma financial information shows the effect and the Company's net income (loss) and net income (loss) per share, had compensation expense been recognized consistent with the fair value method of SFAS 123.

	2001	2000	1999
Net income (loss) - as reported	$11,525,000	($6,306,000)	($4,919,000)
Net income (loss) - pro forma	1,609,000	($10,008,000)	($7,289,000)
Net income (loss) per diluted share - as reported	$0.26	($0.17)	($0.14)
Net income (loss) per diluted share - pro forma	$0.04	($0.26)	($0.21)

The fair value of each option granted during the three years ended June 30, 2001 is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (i) dividend yield of 0%, (ii) expected term of five years, (iii) volatility of 83%, 84% and 86%

and (iv) a risk-free interest rate of 5.72%, 6.19% and 5.06% for the years ended June 30, 2001, 2000 and 1999, respectively. The weighted average fair value at the date of grant for options granted during the years ended June 30, 2001, 2000 and 1999 was $56.79, $33.78 and $9.68 per share, respectively.

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

	Shares	Weighted Average Exercise Price	Range of Prices
Outstanding at July 1, 1998	4,422,000	4.06	$ 1.88 to $14.88
Granted at exercise prices which equaled the fair market value on the date of grant	475,000	9.68	$ 4.88 to $15.75
Exercised	(1,001,000)	4.40	$ 2.00 to $9.88
Canceled	(172,000)	7.25	$ 2.81 to $14.50
Outstanding at June 30, 1999	3,724,000	4.51	$ 1.88 to $15.75
Granted at exercise prices which equaled the fair market value on the date of grant	302,000	33.78	$21.50 to $69.50
Exercised	(809,000)	4.25	$ 2.06 to $32.00
Canceled	(11,000)	20.53	$ 6.00 to $37.38
Outstanding at June 30, 2000	3,206,000	7.35	$ 1.88 to $69.50
Granted at exercise prices which equaled the fair market value on the date of grant	1,150,000	56.79	$44.75 to $73.22
Exercised	(1,033,000)	5.25	$ 2.06 to $39.94
Canceled	(39,000)	36.31	$14.13 to $58.63
Outstanding at June 30, 2001	3,284,000	24.98	$ 1.88 to $73.22

As of June 30, 2001, the Stock Option Plan had options outstanding and exercisable by price range as follows:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$1.88 - $2.69	418,000	3.22	$2.43	418,000	$2.43
$2.75 - $2.94	451,000	4.76	$2.86	451,000	$2.86
$3.38 - $3.50	82,000	4.11	$3.47	82,000	$3.47
$3.56 - $4.50	442,000	2.93	$4.41	442,000	$4.41
$4.63 - $14.13	452,000	6.93	$7.52	412,000	$6.87
$15.75 - $44.75	707,000	8.74	$38.81	132,000	$34.73
$47.19 - $70.00	692,000	9.68	$63.39	2,000	$59.60
$70.69 - $73.22	40,000	9.32	$71.20		--
	3,284,000	6.55	$24.98	1,939,000	$6.23

(11) Income Taxes

Under the asset and liability method of Statement of Financial Accounting Standards No. 109 ("SFAS 109"), deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to

apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company was profitable for the year ended June 30, 2001, and accordingly the Company recognized a tax provision for the year ended June 30, 2001. The tax provision represents the Company's anticipated Alternative Minimum Tax liability based on the fiscal 2001 taxable income. The tax provision was offset by the sale of a portion of our net operating losses for the state of New Jersey. During March 2001, the Company sold approximately $9,255,000 of its state net operating loss carry forwards and recognized a tax benefit of $728,000 from this sale.

At June 30, 2001 and 2000, the tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	2001	2000
Deferred tax assets:		
Inventories	$ 116,000	$ 603,000
Investment valuation reserve	78,000	86,000
Contribution carryover	36,000	28,000
Compensated absences	190,000	157,000
Excess of financial statement over tax depreciation	862,000	924,000
Royalty advance - Aventis	396,000	395,000
Non-deductible expenses	315,000	1,025,000
Federal and state net operating loss carryforwards	63,662,000	50,808,000
Research and development and investment tax Credit carryforwards	9,851,000	8,860,000
Total gross deferred tax assets	75,506,000	62,886,000
Less valuation allowance	(74,800,000)	(62,180,000)
Net deferred tax assets	706,000	706,000
Deferred tax liabilities:		
Book basis in excess of tax basis of acquired assets	(706,000)	(706,000)
Net deferred tax	$ 0	$ 0

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The net change in the total valuation allowance for the years ended June 30, 2001 and 2000 was an increase of $12,620,000 and $6,775,000, respectively. The tax benefit assumed using the federal statutory tax rate of 34% has been reduced to an actual benefit of zero excluding sale of net operating losses referred to above, due principally to the aforementioned valuation allowance. Subsequently recognized tax benefits as of June 30, 2001 attributed to stock option deductions of $26,500,000 relating to the valuation allowance for deferred tax assets will be allocated to additional paid-in capital.

At June 30, 2001, the Company had federal net operating loss carryforwards of approximately $168,901,000 for tax reporting purposes, which expire in the years 2002 to 2021. The Company also has investment tax credit carryforwards of approximately $3,200 and federal research and development tax credit carryforwards of approximately $7,784,000 for tax reporting purposes, which expire in the years 2002 to 2021. In addition, the Company has $2,067,000 state research and development tax credit carryforwards, which expire in the years 2001 to 2008. The Company's ability to use such net operating loss, investment and research and

development tax credits carryforwards are subject to certain limitations due to ownership changes, as defined by rules pursuant to Section 382 of the Internal Revenue Code of 1986, as amended. Of the deferred tax asset valuation allowance related to the net operating loss carryforwards, approximately $66,479,000 relates to a tax deduction for non-qualified stock options. The Company will increase capital contributed in excess of par when these benefits are deemed to be realizable.

In addition, the net operating loss carryforward of $168,901,000 includes $39,945,000 from the acquisition of Enzon, Labs, Inc. which is limited to a maximum of $4,921,000.

(12) Significant Agreements

Schering Agreement

In November 1990, the Company entered into an agreement with Schering-Plough. Under this agreement, Schering-Plough agreed to apply Enzon's PEG technology to develop a modified form of Schering-Plough's INTRON A. Schering-Plough is responsible for conducting and funding the clinical studies, obtaining regulatory approval and marketing and manufacturing the product worldwide on an exclusive basis and Enzon will receive royalties on worldwide sales of PEG-INTRON for all indications. The royalty percentage to which Enzon is entitled will be lower in any country where a pegylated alpha-interferon product is being marketed by a third party in competition with PEG-INTRON, where such third party is not Hoffmann-La Roche.

PEG-INTRON received marketing authorization in the European Union as a stand-alone therapy for hepatitis C in May 2000 and as a combination therapy with REBETOL in March 2001. Schering-Plough received FDA approval for PEG-INTRON as a stand-alone therapy for the treatment of hepatitis C in January 2001 and as a combination therapy with REBETOL for the treatment of hepatitis C in August 2001.

In June 1999, the Company amended its agreement with Schering-Plough, which resulted in an increase in the effective royalty rate that it receives for PEG-INTRON sales. In exchange, the Company relinquished its option to retain exclusive U.S. manufacturing rights for this product. In addition, the Company granted Schering-Plough a non-exclusive license under some of its PEG patents relating to Branched or U-PEG technology. This license gives Schering-Plough the ability to sublicense rights under these patents to any party developing a competing interferon product. During August 2001, Schering-Plough, pursuant to a cross license agreement entered into as part of the settlement of certain patent lawsuits, granted Hoffmann-La Roche a sublicense under the Company's Branched PEG patents to allow Hoffmann-La Roche to make, use, and sell its pegylated alpha-interferon product, PEGASYS.

In January 2001 the Company earned a final $2,000,000 million milestone payment upon the FDA's approval of PEG-INTRON and in February 2000 the Company earned a $1,000,000 million milestone payment when the FDA accepted the Biologics License Application, or BLA, for PEG-INTRON filed by Schering-Plough. These milestone payments were recognized when received, as the earnings process was complete. Schering-Plough's obligation to pay the Company royalties on sales of PEG-INTRON terminates, on a country-by-country basis, upon the later of the date the last patent of the Company to contain a claim covering PEG-INTRON expires in the country or 15 years after the first commercial sale of PEG-INTRON in such country.

Schering-Plough has the right to terminate this agreement at any time if the Company fails to maintain the requisite liability insurance of $5,000,000.

Aventis Agreement

Under the Company's Amended Aventis Pharmaceuticals, (formerly Rhone Poulenc Rorer Pharmaceuticals, Inc.) U.S. License Agreement (the "Amended License Agreement"), Enzon granted an exclusive license to Aventis to sell ONCASPAR in the U.S. Enzon has received licensing payments totaling $6,000,000 and is entitled to royalties on net sales of ONCASPAR. During July 2000, the Company further amended the license agreement with Aventis to increase the base royalty payable to the Company on net sales of ONCASPAR from 23.5% to 27.5% on annual sales up to $10,000,000 and 25% on annual sales exceeding $10,000,000. These royalty payments will include Aventis' cost of purchasing ONCASPAR under a separate supply agreement. The agreement was also extended until 2016. Additionally, the Amended License Agreement eliminated the super royalty of 43.5% on net sales of ONCASPAR which exceed certain agreed-upon amounts. The Amended Aventis U.S. License Agreement also provides for a payment of $3,500,000 in advance royalties, which was received in January 1995.

The payment of royalties to Enzon under the Amended License Agreement will be offset by an original credit of $5,970,000, which represents the royalty advance plus reimbursement of certain amounts due to Aventis under the original License Agreement and interest expense. The royalty advance is shown as a long-term liability, with the corresponding current portion included in accrued expenses on the Consolidated Balance Sheets as of June 30, 2001 and 2000. The royalty advance will be reduced as royalties are recognized under the Amended License Agreement. Through June 30, 2001 an aggregate of $4,307,000 in royalties payable by Aventis has been offset against the original credit.

The Amended License Agreement prohibits Aventis from making, using or selling an asparaginase product in the U.S. or a competing PEG-asparaginase product anywhere in the world until the later of the expiration of the agreement or, if the agreement is terminated earlier, five years after termination. The Amended License Agreement terminates in December 2016 but automatically renews for additional one-year periods unless either party notifies the other in writing that it intends not to renew the agreement at least three months prior to the end of the current term. It can be terminated earlier by either party due to a default by the other. In addition, Aventis may terminate the Amended License Agreement at any time upon one year's prior notice to the Company or if the Company is unable to supply product for more than 60 days under the Company's separate supply agreement with Aventis. When the Amended License Agreement terminates, all rights granted to Aventis under the agreement will revert to Enzon. Under a separate supply agreement, Aventis is required to purchase from Enzon all of its product requirements for sales of ONCASPAR in North America. If the Company is unable to supply product to Aventis, under the supply agreement for more than 60 days for any reason other than a force majeure event, Aventis may terminate the supply agreement and the Company will be required to exclusively license Aventis the know-how required to manufacture ONCASPAR for the period of time during which the agreement would have continued had the license agreement not been terminated.

During August 2000, the Company made a $1,500,000 million payment to Aventis which was accrued at June 30, 2000 to settle a disagreement over the purchase price of ONCASPAR under the supply agreement and to settle Aventis' claim that Enzon should be responsible for Aventis' lost profits while ONCASPAR is under temporary labeling and distribution modifications. In November 1998, the Company and the FDA agreed to temporary labeling and distribution modifications for ONCASPAR, as a result of certain previously disclosed manufacturing problems. These temporary modifications resulted in Enzon, rather than Aventis distributing ONCASPAR directly to patients on an as needed basis.

The settlement also calls for a payment of $100,000 beginning in May 2000 and for each month that expires prior to the resumption of normal

distribution and labeling of this product by Aventis. During the quarter ended December 31, 2000, the FDA gave final approval to the Company's manufacturing changes, which were made to correct these problems, and all previously imposed restrictions on ONCASPAR were lifted. This will allow for resumption of normal distribution and labeling of this production by Aventis, which is expected to occur during the first quarter of calendar 2002.

Under separate license agreements, Aventis has exclusive rights to sell ONCASPAR in Canada and Mexico. These agreements provide for Aventis to seek to obtain marketing approval of ONCASPAR in Canada and Mexico and for the Company to receive royalties on sales of ONCASPAR in these countries, if any. These agreements expire 10 years after the first commercial sale of ONCASPAR in each country, but automatically renew for consecutive five-year periods unless either party elects to terminate at least three months prior to the end of the current term. Aventis may terminate these agreements on one year's prior notice to the Company.

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

MEDAC Agreement

The Company also granted an exclusive license to MEDAC to sell ONCASPAR and any PEG-asparaginase product, developed by the Company or MEDAC, during the term of the agreement in Western Europe, Turkey and Russia. The Company's supply agreement with MEDAC provides for MEDAC to purchase ONCASPAR from the Company at certain established prices, which increase over the initial five-year term of the agreement. Under the license agreement, MEDAC is responsible for obtaining additional approvals and indications in the licensed territories, beyond the currently approved hypersensitive indication in Germany. Under the agreement, MEDAC is required to meet certain minimum purchase requirements. The MEDAC license terminates in October 2001. The Company is currently in negotiations with MEDAC to enter into a new license agreement.

Gentiva Agreement

The Company has an agreement with Gentiva Health Services ("Gentiva") to purchase and distribute ADAGEN and ONCASPAR in the United States and Canada. The agreement provides for Gentiva to purchase the products from the Company at prices established in the agreement. Gentiva also receives a service fee for the distribution of the products.

(13) Commitments and Contingencies

In the course of normal operations, the Company is subject to the marketing and manufacturing regulations as established by the FDA. During fiscal 1999, the Company agreed with the FDA to temporary labeling and distribution modifications for ONCASPAR due to increased levels of particulates in certain batches of ONCASPAR, which the Company manufactured. The Company, rather than its marketing partner, Aventis, took over distribution of ONCASPAR directly to patients, on an as needed basis.

During fiscal 2001, the FDA gave final approval to manufacturing changes which the Company made to correct these manufacturing, and all previous imposed restrictions were lifted. This will allow for the resumption of normal distribution and labeling of this product by the Company's partner, Aventis, which is expected to occur during the first quarter of calendar 2002.

During August 2000, the Company made a $1.5 million payment to Aventis which was accrued for at June 30, 2000 to settle a disagreement over the purchase price of ONCASPAR under the supply agreement and to settle Aventis' claim that the Company should be responsible for Aventis' lost profits while ONCASPAR is under the temporary labeling and distribution modifications described above. The settlement also calls for a payment of $100,000 beginning in May 2000 and for each month that expires prior to Aventis' resumption of marketing and distribution of ONCASPAR.

During April 2000, the Company agreed to binding arbitration to settle a lawsuit, filed by LBC Capital Resources, Inc. ("LBC") a former financial advisor, in the United States District Court for the District of New Jersey. The arbitrator awarded LBC a $6,000,000 judgment. In its suit LBC claimed that under a May 2, 1995 letter agreement between LBC and the Company, LBC was entitled to a commission in connection with the Company's January and March 1996 private placements, comprised of $675,000 and warrants to purchase 1,250,000 shares of the Company's Common Stock at an exercise price of $2.50 per share. As a result of the arbitration award, the Company recognized a net charge to selling, general and administrative expenses of approximately $2,600,000 during the third quarter of the year ended June 30, 2000. The charge represents the net

profit and loss effect of the incremental reserves provided specifically for this litigation, offset by the reduction during the quarter of $2,900,000 of other contingency accruals that were deemed to not be required for certain other contingencies.

The Company has agreements with certain members of its upper management, which provide for payments following a termination of employment occurring after a change in control of the Company. The Company also has an employment agreement, dated May 9, 2001 with its Chief Executive Officer which provides for severance payments in addition to the change in control provisions discussed above. In addition, the Company has entered into retention agreements with certain employees, which provide for payment in the event the employee is terminated prior to May 30, 2002.

(14) Leases

The Company has several leases for office, warehouse, production and research facilities and equipment.

Future minimum lease payments, net of subleases, for noncancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2001 are:

Year ending June 30,	Operating leases
2002	$717,000
2003	779,000
2004	766,000
2005	765,000
2006	765,000
Later years, through 2007	1,222,000
Total minimum lease payments	$5,014,000

Rent expense amounted to $856,000, $1,055,000 and $1,394,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

For the year ended June 30, 1999, rent expense is net of subrental income of $110,000. As of June 30, 1999, the Company no longer subleased any portion of its facilities.

(15) Retirement Plans

The Company maintains a defined contribution, 401(k) pension plan for substantially all its employees. The Company currently matches 50% of the employee's contribution of up to 6% of compensation, as defined. The Company's match is invested solely in a fund which purchases the Company's Common Stock in the open market. Total Company contributions for the years ended June 30, 2001, 2000 and 1999 were $156,000, $128,000 and $115,000, respectively.

(16) Accrued Expenses

Accrued expenses consist of:

	June 30,	
	2001	2000
Accrued wages and vacation	$1,596,000	$1,238,000
Accrued Medicaid rebates	943,000	962,000
Unearned revenue	630,000	854,000
Contract and legal accrual	--	1,500,000
Accrued costs associated with subordinated notes offering	371,000	--
Accrued interest payable	250,000	--
Other	950,000	1,153,000
	$4,740,000	$5,707,000

(17) Business and Geographical Segments

The Company is managed and operated as one business segment. The entire business is comprehensively managed by a single management team that reports to the Chief Executive Officer. The Company does not operate separate lines of business or separate business entities with respect to any of its products or product candidates. In addition, the Company does not conduct any of its operations outside of the United States.

Accordingly, the Company does not prepare discrete financial information with respect to separate product areas or by location and does not have separately reportable segments as defined by SFAS No. 131.

During the years ended June 30, 2001, 2000 and 1999, the Company had export sales and royalties recognized on export sales of $11,115,000, $4,137,000 and $3,075,000, respectively. Of these amounts, sales and royalties in Europe and royalties recognized on sales in Europe represented $10,418,000, $3,617,000 and $2,559,000 during the years ended June 30, 2001, 2000 and 1999, respectively.

ADAGEN sales represent approximately 64%, 78% and 90% of the Company's total net sales for the year ended June 30, 2001, 2000 and 1999, respectively. ADAGEN's Orphan Drug designation under the Orphan Drug Act expired in March 1997. The Company believes the expiration of ADAGEN's Orphan Drug designation will not have a material impact on the sales of ADAGEN. A portion of the Company's ADAGEN sales for the years ended June 30, 2001, 2000 and 1999, were made to Medicaid patients.

(18) Quarterly Financial Data (unaudited)

The tables below summarize the Company's unaudited quarterly operating results for fiscal years 2001 and 2000.

	Three Months Ended				
	September 30, 2000	December 31, 2000	March 31, 2001	June 30, 2001	Fiscal Year 2001
Revenues	$ 5,173,614	$ 6,019,145	$ 9,931,754	$ 10,463,196	$ 31,587,709
Net income	571,052	2,137,483	5,508,221	3,308,308	11,525,064
Net income per common share:					
Basic	0.01	0.05	0.13	0.08	0.28
Diluted	0.01	0.05	0.13	0.08	0.26

	Three Months Ended				
	September 30, 1999	December 31, 1999	March 31, 2000	June 30, 2000	Fiscal Year 2000
Revenues	$ 2,913,813	$ 3,765,072	$ 5,723,117	$ 4,615,795	$ 17,017,797
Net loss	(1,950,463)	(1,509,731)	(1,684,944)	(1,161,326)	(6,306,464)
Net loss per common share:					
Basic	(0.05)	(0.04)	(0.04)	(0.03)	(0.17)
Diluted	(0.05)	(0.04)	(0.04)	(0.03)	(0.17)

EXHIBIT INDEX

Exhibit 10.13

EMPLOYEE RETENTION AGREEMENT

AGREEMENT by and between Enzon, Inc., a Delaware corporation (the "Company"), and [ ](the "Employee"), dated as of the 3rd day of August, 2001 (the "Effective Date").

WHEREAS, the Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued services and dedication of the Employee, notwithstanding the change in the chief executive officer of the Company which occurred on May 31, 2001 ("Change in CEO"). The Board believes it is imperative to diminish the inevitable distraction of the Employee by virtue of the personal uncertainties and risks created by the Change in CEO and to encourage the Employee's full attention and dedication to the Company and to provide the Employee with compensation and benefits arrangements which ensure that the compensation and benefits expectations of the Employee will be satisfied and are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. CERTAIN DEFINITIONS

(a) Annual Base Salary. "Annual Base Salary" shall mean the salary which is paid as consideration for the Employee's service during the calendar year, excluding any special form of compensation, cash or otherwise, such as incentives, commissions, bonuses, stock options or other stock based forms of compensation or any type of fringe benefit.

(b) Cause. "Cause" shall mean:

(i) a material breach by the Employee of the Employee's duties (other than as a result of incapacity due to physical or mental illness) which is demonstrably willful and deliberate on the Employee's part, which is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company;

(ii) the Employee's conviction of any crime involving moral turpitude or any felony; or

(iii) the willful engaging by the Employee in conduct that is demonstrably and materially injurious to the Company.

(c) Compensation Committee. "Compensation Committee" shall mean the Compensation Committee of the Board or such other Committee of the Board as shall administer the Company's option plans.

(d) Date of Termination. "Date of Termination" means (i) if the Employee's Full-Time Employment with the Company is terminated by the Company for Cause, or by the Employee for Good Reason, the date of receipt of the Notice of Termination or any later date

specified therein, as the case may be, and (ii) if the Employee's Full-Time Employment with the Company is terminated by the Company other than for Cause, the Date of Termination shall be the date on which the Company notifies the Employee of such termination.

(e) Employment Period. "Employment Period" began as of May 31, 2001 and ends as of the close of business on May 30, 2002.

(f) Full-Time Employment. "Full-Time Employment" shall mean employment for at least 37.5 hours per week.

(g) Good Reason. "Good Reason" shall mean:

(i) a diminution in the Employee's position (including status, offices, title and reporting requirements), authority, duties or

responsibilities or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Employee;

(ii) the Company's requiring the Employee to be based at any office or location other than (A) the office located at 20 Kingsbridge Road, Piscataway, New Jersey, or (B) any office which is less than twenty (20) miles from such location;

(iii) a reduction by the Company in the Employee's Annual Base Salary below the Annual Base Salary payable to by Employee as of the date the Employment Period began; or

(iv) the failure by the Company to provide employee benefit plans, programs, policies and practices (including, without limitation, retirement plans and medical, dental, life and disability insurance coverage) to the Employee and the Employee's family and dependents (if applicable) that provide substantially similar benefits, in terms of aggregate monetary value, to the Employee and the Employee's family and dependents (if applicable) at substantially similar costs to the Employee as the benefits provided by those plans, programs, policies and practices in effect as of the date the Employment Period began.

For purposes of this Section 1(g), any good faith determination of "Good Reason" made by the Employee shall be conclusive.

(h) Notice of Termination. Any termination by the Company for Cause or by the Employee for Good Reason during the Employment Period shall be communicated by Notice of Termination to the other party hereby given in accordance with Section 8(b). For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated and (iii) if the Date of Termination is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 15 days after the giving of such notice). The failure by the Employee or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Employee or the Company

hereunder or preclude the Employee or the Company from asserting such fact or circumstance in enforcing the Employee's or the Company's rights hereunder.

2. OBLIGATIONS OF THE COMPANY UPON TERMINATION

(a) If, during the Employment Period, the Company shall terminate the Employee's Full-Time Employment with the Company other than for Cause or the Employee shall terminate his Full-Time Employment with the Company for Good Reason:

(i) The Company shall pay to the Employee, as severance, Employee's Annual Base Salary in effect as of the Date of Termination. Such severance payment shall be made during the twelve (12) months following the Date of Termination in accordance with the Company's standard payroll and withholding practice.

(ii) As severance, Employee will be entitled to participate in the bonus pool which may be awarded to the officers of the Company for the year in which such termination occurs (and any prior year with respect to which a bonus was awarded to Employee but not paid) to the same extent as if Employee's Full-Time Employment with the Company had not terminated during the year for which the bonus is awarded; provided that the amount of the bonus awarded to Employee will be pro rated based on the number of days during such year on which Employee was employed with the Company on a Full-Time basis. For example, if Employee's Full-Time Employment with the Company covers six months of the year for which the bonus is awarded he would receive 50% of the bonus he would have been entitled to receive if his Full-Time Employment with the Company had covered the entire year. Nothing contained herein shall guarantee that any bonus will be paid to

Employee and Employee will only receive a bonus as determined hereunder if the other officers of the Company are awarded a bonus.

(iii) Effective as of the Date of Termination, the Company agrees to provide Employee, and any spouse and/or dependents receiving medical and dental coverage on the Date of Termination under a group health plan sponsored by the Company ("Family Members"), with continued group health coverage, including medical and dental coverage, as otherwise required under applicable state continuation law and the Consolidated Omnibus Budget Reconciliation Act of 1986, 29 U.S.C. ss.ss. 1161-1168; 26 U.S.C. ss. 4980B(f), as amended, and all applicable regulations (referred to collectively as "COBRA"). The Company will reimburse Employee for the total applicable premium cost for the medical and dental COBRA continuation coverage elected for Employee and his or her Family Members for a period of up to twelve (12) months commencing on the Date of Termination. Such reimbursements shall be subject to all applicable taxes, including but not limited to state and federal income and employment taxes.

(iv) In the event Employee obtains Full-Time Employment within twelve (12) months of the Date of Termination with an entity other than the Company, and Employee and his or her Family Members become eligible for a group health plan of such entity providing medical and/or dental coverage, the Company's obligation to reimburse Employee for the total applicable premium cost of medical and dental continuation coverage elected shall cease as of the date such coverage for Employee and his or her Family Members under such group health plan becomes effective.

(v) For purposes of the Company's Non-Qualified Stock Option Plan and determining the vesting of options granted to Employee under such Plan, the Compensation Committee has determined that Employee will continue to be deemed to be an employee of the Company during the period in which he works for the Company as a part-time employee or makes himself available to work for the Company as a part-time employee pursuant to Section 3 hereof, provided that if Employee refuses or fails to provide such part-time services, or if Employee accepts Full-Time Employment with any other employer during such period, or if Employee dies during such period, he will no longer be deemed to be an employee of the Company for such purposes as of the date he refuses or fails to provide such part-time services, or the date he commences such Full-Time Employment, or the date he dies.

(vi) In the event that Employee dies after becoming fully entitled to the severance payments provided in section 2(a)(i) hereof but before the Employee actually receives all of such payments, any remaining unpaid payments will be made first to the Employee's surviving spouse, if any, and if there is no surviving spouse, to the Employee's estate. In the event Employee dies after becoming entitled to the benefits provided in section 2(a)(iii) hereof, the Company shall continue to reimburse Employee's Family Members for the premium cost for COBRA continuation coverage through the date which is twelve (12) months from the Date of Termination.

(vii) [Hardman only: The Company shall waive, in writing, the obligation of Employee pursuant to the letter dated _____, from the Company to Employee, to reimburse the Company for relocation costs paid by the Company on behalf of Employee in the amount of [_____.]

(b) This Agreement is unfunded. No fund is being set aside or allocated specifically for the purpose of this Agreement. All severance payments shall be paid out of the general assets of the Company. Employee shall not have any secured or preferred interest by way of a trust, escrow, lien or otherwise in any specific asset of the Company for unpaid severance payments.

(c) No compensation or benefits shall be payable to Employer hereunder in the event Employee's employment with the Company is terminated for any reason after the Employment Period or in the event Employee's employment with the Company is terminated for Cause during the Employment Period or in the event Employee voluntarily terminates his employment with the Company other than for Good Reason during the Employment Period. In the event Employee accepts Full-Time Employment with an employer other than the Company during the twelve (12) months following the Date of Termination, Employee shall promptly notify the Company that he has accepted such Full-Time Employment and advise the Company of the anticipated commencement date for such Full-Time Employment.

Employee shall no longer be entitled to receive compensation payable under section 2(a)(i) hereof as of the date Employee commences Full-Time Employment with such new employer.

3. OBLIGATIONS OF THE EMPLOYEE UPON TERMINATION

(a) In the event the Company terminates Employee's Full-Time Employment other than for Cause during the Employment Period or Employee terminates his Full-Time Employment with the Company for Good Reason during the Employment Period, Employee will

continue to work up to five (5) hours per month for the Company as a part-time employee as requested by the Company for a period of one (1) year following the Date of Termination.

(b) Employee may perform the part-time employment required pursuant to Section 3(a) hereof by phone, if acceptable to the Company, or at the Company's offices in Piscataway, New Jersey. The Company will use its best efforts to aggregate services requested in a month.

4. NONCOMPETITION AND CONFIDENTIALITY

(a) The "Noncompete Period" shall commence upon execution of this Agreement and continue through the date which is one year following the date on which Employee's Full-Time Employment with the Company terminates. In consideration for the benefits provided to Employee under this Agreement, during the Noncompete Period, Employee 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, marketing or selling enzymes, protein-based biopharmaceuticals or other pharmaceuticals that are modified using polyethylene glycol ("PEG"), (y) developing, marketing or selling single-chain antigen-binding proteins or (z) any technology or area of business in which the Company becomes involved to a significant degree during the term of Employee's Full-Time Employment with the Company . For purposes of the preceding sentence to determine whether any entity is engaged in such activities to a "significant degree" comparison will be made to the Company's operations at that time. In other words, an entity will be deemed to be engaged in an activity to a significant degree if the number of employees and/or amount of funds devoted by such entity to such activity would be material to the Company's operations at that time. Notwithstanding anything to the contrary contained herein, Employee shall be entitled to work with or for (i) an entity that is developing, marketing or manufacturing monoclonal antibodies, (ii) a licensee of the Company if the only activities conducted by such licensee that would be covered by the restrictions in this Section 4(a) are conducted pursuant to, and covered by, the license granted by the Company and (iii) an entity that is engaged in a research project that would be covered by the restrictions in this Section 4(a) if such research project is not material to such entity and Employee would have no direct involvement in such research project; provided in the case of employment covered by clauses (ii) and (iii) Employee shall have provided the Board with a detailed description of the proposed employment and obtained the written consent of the Board (which consent will not be unreasonably withheld) prior to commencing any such employment. Employee 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 Employee is employed by the Company. The provision contained in the preceding sentence shall survive the termination of Employee's employment with the Company. In the event Employee breaches any of the covenants set forth in this Section 4(a), the running of the period of restriction set forth herein shall recommence upon Employee's compliance with the terms of this Section 4(a). Notwithstanding the above, ownership by the Employee, as a passive investment, of less than five percent of the outstanding shares of capital stock of any corporation listed on a national securities exchange or publicly traded on Nasdaq shall not constitute a breach of this Section 4(a).

(b) Employee recognizes and acknowledges that information relating to the

Company's business, including, but not limited to, information relating to patent applications filed or to be filed by the Company, trade secrets relating to the Company's products or services, and information relating to the Company's research and development activities, shall be and remain the sole and exclusive property of the Company and is a valuable, special and unique asset of the Company's business. The Employee will not, during or after the term of his employment by the Company, disclose any such information to any person, corporation, firm, partnership or other entity; provided, however, that, notwithstanding the foregoing, during the term of Employee's Full-Time Employment with the Company, Employee may make such disclosure if such disclosure is in the Company's best interests, is made in order to promote and enhance the Company's business, and sufficient arrangements are made with the person or entity to whom such disclosure is made to ensure the confidentiality of such disclosure. The provisions of this Section 4(b) shall survive the termination of Employee's employment with the Company.

(c) Employee agrees that the covenants and agreements contained in this Section 4 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 Employee breach any of such covenants and agreements; that given the unique nature of the Company's business such loss and damage would be suffered by the Company regardless of where a breach of such covenants and agreements occur, thus, making the absence of a geographical limitation reasonable; 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 covenant 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 prevent a breach or contemplated breach by Employee of any such covenants or agreements. Notwithstanding anything herein to the contrary, if a period of time or other restriction specified in this Section 4 should be determined to be unreasonable in a judicial proceeding, then the period of time or other restriction shall be revised so that the covenants contained in this Section 4 may be enforced during such period of time and in accordance with such other restrictions as may be determined to be reasonable.

(d) Employee agrees to assign and does hereby assign to the Company all tangible and intangible property, including, but not limited to, inventions, developments or discoveries conceived, made or discovered by Employee solely or in collaboration with others during the term of Employee's employment with the Company, which relate in any manner to the Company's business.

5. NONEXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit the Employee's continuing or future participation in any plan, program, policy or practice provided by the Company and for which the Employee may qualify, nor shall anything herein limit or otherwise affect such rights as the Employee may have under any contract or agreement with the Company. Amounts which are vested benefits or which the Employee is otherwise entitled to receive under any plan, policy,

practice or program of or any contract or agreement with the Company at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

6. FULL SETTLEMENT; DETERMINATIONS; RESOLUTION OF DISPUTES

(a) The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Employee or others. In no event shall the Employee be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Employee under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Employee obtains other employment, except as otherwise provided in this Agreement. The Company agrees to pay promptly upon invoice, to the full

extent permitted by law, all legal fees and expenses which the Employee may incur as a result of any contest by the Company or the Employee of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Employee concerning the amount of any payment pursuant to this Agreement) in the event Employee shall prevail to a substantial extent in such contest action.

(b) The following claims procedure shall be the claims procedure for the resolution of disputes and disposition of claims arising under this Agreement:

(i) The Employee or beneficiary of the Employee may file with the Company a written request for benefits under this Agreement in a form and manner prescribed by the Company. Within thirty (30) days after the filing of such request, the Company shall notify the claimant in writing whether the request is upheld or denied, in whole or in part. If the request is denied, in whole or in part, the Company shall state in writing: (i) the specific reasons for the denial; (ii) the specific references to the pertinent provisions of this Agreement on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and (iv) an explanation of the claims review procedure set forth herein.

(ii) Within sixty (60) days after receipt of an initial benefit determination in which benefits have been denied, in whole or in part, the claimant may file with the Company a written request for a review and may, in conjunction therewith, submit written issues and comments. Within thirty (30) days after the request for review was filed, the Company shall make a decision on the request for review and notify the claimant in writing of the Company's decision.

(c) If there shall be any dispute between the Company and the Employee (i) in the event of any termination of the Employee's Full-Time Employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of Full-Time Employment by the Employee, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Employee of the existence of Good Reason was not made in good faith, the Company shall pay all amounts, and provide all benefits, to the

Employee and/or the Employee's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 2 hereof as though such termination were by the Company without Cause or by the Employee with Good Reason; provided, however, that the Company shall not be required to pay any disputed amounts pursuant to this paragraph except upon receipt of an undertaking satisfactory in form and substance to the Company by or on behalf of the Employee to repay to the Company all such amounts to which the Employee is ultimately adjudged by such court not to be entitled.

7. SUCCESSORS

(a) This Agreement is personal to the Employee and without the prior written consent of the Company shall not be assignable by the Employee otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Employee's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

8. MISCELLANEOUS

(a) This Agreement shall, except to the extent that federal law is controlling, be governed by and construed in accordance with the laws of the State of New Jersey, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Employee:

If to the Company:

Enzon, Inc.

20 Kingsbridge Road
Piscataway, New Jersey 08854
Attention: Corporate Secretary

with a copy to:

Dorsey & Whitney, LLP
250 Park Avenue
New York, NY 10177
Attention: Kevin Collins

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Employee's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Employee or the Company may have hereunder, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Employee and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Employee and the Company, the employment of the Employee by the Company is "at will" and, subject to the terms of this Agreement, may be terminated by either the Employee or the Company at any time.

(g) This Agreement contains the complete agreement between the parties and supersedes any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way, including, without limitation, the Employee's Secrecy, Invention Assignment, and Non-Competition Agreement, executed by the Employee on _____.

(h) This Agreement may be executed in counterpart, each of which counterpart shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Employee has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

ENZON, INC.

By:

Name: Kenneth J. Zuerblis
Title: Vice President, Finance, Chief Financial Officer and Secretary

EMPLOYEE

Name: [ ]

Schedule

The following individuals entered into an agreement with Enzon on August 3, 2001, substantially similar to the attached:

Norman Hardman
Josef Bossart
Kenneth Zuerblis
Jeffrey McGuire
Christopher Phillips

EXHIBIT 12.1

Enzon, Inc.
Ratio of Earnings to Fixed Charges
(in thousands)

	Years ended June 30,					
	2001	2000	1999	1998	1997	1996
Net Income (Loss)	$11,525	($6,306)	($4,919)	($3,617)	($4,557)	($5,175)
Add:						
Fixed Charges	557	352	468	597	546	498
Less:						
Capitalized interest	--	--	--	--	--	--
Net Income (Loss) as adjusted	$12,082	($5,954)	($4,451)	($3,020)	($4,011)	($4,677)
Fixed charges:						
Interest (gross)	$ 275	$ 4	$ 8	$ 14	$ 15	$ 13
Portion of rent representative of the interest factor	282	348	460	583	531	485
Fixed charges	$ 557	$ 352	$ 468	$ 597	$ 546	$ 498
Deficiency of earnings available to cover fixed charges	N/A	($6,306)	($4,919)	($3,617)	($4,557)	($5,175)
Ratio of earnings to fixed charges	22:1	N/A	N/A	N/A	N/A	N/A

EXHIBI 21.0

SUBSIDIARIES OF REGISTRANT

Symvex Inc. is a wholly-owned subsidiary of the Registrant incorporated in the State of Delaware. Symvex Inc. did business under its own name.

SCA Ventures Inc., (formerly Enzon Labs Inc.) is a wholly-owned subsidiary of the Registrant incorporated in the State of Delaware. SCA Ventures does business under its own name.

Enzon GmbH is a wholly-owned subsidiary of the Registrant incorporated in Germany.

EXHIBIT 23.0

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Enzon, Inc.:

We consent to incorporation by reference in Registration Statement Nos. 333-64110, 333-18051 and 33-50904 on Form S-8 and Registration Statement Nos. 333-58269, 333-46117, 333-32093, 333-1535 and 333-30818 on Form S-3 of Enzon, Inc. of our report dated August 21, 2001, relating to the consolidated balance sheets of Enzon, Inc. and subsidiaries as of June 30, 2001 and 2000 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2001, which report appears in the June 30, 2001 annual report on Form 10-K of Enzon, Inc.

/s/ KPMG LLP
KPMG LLP

Short Hills, New Jersey
September 28, 2001