Product Focused / Technology Driven

ENZON IS A BIOPHARMACEUTICAL COMPANY DEDICATED TO THE DISCOVERY, DEVELOPMENT AND COMMERCIALIZATION OF THERAPEUTICS TO TREAT LIFE-THREATENING DISEASES. THE COMPANY HAS DEVELOPED THREE MARKETED PRODUCTS, INCLUDING PEG-INTRON®, MARKETED BY SCHERING-PLOUGH. ENZON'S PRODUCT-FOCUSED STRATEGY INCLUDES AN EXTENSIVE DRUG DEVELOPMENT PROGRAM THAT LEVERAGES THE COMPANY'S PEG MODIFICATION AND SINGLE-CHAIN ANTIBODY (SCA®) TECHNOLOGIES. INTERNAL RESEARCH AND DEVELOPMENT EFFORTS ARE COMPLEMENTED BY STRATEGIC TRANSACTIONS THAT PROVIDE ACCESS TO ADDITIONAL PRODUCTS, PROJECTS, AND TECHNOLOGIES. ENZON HAS SEVERAL DRUG CANDIDATES IN VARIOUS STAGES OF DEVELOPMENT, INDEPENDENTLY AND WITH PARTNERS.

In October, PEG-INTRON® and REBETOL® combination therapy was launched in the U.S. for chronic hepatitis C—later this was classified as the most successful launch in Schering-Plough history.

In November, we began our Phase II program for Prothecan®. We are currently conducting Phase II trials in three separate cancer indications: small-cell lung, pancreatic, and non-small cell lung.

In January, we announced a multifaceted alliance with Inhale designed to expand our product pipeline and maximize the return on our powerful PEG patent portfolio.

In February, our board of directors was enhanced with the addition of Robert L. Parkinson, Jr. Mr. Parkinson's distinguished 25-year career at Abbott brings valuable pharmaceutical industry experience to Enzon.

In March, our R&D organization was strengthened with the appointment of Uli Grau to CSO. Uli brings over 20 years of industry experience and an impressive track record to Enzon.

In April, we created the leading technology platform and R&D effort for the development of SCA products through a broad product-focused collaboration with Micromet.

In June, we completed the much-anticipated reacquisition of Oncaspar®. This enables us to establish a core sales & marketing infrastructure, making us better prepared and more attractive for partnering.

Defining the Future

Enzon's Executive Officers, left to right: Arthur Higgins, Ken Zuerblis, and Uli Grau.

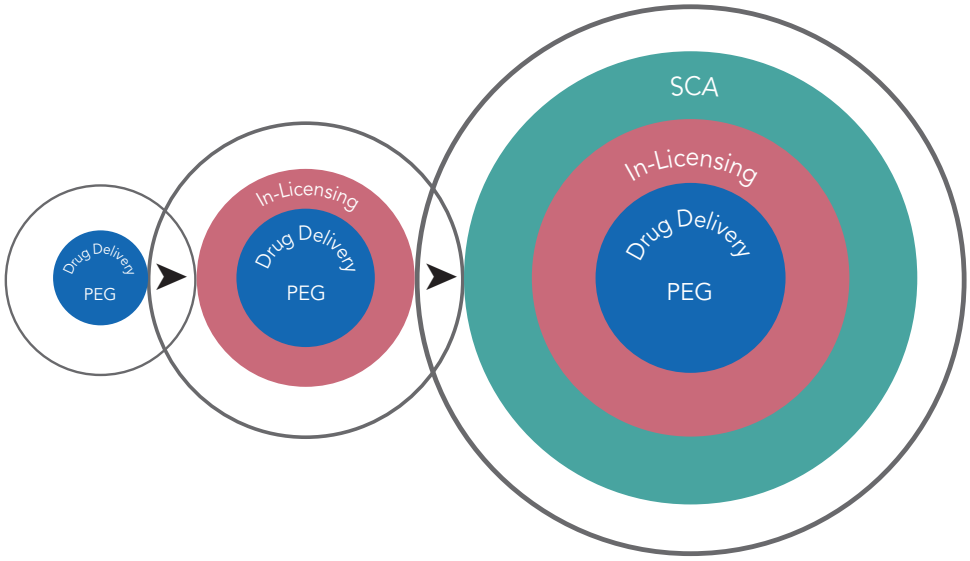
Fiscal 2002 was a year of significant achievements for Enzon. In addition to record earnings driven by triple-digit growth in revenues, we made notable progress in advancing all aspects of our business. We look ahead to utilize our financial strength and organizational momentum to continue the aggressive execution of our strategy—a strategy designed to deliver superior long-term earnings growth. I would like to walk you through some of the important achievements attained over the past fiscal year, and how we believe these accomplishments position us to become one of the most respected and fastest growing biopharmaceutical companies.

Since joining Enzon, I have been working with our entire team to execute a dual-prong, product-focused strategy aimed at expanding our internal product pipeline using the strength of our PEG and SCA technologies and accelerating growth through strategic transactions that provide access to products, projects, and new technologies. First and foremost, we are seeking late-stage products to enhance our pipeline, as well as marketed products to facilitate the build-out of our sales and marketing capabilities. Additionally, our initiatives include the use of alliances to gain access to complementary drug delivery technologies, making us a premier commercialization partner for developing enhanced versions of proven products. These activities, coupled with the exciting future potential of bolstering our pipeline with innovative SCA therapeutics, position Enzon to be a leading biopharmaceutical company combining the innovation and energy of a biotechnology company with the operational discipline, high standards of quality, balanced portfolio, and secure revenue streams of an emerging pharmaceutical company.

Our strategy is firmly anchored by our financial strength, which continues to place us among the elite of our sector and provides our investors with a level of security and transparency. We are profitable, we are cash flow positive, and we have a strong and straightforward balance sheet. The key driver behind this year's continued success was PEG-INTRON® and the growth it provides to our bottom line. PEG-INTRON continues to distinguish itself as one of the most successful biopharmaceuticals launched to date, and within months of the launch of PEG-INTRON combination therapy, it was designated the most successful launch in Schering-Plough's history.

While PEG-INTRON and our growing earnings stream were clearly in the limelight this past year, at Enzon our efforts are focused beyond PEG-INTRON. In January, Enzon and Inhale Therapeutics transformed a patent litigation into a winning situation for both companies through a multifaceted strategic alliance. This alliance has already served to accelerate the growth of our product pipeline as well as maximize the return of our extensive PEG patent portfolio. We will

WE LOOK AHEAD TO UTILIZE OUR FINANCIAL STRENGTH AND ORGANIZATIONAL MOMENTUM TO CONTINUE THE AGGRESSIVE EXECUTION OF OUR STRATEGY—A STRATEGY DESIGNED TO DELIVER SUPERIOR LONG-TERM EARNINGS GROWTH.



collaborate with Inhale to develop three products using Inhale's pulmonary delivery (Inhance™) and super critical fluid (SEDS™) technologies.

Our alliance also gives us access to Inhale's licensing model, giving Inhale the ability to license our significant PEG patent portfolio on our behalf. Thus, Inhale can now offer a full package of PEG solutions to its drug delivery customers and we will receive royalties or a profit share for those products that utilize our PEG patents. This arrangement allows Enzon to realize revenue on portions of our PEG patent estate that we are not focusing on internally, with virtually no distraction or limitation placed on our efforts to continue developing products for our own account or with co-commercialization partners. Yet another exciting aspect of this alliance is to jointly explore the development of an inhaled SCA. We believe that the combination of our exciting SCA technology with Inhale's leading technology position in the pulmonary delivery of proteins and macromolecules offers significant potential to expand the antibody arena to offer patient benefits that are not possible with full monoclonal antibodies.

In addition to working to leverage our SCA technology with the Inhale agreement, in April, we more aggressively moved to accelerate the development of products based on our SCA technology by entering into a broad product-focused alliance with Micromet AG. Micromet is an emerging German antibody company with established research and drug development capabilities in the antibody arena and demonstrated technical expertise to advance products to the clinic. Additionally, Micromet shares our vision to utilize the power of SCAs to develop innovative therapeutics. By combining our intellectual property estates and resources, together with Micromet we have created the leading technology platform and R&D effort in the SCA arena.

Consistent with our strategy, this is a collaboration focused on results. We currently have several SCA targets under review and hope to identify at least two clinical product candidates within the first phase of this collaboration. Much like our partnership with Inhale, this collaboration will simultaneously advance both aspects of our strategy, and is yet another excellent example of our ability to execute our strategy without compromising our earnings outlook.

Another significant development this past year was our much-anticipated reacquisition of the North American rights to Oncaspar®. This will serve as the launching pad for the establishment of a core sales and marketing unit to continue Enzon's transition into a fully integrated biopharmaceutical company. With our own sales and marketing unit, Enzon is a more attractive partner and can better support its in-licensing and acquisition efforts for late-stage and marketed products.

Delivering Results

The execution of our strategy goes hand-in-hand with a commitment to the continual growth and strengthening of all critical areas of our operations and the people that run them. This commitment was evident last year not only in the above strategic achievements, but also with the appointment of Uli Grau to the position of Chief Scientific Officer. Uli brings over 20 years of biotechnology and pharmaceutical industry experience to Enzon, with a distinguished track record of progressing products from research through the clinic and ultimately to the market in the U.S. and Europe. Before joining Enzon, Uli was President of Research and Development for BASF Pharma, where he directed a global R&D organization of approximately 1,500 employees, and significantly advanced and expanded the company's product portfolio. We are committed to build a best-in-class R&D organization through the continued advancement of our R&D staff and processes.

Lastly, this year we enhanced our board of directors with the addition of Bob Parkinson and I would like to take this opportunity to formally welcome Bob. We are fortunate to complement our board with someone of Bob's caliber. Before retiring from Abbott Laboratories, Bob served as the company's President and Chief Operating Officer, as well as on its board of directors. The industry experience Bob gained over a distinguished 25-year career at Abbott has proven to be a valuable addition to Enzon. Most recently, Bob's impressive credentials were further enhanced when Loyola University Chicago named him dean of the School of Business Administration (SBA) and its Graduate School of Business. I would also like to express my gratitude and compliments to our entire board of directors. We are fortunate to have a board comprised of individuals whose integrity and devotion are invaluable to Enzon.

Looking ahead, I assure you that Enzon is committed to continue to diligently execute our strategy and deliver value. This year was marked by important accomplishments that established the groundwork for continued forward progress and provides a glimpse of where we intend to take Enzon. With significant milestones behind us, and the promising future before us, it is fitting that the name of the company should capture a combination of achievements, opportunities, and most importantly our product-focused strategy. Thus, at this year's annual meeting we will seek a stockholder vote to change our name to Enzon Pharmaceuticals.

With a change to our name that communicates the evolution of our company, we look forward to continued success in the coming years as we make Enzon Pharmaceuticals a clear leader among biopharmaceutical companies.

Arthur Higgins

Arthur J. Higgins, Chairman and Chief Executive Officer

Proven Products

TO PUT IT QUITE SIMPLY—PEG IS A PROVEN TECHNOLOGY APPLIED TO PROVEN THERAPEUTICS TO MAKE THEM BETTER. WE HAVE SIGNIFICANT EXPERTISE IN THE METHODS BY WHICH WE ATTACH PEG TO A COMPOUND.

Enzon's PEG technology involves the covalent attachment of polyethylene glycol, or PEG, to therapeutic proteins or small molecules to create a new molecular entity and enhance the native compound's 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 we can significantly improve the therapeutic properties of certain proteins and small molecules through the application of our PEG technology. It can improve solubility and reduce dosing frequency by extending circulating life. PEG can also reduce side effects by reducing immune reactions, but most importantly PEG modification can result in significantly improving a drug's efficacy.

To put it quite simply—PEG is a proven technology applied to proven therapeutics to make them better. We have significant expertise in the methods by which we attach PEG to a compound. This includes factors, such as processes to direct PEG to the appropriate attachment sites on the compound, the nature of the linker, and the amount and type of PEG to use in order to produce the desired results for the particular compound being modified.

Currently, there are three marketed products, which we have developed with our PEG technology: ADAGEN®, ONCASPAR®, and the blockbuster, PEG-INTRON®.

PEG-INTRON is an excellent example of the benefits of PEG. In conjunction with Schering-Plough, we developed a significantly improved version of the widely used product INTRON® A. PEG-INTRON offers hepatitis C patients significantly greater efficacy as well as the convenience of a once-weekly injection versus the three-times-per-week injections for INTRON A. Since its introduction last year, PEG-INTRON combination therapy has quickly become the leading treatment for this disease as PEG has redefined the outlook for this under-treated disease of epidemic proportions.

Enzon's R&D efforts continue to be aimed at the development of PEG-enhanced products including PEGylated anti-cancer compounds. Many oncolytics suffer from delivery limitations, such as solubility or the need for prolonged infusion, making these compounds a good match for our PEG technology. Currently, we are conducting clinical programs for two PEG-enhanced anti-cancer compounds, PROTHECAN® and PEG-paclitaxel. PROTHECAN, our PEG-enhanced version of camptothecin, is currently in Phase II clinical trials for three oncology indications, small-cell lung, pancreatic, and non-small cell lung cancers. Camptothecin was discovered at the National Institutes of Health as the first molecule of the topoisomerase I inhibitor class of cytotoxics, but drug delivery problems have limited its use. With PROTHECAN we have been able to improve solubility, extend circulating life, and Phase I investigators have reported that PROTHECAN was well-tolerated and that anti-tumor activity was observed.

We are committed to continuing to capitalize on the power of our PEG platform to bolster our pipeline with additional PEG-enhanced compounds on our own, as well as through co-commercialization partnerships.

The evolution of Enzon into a fully integrated biopharmaceutical company will be achieved by capitalizing on the unique strategic elements that exist at Enzon today:

- Profitable & Financially Strong
- Powerful PEG Platform
- High-potential SCA Technology
- Proven Partnering Track Record

Our outlook for continued strong earnings growth is anchored by PEG-INTRON. Our PEG technology has played a critical role in redefining the outlook for hepatitis C, an under-treated disease of epidemic proportions. We believe that the hepatitis C market is poised for significant expansion, as this disease represents one of the most prevalent worldwide public health threats. Within major markets, sales of HCV therapies are estimated to grow from $1.7 billion in 2001 to $6.6 billion in 2011. A key factor contributing to this projected growth is the addition of PEGylated alpha interferon to the marketplace. PEG-INTRON offers significantly better efficacy, and offers patients the convenience of once-weekly dosing versus the three-times-per-week dosing of INTRON A. This treatment advance has resulted in increasing motivation to more aggressively treat those patients who are in the early stages of the disease, patients in difficult to treat subsets, such as HCV genotype 1 infected patients or those patients who have failed prior treatments.

Our partner, Schering-Plough, is the worldwide leader in the alpha interferon market and has enjoyed the benefit of being the first to market a PEGylated combination therapy. We believe Schering-Plough's first to market advantage combined with its demonstrated ability to maintain worldwide market leadership in the alpha interferon market will leave Enzon well-positioned to continue to enjoy superior earnings growth.

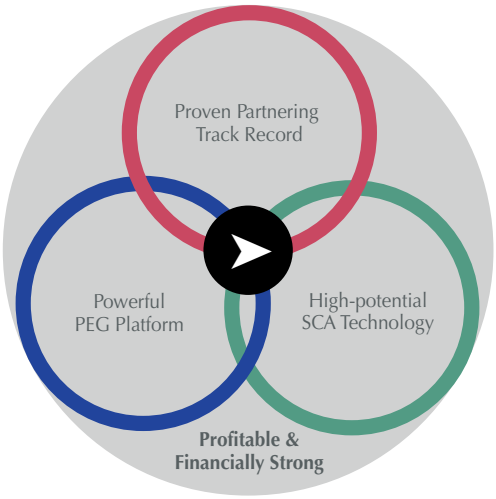
The power of our PEG platform is easily seen through our demonstrated ability to develop PEG-enhanced versions of products for the marketplace. Our product pipeline showcases three marketed PEG products and currently there are five additional products that utilize our technology in various stages of clinical development by Enzon or licensees. PEG is rapidly becoming the premier delivery technology for macromolecules. We intend to utilize the power of PEG to expand our pipeline on our own and through co-commercialization partnerships. We also intend to augment our PEG technology with additional alliance-based drug delivery platforms, much like our alliance with Inhale.

Our SCA technology offers exciting potential to enhance our pipeline with innovative SCA therapeutics. Our product-focused collaboration with Micromet creates a compelling technology platform and the leading R&D effort in the SCA segment.

Enzon has a proven track record for the responsible execution of strategic transactions to provide access to new technologies, products, and companies. We are committed to continue to selectively utilize strategic partnering to enhance our pipeline and ready our organization for continued growth.

At the center of our organization driving these initiatives forward is a scientific, operational, and management team that is committed to excellence and focused on results.

THE EVOLUTION OF ENZON INTO A FULLY INTEGRATED BIOPHARMACEUTICAL COMPANY WILL BE ACHIEVED BY CAPITALIZING ON THE UNIQUE STRATEGIC ELEMENTS THAT EXIST AT ENZON TODAY.



Delivering Products

Uli Grau, far left, and members of his clinical and research management team.

Creating New Opportunities

Antibodies are key proteins produced by the body's immune system that specifically recognize target molecules known as antigens, foreign particles that trigger the body to produce an immune response. Antigens often have harmful or toxic effects on the body. Antibodies of identical molecular structure with a single specificity against a particular antigen are called monoclonal antibodies (MAbs). Over the past few years, several MAbs have been approved for therapeutic use and have achieved significant clinical and commercial success.

In 2000, monoclonal antibodies and antibody fusion proteins generated over $2 billion in sales, and we believe that this figure is poised to double or triple in the next few years. With a multitude of new targets becoming known through genomics and proteomics, there is likely far greater future potential in the antibody arena and our SCA technology leaves us well positioned to capitalize on this expanding market.

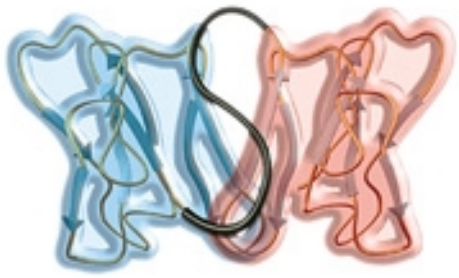
Much of the clinical utility of MAbs results from the affinity and specificity with which they bind to their target, as well as a long circulating life that is the result of their large size and effector function. However, the biological complexity and large size of MAbs also give rise to certain limitations. MAbs are technically challenging and costly to manufacture and their large size and long circulating life precludes their utility in an acute care setting, can limit access to the vascular compartment, and limits them to injectable delivery.

Single-Chain Antibodies (SCAs) may offer solutions to many of the challenges in antibody development. SCAs combine the antigen binding regions of antibodies on a single polypeptide chain and are a fraction of the size of conventional antibody therapeutics. SCAs' unique design and small size provide attributes that monoclonals cannot deliver. SCAs have a much shorter circulating half-life than monoclonal antibodies, may more readily access the extravascular space, and are highly versatile for protein engineering in a variety of formats. Furthermore, manufacturing SCAs is efficient and economical on a commercial scale in microbial protein expression systems, providing significant cost-savings compared to MAb production.

We see tremendous potential for our partnership with Micromet to generate novel SCA therapeutics. We also envision that our PEG technology will be a key ingredient in the development of SCAs for sub-acute and chronic indications by providing the vehicle to virtually customize the half-life of an SCA. In addition, SCAs may allow for the development of an antibody in a non-injectable delivery format, an area that we are exploring with Inhale.

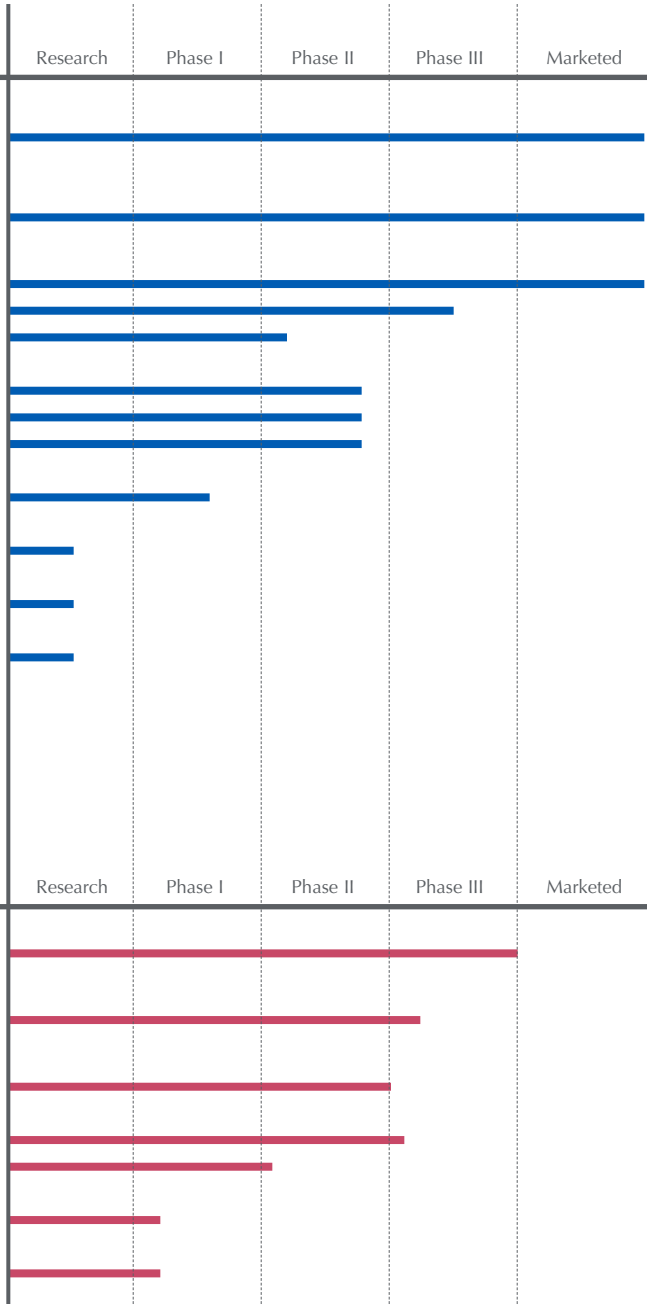
The Enzon and Micromet collaboration creates the leading technology platform and R&D effort in the SCA segment. This partnership unites Enzon's financial strength, PEG expertise, access to Inhale's pulmonary delivery platform, and broad intellectual property with Micromet's complementary SCA patents, fusion and linker technologies, and antibody development expertise and infrastructure. As a result, we are now uniquely positioned to further enhance our pipeline with exciting antibody-based therapeutics.

THE ENZON AND MICROMET COLLABORATION CREATES THE LEADING TECHNOLOGY PLATFORM AND R&D EFFORT IN THE SCA SEGMENT. WE SEE TREMENDOUS POTENTIAL FOR THIS PARTNERSHIP TO GENERATE NOVEL SCA THERAPEUTICS.



Proprietary Pipeline

Product	Partner	Indication
ADAGEN	Proprietary	ADA Deficient Severe Combined Immunodeficiency Disease
ONCASPAR	Proprietary	Acute Lymphoblastic Leukemia (ALL)
PEG-INTRON	Schering-Plough	Hepatitis C
	Schering-Plough	Malignant Melanoma
	Schering-Plough	Various Solid Tumors/HIV
PROTHECAN	Proprietary	Non-small Cell Lung Cancer
		Pancreatic Cancer
		Small-cell Lung Cancer
PEG-Paclitaxel	Proprietary	Solid Tumors/Lymphomas
PEG-Cytotoxics	Proprietary	Various
Various*	Inhale	Various
Various SCAs**	Micromet	Various



Enzon/Inhale Partnership—Three products based on Inhale's platforms

***Enzon/Micromet Partnership*

Licensee Pipeline

Product	Licensee	Indication
PEGASYS	Inhale/Roche*	Hepatitis C
EYE001	Inhale/Eyetech Pharmaceuticals*	Age-related Macular Degeneration
CDP870	Inhale/Pharmacia*	Rheumatoid Arthritis
Pexelizumab	Alexion Pharmaceuticals**	Cardiopulmonary Bypass Surgery
	Alexion Pharmaceuticals**	Myocardial Infarction
SGN-10	Seattle Genetics**	Cancer
SGN-10 + Taxotere	Seattle Genetics**	Cancer

Enzon/Inhale Partnership—PEG

***Enzon/Micromet Partnership—SCA*

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, 2002 Commission File Number 0-12957

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.)
685 Route 202/206, Bridgewater, New Jersey	08807
(Address of principal executive offices)	(Zip Code)

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

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)
Preferred Stock Purchase Rights
(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 18, 2002 was approximately $876,693,848. There is no market for the Series A Cumulative Convertible preferred stock, the only other class of stock outstanding.

As of September 18, 2002, there were 42,999,823 shares of Common Stock, par value $.01 per share, outstanding.

The Index to Exhibits appears on page 47.

Documents Incorporated by Reference

The registrant's definitive Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on December 3, 2002, 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.

ENZON, INC.

2002 Form 10-K Annual Report

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ADAGEN®, ONCASPAR® and PROTHECAN® are our registered trademarks. Other trademarks and trade names used in this annual report are the property of their respective owners.

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 products for life-threatening diseases on our own and through strategic partnerships. We are currently executing a dual-prong strategy designed to broaden our revenue stream, expand our product pipeline, and enhance our organizational capabilities through both internal efforts and the execution of strategic transactions. First, internally we are focused on the advancement of our product pipeline through our continued investment in research and development and the application of our proprietary PEG and SCA technologies. Our PEG, or polyethylene glycol, technology is used to improve the delivery, safety, and efficacy of proteins and small molecules with known therapeutic efficacy. Our single-chain antibody, or SCA, technology is used to discover and produce antibody-like molecules that can offer many of the therapeutic benefits of monoclonal antibodies while addressing some of their limitations. Second, through strategic transactions we plan to broaden our revenue stream and further expand our product pipeline by accessing already marketed products and products in development. Our strategic initiatives will also seek using alliances to enhance our organization by accessing additional technologies and extending our product development and commercialization capabilities.

To date we have developed three products that utilize our proprietary PEG technologies and have several under development.

PEG-INTRON® is a PEG-enhanced version of Schering-Plough's alpha-interferon product, INTRON® 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, has received approval of PEG-INTRON as a monotherapy and 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 in the United States and the European Union. The product is currently in Phase III clinical trials for hepatitis C in Japan and is also being evaluated for use as long term maintenance therapy in cirrhotic patients that have failed previous treatment (COPILOT study). A Phase III clinical trial is also being conducted for PEG-INTRON for the treatment of high risk malignant melanoma, and earlier stage clinical trials of PEG-INTRON are being conducted for other indications, including HIV. Schering-Plough has reported that its worldwide sales of INTRON A, REBETOL and PEG-INTRON for all indications in 2001 totaled $1.4 billion.

PROTHECAN® 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 its clinical development has been discontinued due to significant side effects and poor solubility. We have shown in preclinical studies that PROTHECAN preferentially accumulates in tumors and has comparable or better efficacy compared to camptothecin as well as marketed topoisomerase I inhibitors. We are currently conducting Phase II clinical trials for PROTHECAN in small cell lung, non-small cell lung and pancreatic cancers as a monotherapy. We plan to initiate additional clinical trails for PROTHECAN in other cancer indications in order to fully explore PROTHECAN'S clinical potential.

We have initiated a phase I program for PEG-paclitaxel, a PEG-modified version of paclitaxel.

We commercialize two additional products based on our PEG technology: ADAGEN® for the treatment of a congenital enzyme deficiency disease called Severe Combined Immunodeficiency Disease, or SCID, and ONCASPAR® 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 marketed for several years and have demonstrated the safe and effective application of our PEG technology.

Our second proprietary technology, SCAs, are genetically engineered proteins which possess the antigen binding domains of a monoclonal antibody and as a result its binding specificity and affinity. SCAs 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. During fiscal 2002 we entered into a broad product development agreement with Micromet AG, a private German company focused on the development of antibody products with complementary intellectual property and development expertise in the area of SCAs. 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. Alexion has commenced enrollment in a Phase III clinical trial for this SCA in patients undergoing cardiopulmonary bypass surgery. Alexion is also evaluating this SCA for myocardial infarction, for which two Phase II clinical trials are ongoing.

Our Strategy

To build a fully integrated biopharmaceutical company and to further realize the potential value of our PEG and SCA technologies, we intend to pursue the following strategic initiatives:

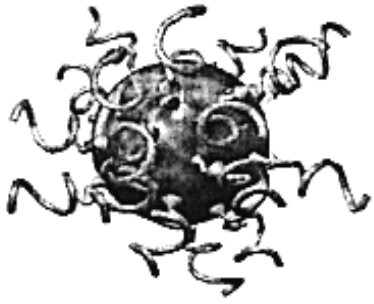
- Continue to identify macro and small molecules of known therapeutic value that we believe can be improved by our PEG technology and develop PEG-enhanced versions of such compounds;
- Acquire already marketed products and build a marketing and sales infrastructure to enhance our profitability;
- Acquire products under development and technologies which are complementary to our technologies and clinical focus;
- Enter into development agreements with third parties to apply our PEG technology to their existing compounds; and
- Advance our SCA technology through our Micromet collaboration.

PEG Technology

Our proprietary PEG technology involves the covalent attachment of 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.



A depiction of a PEG-enhanced molecule.

For years, we have applied and continually improved our PEG technology to modify the pharmacologic characteristics of potential or existing protein therapeutics. We modify proteins with PEG for the purpose of prolonging life and reducing toxicities. In some cases, PEG can render a protein therapeutically effective, where the unmodified form had only limited clinical utility. For example, proteins frequently induce an immunologic response. When PEG is attached, it disguises the compound and reduces recognition by the patient's immune system. In addition, frequency of dosing can be reduced and the delay in clearance can achieve an improved therapeutic effect due to the prolonged exposure to the protein therapeutic.

We have also developed a 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 extends their circulatory life and, at the same time, greatly increases the solubility of these compounds. We attach PEG to anti-cancer compounds by means of chemistries that are designed to temporarily inactivate the compound, and then release it over time, releasing the compound in the proximity of the targeted tissue. By inactivating and then reactivating the compound in the body we create a prodrug 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 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. The effect was not only a prolonged half life allowing for once weekly dosing, but also greater efficacy as compared to unmodified INTRON-A. Schering-Plough currently markets INTRON A for 16 major antiviral and oncology indications worldwide. Historically 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 has received approval for the treatment of adult patients with chronic hepatitis C as a monotherapy and in combination with REBETOL (ribavirin, USP) capsules in the United States and European Union. Schering-Plough is currently conducting late-stage clinical trials for the treatment of hepatitis C in Japan. Schering-Plough is also evaluating PEG-INTRON as a long term maintenance therapy (COPILOT study) and in combination with REBETOL in hepatitis C patients 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.

The COPILOT (Colchicine versus PEG-INTRON Long-Term) study, is evaluating maintenance therapy with PEG-INTRON in hepatitis C patients with advanced cirrhosis. In this study, 250 patients with advanced cirrhosis who had previously failed interferon-based therapy were randomized to two groups: 130 patients received once-weekly PEG-INTRON (0.5 mcg/kg) and 120 patients received twice-daily colchicine (0.6 mg). At the end of one year of treatment, the PEG-INTRON group had a reduction in detectable virus (HCV RNA), while the virus levels in the colchicine group remained the same. These findings may be important for hepatitis C patients who have not responded to previous therapy.

Schering-Plough has reported that its worldwide sales of INTRON A, REBETOL and PEG-INTRON for all indications in 2001 totaled $1.4 billion, with the majority of sales coming from hepatitis C.

Under our licensing agreement with Schering-Plough, we earned milestone payments and receive royalties on Schering-Plough's worldwide sales of PEG-INTRON. Schering-Plough is responsible for all marketing and development activities for PEG-INTRON.

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. It is also estimated that approximately 2.0 million people in Japan are infected with hepatitis C. 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 10 or more years before patients become symptomatic. Schering-Plough estimates that only 10 to 15 percent of patients with hepatitis C have been treated.

Prior to the introduction of PEG-INTRON, the standard of care for hepatitis C infection was 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.

During June 2002 the National Institutes of Health (NIH) issued a consensus statement stating that the most effective treatment for hepatitis C is combination therapy with PEGylated interferon and ribavirin for a period of 48 weeks. The consensus statement also provided recommendations on how to broaden the treatment population as well as how to prevent transmission of the virus.

Hoffmann-LaRoche is developing a PEGylated version of its alpha-interferon, product ROFERON®-A, called PEGASYS®. Schering-Plough and Hoffmann-LaRoche have been the major competitors in the global alpha-interferon hepatitis C market since the approval of INTRON A and ROFERON-A. PEGASYS is being developed by Hoffmann-LaRoche as a monotherapy as well as in combination with ribavirin for the treatment of hepatitis C. PEGASYS is expected to compete with PEG-INTRON on a global basis. PEGASYS was approved in the European Union in June 2002 and is currently under review by the FDA for its use as a monotherapy and in combination with ribavirin in the United States. Both products have similar characteristics and efficacy. Hoffmann-La Roche has reported that its Phase III study, which evaluated the combination of PEGASYS in combination with one of two doses of ribavirin (depending on body weight) for the treatment of hepatitis C achieved an overall sustained response of 56%.

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.

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 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 have potential 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 topoisomerase I inhibitors. Camptothecin was originally developed at the National Institutes of Health and is now off patent; it is a potent topoisomerase I inhibitor.

For many years camptothecin has been known to be a very effective cytotoxic agent but its low solubility has 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. These two products together achieved 2001 worldwide sales of approximately $881 million.

We have linked PEG and camptothecin so that it forms a prodrug. The PEG component confers a long circulating half life and allows the compound to accumulate in tumor sites. Animal tests have shown that PEG-camptothecin has better efficacy compared to camptothecin, as well as other topoisomerase I inhibitors. We are currently conducting a Phase II clinical trial of PROTHECAN in small cell lung, non-small cell lung and pancreatic cancers as a monotherapy. We also expect to initiate additional Phase II clinical trials for PROTHECAN in gastric and other cancer indications.

PEG-paclitaxel

PEG-paclitaxel is a PEG-modified version of paclitaxel formulated for ease of administration. TAXOL (paclitaxel) is a chemotherapeutic agent used to treat various types of cancers, including ovarian, breast, non-small cell lung, and AIDS-related Kaposi's sarcoma. In 2001, sales of TAXOL were reported to be approximately $1.2 billion. Using our proprietary PEG technology, our scientists have modified paclitaxel through the chemical attachment of PEG giving PEG-paclitaxel prodrug attributes. PEG-paclitaxel can be delivered without the need for solubilizing agents or pre-medications. TAXOL, a commercial formulation of paclitaxel, contains the solubilizing agent CREMOPHOR and patients are required to take pre-medications 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. Currently, we are evaluating the pharmacokinetic data from this trial.

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 2002 supplied ADA derived from cattle in Germany. In November 2000, bovine spongiform encephalopathy or BSE or mad cow disease was detected in certain cattle herds in Germany. During 2002 in order to comply with FDA requirements, our supplier secured a new source of bovine intestines from New Zealand, which has no confirmed cases of BSE in its cattle herds. 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 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. Based upon 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 make 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 are marketing ADAGEN on a worldwide basis. We utilize independent distributors in certain territories including the United States, Europe and Australia. Currently, 76 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, 2002, 2001 and 2000 were $13.4 million, $13.4 million and $12.2 million respectively.

Beginning in September 2002, the United States Department of Agriculture or USDA will require all animal sourced materials shipped to the United States from any European country to contain a veterinary certificate that the product is BSE free. We currently have more than a year's supply of ADA enzyme in inventory and are investigating the ability for our supplier which processes our ADA enzyme supply in Germany to comply with or obtain a waiver of this requirement. We cannot guarantee that such certificate or waiver will be available. If our supplier is unable to supply us with ADA enzyme, it is likely that we will be unable to produce or distribute ADAGEN once we utilize our current inventory of ADA enzyme.

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 U.S., 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. During June 2002 we amended our license agreement with Aventis (formerly Rhone-Poulenc Rorer Pharmaceuticals) to acquire the rights to market and distribute ONCASPAR in the U.S., Canada, Mexico and the Asia/Pacific region. Under the amended agreement we acquired the rights to market and distribute ONCASPAR in the United States and Canada in return for a payment of $15 million and a royalty of 25% on our net sales of the product through 2014. 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 U.S. 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 preclinical studies for additional PEG-enhanced compounds. We will continue to seek opportunities to develop and commercialize other PEG-enhanced products on our own and through co-commercialization partnerships.

SCA Proteins

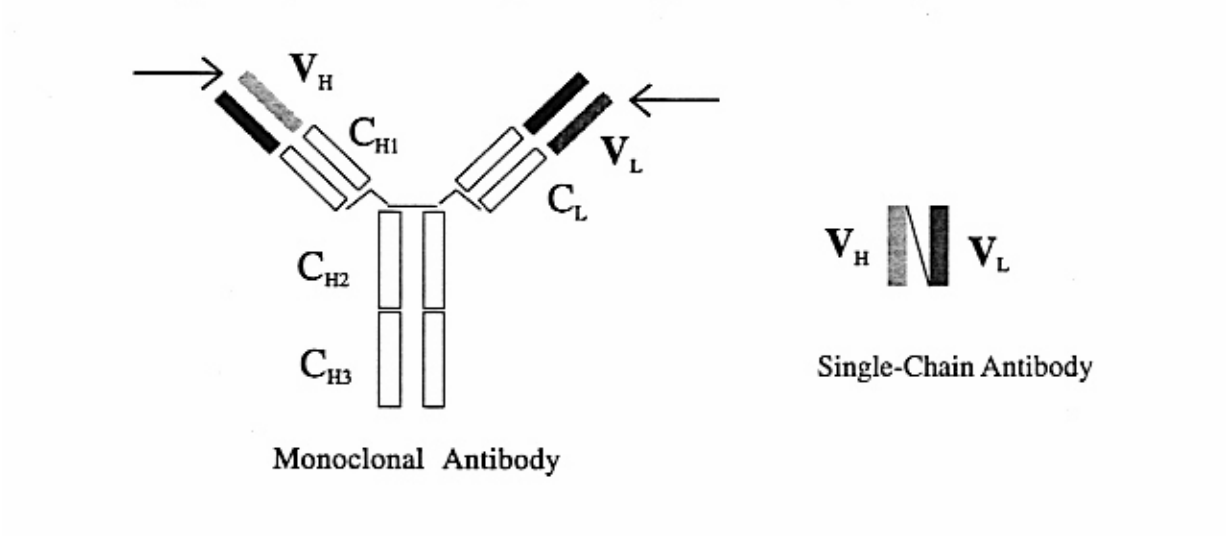
General

Antibodies are proteins produced by the immune system in response to the presence in the body of antigens such as, 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 and their so-called effector function. 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 immunogenicity 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
- the potential for non-parenteral application.



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 re-cloning or humanization procedures. In specific formats, SCAs are also suitable for intracellular expression allowing for their use e.g. as in inhibitors of gene expression.

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

During April 2002 we entered into a multi-year strategic collaboration with Micromet AG a private company based in Munich, Germany. Under the terms of the agreement Enzon and Micromet will combine their significant patent estates and complementary expertise in single chain antibody technology. The collaboration will focus on the development of two clinical product candidates within the first 30 months of the collaboration. Together with Micromet, we are in the process of establishing a new 25 person research and development unit in Micromet's facility in Germany. Enzon and Micromet will share the costs of the collaboration equally, as well as in any future revenues generated through the collaboration.

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. As part of our collaboration with Micromet, we are combining our core intellectual property in SCAs with Micromet's key SCA linker and fusion protein patents. Micromet will institute a comprehensive licensing program on behalf of the partnership and Micromet and Enzon will jointly market their combined SCA IP to third parties and share equally in the costs and revenues.

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, Alexion reported that this SCA improved cardiac and neurological function and reduced blood loss. Alexion reported that it and its partner, Procter & Gamble, have completed a Phase IIb study and commenced enrollment in a pivotal Phase III 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 myocardial infarction patients. This product has been given fast track review status by the FDA for bypass surgery.

Licenses and Strategic Partnerships

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 are entitled to 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 gave 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.

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

During June 2002 we amended our license agreement with Aventis (formerly Rhone-Poulenc Rorer Pharmaceutical Inc.) to reacquire the rights to market and distribute ONCASPAR in the United States, Mexico, Canada and the Asia/Pacific region. In return for the marketing and distribution rights we paid

Aventis $15 million and will pay a 25% royalty on net sales of ONCASPAR through 2014. Prior to the amendment, Aventis was responsible for marketing and distribution of ONCASPAR. Under the previous agreement Aventis paid us a royalty on net sales of ONCASPAR of 27.5% on annual sales up to $10 million and 25% on annual sales exceeding $10 million. These royalty payments included Aventis' cost of purchasing ONCASPAR from us under a supply agreement.

In connection with the reacquisition of these marketing and distribution rights to ONCASPAR we have begun to establish a specialty sales force of 5 to 10 personnel to market ONCASPAR in the United States.

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. If we cease to distribute ONCASPAR or we fail to make the required royalty payments, Aventis has the option to distribute the product in the territories under the original license.

MEDAC License Agreement

We have 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. 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 terminated in October 2001. We are currently in negotiations with MEDAC to enter into a new license agreement.

Micromet AG

On April 10, 2002, we announced a multi-year strategic collaboration with Micromet AG, a private company based in Munich, Germany, to identify and develop the next generation of antibody-based therapeutics.

Under the terms of the agreement, Enzon and Micromet will combine their significant patent estates and complementary expertise in SCA technology to create a leading platform of therapeutic products based on antibody fragments. The collaboration will also benefit from a non-exclusive, royalty-bearing license from Enzon for PEGylated SCA products. Enzon and Micromet are establishing a new R&D Unit located at Micromet's research facility in Germany. The R&D Unit will be staffed initially with 25 scientists and plans to be fully operational by the end of 2002. During the first phase of the collaboration, covering a 30-month period beginning in the third quarter of calendar 2002, the new R&D Unit will focus on the generation of at least two clinical product candidates in therapeutic areas of common strategic interest. Enzon and Micromet will share equally the costs of research and development, and plan to share the revenues generated from technology licenses and from future commercialization of any developed products.

We hold core intellectual property in SCAs. These fundamental patents, combined with Micromet's key patents in SCA linkers and fusion protein technology, generate a compelling technology platform for SCA product development. Enzon and Micromet have entered into a cross-license agreement for their respective SCA intellectual property and have decided to jointly market their combined SCA technology to third parties. Micromet will be the exclusive marketing partner and will institute a comprehensive licensing program on behalf of the partnership, for which the parties will share equally in the costs and revenues. Current licensees to Enzon and Micromet's SCA intellectual property include Alexion, Bristol-Myers Squibb, Cambridge Antibody Technologies, Cell Genesys, Celltech, Crucell, Eli Lilly, Seattle Genetics and Xoma. Several SCA molecules are in clinical trials. Alexion is currently conducting a pivotal Phase III clinical study of an SCA in cardiopulmonary bypass surgery.

In addition to our license and collaboration agreements with Micromet we purchased an $8.3 million Micromet convertible note which bears interest of 3% and is payable in March 2006. This note is convertible at our option into Micromet common stock at a price of $1,015 per share.

Inhale Therapeutic Systems

In January 2002, we entered into a broad strategic alliance with Inhale Therapeutic Systems, Inc. that includes the following components:

- The companies agreed to enter into a collaboration to jointly develop three products to be specified over time using Inhale's Inhance™ pulmonary delivery platform and SEDS™ supercritical fluids platform. Inhale will be responsible for formulation development, delivery system supply, and in some cases, early clinical development. We will have responsibility for most clinical development and for commercialization.
- The two companies will also explore the development of single-chain antibody (SCA) products to be administered by the pulmonary route.
- We granted to Inhale the exclusive right to grant sub-licenses under our PEG patents to third parties. We will receive a royalty or a share of profits on final product sales of any products that use our patented PEG technology. We anticipate that we will receive 0.5% or less of Hoffmann-LaRoche's sales of PEGASYS, which represents equal profit sharing with Inhale on this product. We retain the right to use all of our PEG technology for our own product portfolio, as well as those products we develop in co-commercialization collaborations with third parties.
- We purchased $40 million of newly issued Inhale convertible preferred stock in January 2002. The preferred stock is convertible into Inhale common stock at a conversion price of $22.79 per share. In the event Inhale's common stock price three years from the date of issuance of the preferred stock or earlier in certain circumstances is less than $22.79, the conversion price will be adjusted down, although in no event will it be less than $18.23 per share. Conversion of the preferred stock into common stock can occur anywhere from 1 to 4 years following the issuance of the preferred stock or earlier in certain circumstances. The preferred stock investment is being accounted for under the cost method.
- The two companies also agreed in January 2002 to a settlement of the patent infringement suit we filed in 1998 against Inhale's subsidiary, Shearwater Polymers, Inc. Inhale will receive licensing access to the contested patents under a cross-license agreement. We received a one-time payment of $3 million from Inhale to cover expenses incurred in defending our branched PEG patents which is included in other income.

Mitsubishi Pharma

We have two license agreements with 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 the rHSA product 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 the sales of the rHSA product 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 such rHSA product following market approval of that product in Japan or the United States.

Marketing

During June 2002, we reacquired the rights to market and distribute ONCASPAR in North America from Aventis Pharmaceuticals. In connection with the reacquisition, we have begun to establish a 5 to 10 person specialty sales force to commercially market ONCASPAR in the United States. We also market ADAGEN on a worldwide basis to a small patient population.

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 Nova Factor, Inc. (formerly known as Gentiva Health Services, Inc.) to purchase and distribute ADAGEN and ONCASPAR in the United States and Canada. The agreement provides for Nova Factor to purchase ADAGEN and ONCASPAR from us at certain prices established in the agreement. We pay Nova Factor a service fee for the distribution of the products.

We expect to evaluate whether to expand or acquire additional sales forces to market additional products we may acquire or develop.

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 in the manufacturing of our PEG products. 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.

ADAGEN and ONCASPAR use our early PEG technology which is not as advanced as the PEG technology used in PEG-INTRON and our products under development. Due, in part, to certain limitations of using our earlier PEG technology we have had and will likely continue to have certain manufacturing problems with ADAGEN and ONCASPAR.

Manufacturing and stability problems required us to implement voluntarily recalls for a batch of ADAGEN in March 2001 and certain batches of ONCASPAR in June 2002.

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.

Research and Development

To date, our primary source of new products has been our internal research and development activities. Research and development expenses for the fiscal years ended June 30, 2002, 2001 and 2000 were approximately $18.4 million, $13.1 million, and $8.4 million, respectively.

Our research and development activities during fiscal 2002 concentrated primarily on the Phase II clinical trials of PROTHECAN, preclinical studies, and continued research and development of our proprietary technologies. We expect our research and development expenses for fiscal 2003 and beyond will 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 making, using or selling our products.

During January 2002, we settled a patent infringement suit we had brought against Shearwater Corporation 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. The settlement was part of a broad strategic alliance we formed with Inhale Therapeutic Systems Inc., Shearwater Corporation's parent corporation, in which Inhale agreed to pay us $3,000,000 to cover our expenses incurred in defending our Branched PEG patents and pay us 0.5% of any revenues it receives from Hoffmann-La Roche's manufacture and sale of PEGASYS. In addition, Enzon and Inhale agreed to cross

license their PEG intellectual property estates to each other. Also, Inhale has the exclusive right to sublicense our PEG patent to third parties and we will receive a royalty or a share of profit on final product sales. We retained the rights to use our PEG patents for our own proprietary products and products we may develop with co-commercialization partners.

During August 2001, Schering-Plough granted a sublicense 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 as part of the settlement of a patent infringement lawsuit related to PEG-INTRON. During August 2001, we dismissed a patent infringement suit we had brought against Hoffmann-La Roche relating to PEGASYS 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.

In November 1993, Curis Inc. (formerly known as Creative BioMolecules Inc.) signed cross license agreements with us in the field of our SCA protein technology and Curis' Biosynthetic Antibody Binding Site protein technology. 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. In April 2002, we entered into a cross-license agreement with Micromet for our respective SCA intellectual property and have decided to jointly market such intellectual property with Micromet.

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 preclinical 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 preclinical 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, preclinical 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, or 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 preclinical 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 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. In particular Amgen has received FDA approval for Neulasta, a pegylated version of Neupogen. Other than PEG-INTRON and our ONCASPAR and ADAGEN products, and Hoffmann-La Roche's PEGASYS, which has been approved by the European Union and Neulasta, 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. Researchers at the National Institutes of Health, or NIH, have been treating SCID patients with gene therapy, which if successfully developed, would compete with, and could eventually replace ADAGEN as a treatment. 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 and several other companies selling similar products. We believe that PEG-INTRON may have several potential advantages over the other interferon products currently approved for marketing in the United States including:

- once per week dosing versus the current three times per week dosing, and
- increased efficacy, compared with unmodified alpha-interferon.

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. During June 2002, Roche also filed for United States marketing approval in combination with Ribavirin for treatment of hepatitis C. This product has received priority (6 months) review status by the United States FDA. Currently the product has not received FDA approval. During June 2002, PEGASYS received European Union approval for treatment of hepatitis C as a monotherapy and in combination with ribavirin. We expect PEGASYS to compete with PEG-INTRON in the United States and the European Union.

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 under our patents in order to commercialize their products, but we cannot assure you this will prove to be the case.

Employees

As of June 30, 2002, we employed 127 persons, including 27 persons with Ph.D. or MD degrees. At that date, 58 employees were engaged in research and development activities, 40 were engaged in manufacturing, and 29 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	56,000	$581,000(1)	July 31, 2021
300 Corporate Ct. S. Plainfield, NJ	Manufacturing	24,000	183,000	March 31, 2007
685 Route 202/206 Bridgewater, NJ	Administrative	19,000	470,000(2)	June 30, 2007

(1) Under the terms of the lease, annual rent increases over the remaining term of the lease from $581,000 to $773,000.

(2) Under the terms of the lease, annual rent increases over the remaining term of the lease from $470,000 to $489,000.

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

Item 3. Legal Proceedings

There is no 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, 2002 and 2001, 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.

Year Ended June 30, 2002	High	Low
First Quarter	67.92	42.77
Second Quarter	67.15	50.10
Third Quarter	57.86	40.75
Fourth Quarter	44.70	22.12
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

As of September 18, 2002 there were 1,670 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, 2002, 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.

The following table provides additional information on the Company's equity-based compensation plans as of June 30, 2002:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)
Equity compensation plans approved by security holders	3,644,428	$38.07	1,549,096
Equity compensation plans not approved by security holders	-	-	-
Total	3,644,428	$38.07	1,549,096

Item 6. Selected Financial Data

Set forth below is our selected financial data for the five fiscal years ended June 30, 2002.

Consolidated Statement of Operations Data:

	Years Ended June 30				
	2002	2001	2000	1999	1998
Revenues	$75,804,746	$31,587,709	$17,017,797	13,158,207	$14,644,032
Net Income (Loss)	45,806,343	11,525,064	(6,306,464)	(4,919,208)	(3,617,133)
Net Income (Loss) per Diluted Share	$ 1.04	$ .26	($0.17)	($0.14)	($0.12)
Dividends on Common Stock	None	None	None	None	None

Consolidated Balance Sheet Data:

	June 30,				
	2002	2001	2000	1999	1998
Total Assets	$610,747,883	$549,675,817	$130,252,250	$34,916,315	$13,741,378
Long-Term Obligations	$400,000,000	$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, 2002, 2001, and 2000

Revenues. Revenues for the year ended June 30, 2002 were $75,805,000 compared to $31,588,000 for the year ended June 30, 2001 and $17,018,000 for the year ended June 30, 2000. The components of revenues are net sales and royalties we earn on the sale of our products by others and contract revenues.

Net sales increased by 7% to $22,183,000 for the year ended June 30, 2002, as compared to $20,769,000 for the year ended June 30, 2001. The increase was due to increased ONCASPAR sales. The increase in ONCASPAR sales was due to the lifting during the prior year of all of the FDA distribution and labeling restrictions that were in place for a portion of fiscal 2001. During the year ended June 30, 2001, the FDA gave final approval to manufacturing changes which we made to correct certain manufacturing problems, and all previously imposed restrictions were lifted. Net sales of ADAGEN were $13,441,000 for the year ended June 30, 2002 and $13,369,000 for the year ended June 30, 2001.

Sales increased by 33% to 20,769,000 for the year ended June 30, 2001 from $15,558,000 for the year ended June 30, 2000. This was due to increased ONCASPAR and ADAGEN sales. The increase in ONCASPAR sales was due to the mid-year lifting of FDA imposed distribution and labelling restrictions which were in place during fiscal year ended June 30, 2000. Net sales of ADAGEN increased to $13,369,000 for the year ended June 30, 2001 as compared to $12,159,000 in fiscal 2000. The increase in ADAGEN sales resulted from an increase in the number of patients receiving ADAGEN treatment.

Royalties for the year ended June 30, 2002 increased to $53,329,000 compared to $8,251,000 in the prior year. The increase was primarily due to the commencement of sales of PEG-INTRON in combination with REBETOL in the U.S. and increased sales of PEG-INTRON in 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 also received marketing approval for use in combination with REBETOL for the treatment of chronic hepatitis C in the European Union in March 2001 and in the U.S. in August 2001. Schering-Plough launched PEG-INTRON as combination therapy with REBETOL in the U.S. in October 2001.

Royalties for the year ended June 30, 2001 increased to $8,251,000 as compared to $34,000 for the year ended June 30, 2000 due to the approval of PEG-INTRON in the European Union in late fiscal 2000 and in the United States during fiscal 2001.

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 to increase due to increased detailing of the product resulting from our reacquisition of marketing rights for the product from Aventis at the end of fiscal 2002. During fiscal 2002, we distributed and recorded the net sales of ONCASPAR, but the product was not marketed by us or Aventis. We expect royalties on PEG-INTRON to increase in future quarters with the continued roll out of the product in the U.S. Schering-Plough has reported that clinical trials of PEG-INTRON for additional indications are being conducted and will seek approval in additional countries for PEG-INTRON. However, 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, 2002 decreased by $2,275,000, as compared to the prior year. The decrease was related primarily to a $2,000,000 milestone payment from our development partner Schering-Plough which was earned as a result of the FDA's approval of PEG-INTRON during the year ended June 30, 2001.

Contract revenues for the year ended June 30, 2001 increased by $1,141,000, as compared to the prior year as a result of a $2,000,000 milestone payment from Schering-Plough in the fiscal year 2001 offset by a $1,000,000 milestone payment received in 2000 from Schering-Plough for the FDA's acceptance in February 2000 of the U.S. marketing application for PEG-INTRON.

We had export sales and royalties recognized on export sales of $26,302,000 for the year ended June 30, 2002, $11,161,000 for the year ended June 30, 2001 and $4,137,000 for the year ended June 30, 2000. Of these amounts, sales in Europe and royalties recognized on sales in Europe, were $22,671,000 for the year ended June 30, 2002, $10,226,000 for the year ended June 30, 2001 and $3,617,000 for the year ended June 30, 2000.

Cost of Sales. Cost of sales, as a percentage of net sales increased to 27% for the year ended June 30, 2002, as compared to 19% for the prior year. This increase was due to lower cost of goods sold during the previous fiscal year as certain finished goods, which had previously been reserved for due to previously disclosed manufacturing problems related to ONCASPAR, were cleared and sold in the prior year.

Cost of sales, as a percentage of sales, for the year ended June 30, 2001 was 19% as compared to 31% in 2000. This improvement was primarily due to the prior year's write-off of ONCASPAR finished goods related to the previously disclosed manufacturer problems.

Research and Development. Research and development expenses increased by $5,375,000 or 41% to $18,427,000 for the year ended June 30, 2002, as compared to $13,052,000 for the same period last year. The increase was primarily due to the clinical advancement and related clinical trial costs for PROTHECAN (PEG-camptothecin) and PEG-paclitaxel and increased payroll and related expenses.

Research and development expenses for the year ended June 30, 2001 increased by 56% to $13,052,000 as compared to $8,383,000 in 2000. The increase was due to increased payroll and related expenses due to an increase in research personnel and increased contracted services related to clinical trials and preclinical studies for products under development, including PROTHECAN and PEG-paclitaxel.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended June 30, 2002 increased by $4,892,000 to $16,687,000, as compared to $11,795,000 in 2001. The increase was primarily due to increased payroll and related expenditures for additional administrative personnel and costs related to the identification and review of potential strategic alliances to gain access to technologies and products.

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. The decrease was partially offset by increased legal fees associated with patent filings and patent litigation costs.

Other Income/Expense. Interest income increased by $10,279,000 to $18,681,000 for the year ended June 30, 2002, as compared to $8,402,000 for the prior year. The increase in interest income was attributable to an increase in interest bearing investments, primarily due to the issuance of $400,000,000 of 4.5% convertible subordinated notes during June 2001. Interest expense increased to $19,829,000 from $275,000 for the prior year due to the issuance of the $400,000,000 in 4.5% convertible subordinated notes in June 2001. Other income increased to $3,218,000 for the year ended June 30, 2002 as compared to $11,000 in the prior year, primarily due to a $3,000,000 payment from Inhale in connection with the settlement of the patent infringement suit against Inhale's subsidiary Shearwater Corporation, Inc. This one-time payment was reimbursement for expenses we incurred in defending our branched PEG patent.

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 was attributable to an increase in interest income due to an increase in interest bearing investments.

Income Taxes. For the year ended June 30, 2002, the Company recognized a net tax benefit of approximately $9,123,000, primarily related to the reduction in the valuation allowance based on the Company's net operating losses expected to be utilized to offset the estimated tax liability for the year ended June 30, 2003. We also recognized a tax provision which represents our anticipated Alternative Minimum Tax liability based on our fiscal 2002 taxable income. The tax provision was offset by the sale of a portion of our net operating losses to the state of New Jersey. During the year ended June 30, 2002, we sold approximately $10,888,000 of our state net operating loss carry forwards for proceeds of $857,000. For the year ended June 30, 2001 the Company recognized a tax provision, which represents our anticipated Alternative Minimum Tax liability based on our fiscal 2001 taxable income. The tax provision was offset by

the sale of a portion of our net operating losses to the state of New Jersey. During the year ended June 30, 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, 2002 were $485,014,000, as compared to $516,379,000 as of June 30, 2001. The decrease in total cash reserves was primarily due to the strategic investment of approximately $48,300,000 in Inhale Therapeutics and Micromet AG, and the payment of $15,000,000 for the reacquisition of ONCASPAR offset in part by approximately $31,000,000 in positive cash flow from operations. We invest our excess cash primarily in United States government-backed securities.

As of June 30, 2002, we had $400,000,000 of 4.5% convertible subordinated notes outstanding. The notes bear interest at an annual rate of 4.5%. Interest is payable on January 1 and July 1 of each year beginning January 2, 2002. Accrued interest on the notes was approximately $9,000,000 as of June 30, 2002 (which was paid on July 1, 2002). 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 note-holder upon a fundamental change, as described in the indenture for the notes. Neither we nor any of our subsidiaries are subject to any financial covenants under the indenture. In addition, neither we nor any of our subsidiaries are restricted under the indenture from paying dividends, incurring debt or issuing or repurchasing our securities.

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 4.5% convertible subordinated 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.

The Company has a capital expenditure commitment for the year ended June 30, 2003 of approximately $3 million.

In January 2002, we purchased $40 million of newly issued Inhale convertible preferred stock. The preferred stock is convertible into Inhale common stock at a conversion price of $22.79 per share. In the event Inhale's common stock price three years from the date of issuance of the preferred stock, or earlier in certain circumstances, is less than $22.79, the conversion price will be adjusted down, although in no event will it be less than $18.23 per share.

In April 2002, we purchased an $8.3 million interest bearing note from Micromet which is convertible into Micromet common stock.

In June 2002, we entered into an agreement with Aventis to reacquire our rights to market and distribute ONCASPAR. Under this agreement we paid $15 million to Aventis.

As of June 30, 2002, 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 preferred shares outstanding at June 30, 2002 are convertible into approximately 32,000 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, 2002, there were accrued and unpaid dividends totaling $172,000 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 and 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.

Contractual Obligations

Our major outstanding contractual obligations relate to our operating leases. Our facilities lease expense in future years will increase over previous years as a result of a new lease agreement entered into in 2002.

In March 2002, we entered into a lease for a 19,000 square feet facility located in Bridgewater, NJ that will serve as our corporate headquarters. The lease has a term of 5 years, followed by one five year renewal option period. The future minimum lease payments are approximately $2,350,000 throughout the five year term of the lease. Other commitments for operating leases total $13,679,000.

In April 2002, we entered into a multi-year strategic collaboration with Micromet AG, a private company to combine our patent estates and complementary expertise in single-chain antibody (SCA) technology to create a leading platform of therapeutic products based on antibody fragments. We have an obligation to fund 50% of research and development expenses for activities relating to SCA for the collaboration through September 2003.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants discuss their most "critical accounting policies" in management's discussion and analysis of financial condition and results of operations. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe based on our current business that there are no critical accounting policies, except for our accounting related to 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 rated expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance on net deferred tax assets is provided for when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has significant net deferred tax assets, primarily related to net operating loss carryforward, and continues to analyze what the level of the valuation allowance is needed (see Note 12 to the Consolidated Financial Statements). Our other policies are described in Note 2 to the consolidated financial statements.

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. The amortization of goodwill ceases upon adoption of the statement, which was adopted by the Company on July 1, 2001. 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. Enterprises 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.

In October 2001, the FASB issued SFAS 144, Accounting for Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS 144 supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of, it retains many of the fundamental provisions of that statement. SFAS also supersedes the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in distribution to owners) or is classified as held for sale. Enterprises are required to adopt SFAS 144 for fiscal years beginning after December 15, 2002. We are in the process of evaluating this SFAS and the effect that it will have on our consolidated financial statements.

In July 2002, FASB issued FAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Standard supercedes the accounting guidance provided by Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). FAS No. 146 requires companies to recognize costs associated with exit activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. FAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company is currently evaluating this Standard.

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 are receiving royalties on worldwide sales of PEG-INTRON. During the fiscal year ended June 30, 2002, royalties on sales of PEG-INTRON comprised approximately 70% of our total revenues. 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 has 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. Schering-Plough has experienced problems manufacturing sufficient quantities of PEG-INTRON to meet market demand. 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 may not sustain profitability.

Prior to the fiscal year ended June 30, 2001, we had incurred substantial losses. As of June 30, 2002, we had an accumulated deficit of approximately $73 million. Although we earned a profit for the fiscal years ended June 30, 2002 and 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 has 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.

ADAGEN and ONCASPAR use our earlier PEG technology which tends to be less stable then the PEG technology used in PEG-INTRON and our products under development. Due, in part, to the draw backs in the earlier technologies we have had and will likely continue to have these and other potential manufacturing problems with these products.

Manufacturing and stability problems required us to implement voluntarily recalls for one ADAGEN batch in March 2001 and certain batches of ONCASPAR in June 2002.

During 1998, we experienced manufacturing problems with 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. In November 1999, as a result of manufacturing changes we implemented, the FDA withdrew this distribution restriction. During this period we agreed with the FDA to temporary labeling

and distribution restrictions for ONCASPAR and instituted additional inspection and labeling procedures prior to distribution.

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.

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. Schering-Plough is currently conducting late-stage strategic clinical trials for treatment of hepatitis C in Japan. Clinical trials are also being conducted for PEG-INTRON as a long term maintenance therapy (COPILOT) and as combination therapy with REBETOL in patients with chronic hepatitis C who did not respond to or had relapsed following previous interferon-based therapy. 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 preclinical and clinical trials do not yield positive results, our product candidates will fail.

If preclinical 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 preclinical 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.

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 preclinical 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, used in ADAGEN. During 2002 we obtained FDA approval of the use of the ADA enzyme obtained from bovine intestines from cattle of New Zealand origin. New Zealand currently certifies that it's cattle are Bovine spongiform encephalopathy (BSE or mad cow disease) free. Beginning in September 2002, the United States Department of Agriculture or USDA will require all animal sourced materials shipped to the United States from any European country to contain a veterinary certificate that the product is BSE free. We currently have more than a year's supply of ADA enzyme in inventory and are investigating the ability for our supplier which processes our ADA enzyme supply in Germany to comply with or obtain a waiver of this requirement. We cannot guarantee that such certificate or waiver will be available. If our supplier is unable to supply us with ADA enzyme, it is likely that we will be unable to produce or distribute ADAGEN once we utilize our current inventory of ADA enzyme.

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 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.

Prior to our reacquisition in June 2002 of marketing rights to ONCASPAR for the United States and certain other countries, ADAGEN, which we market on a worldwide basis to a small patient population, was the only product for which we engaged in the direct commercial marketing 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 future 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, to the extent 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 or products 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, preclinical studies, clinical trials and other activities relating to the successful commercialization of potential products. In addition, we may seek to acquire additional products, technologies and companies, which could require substantial capital. We do not expect to achieve significant sales or royalty revenue from 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 preclinical 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 preclinical 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 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 preclinical 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, 2002, 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 42,999,823 shares of common stock outstanding as of June 30, 2002. 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, 2002:

- *Options.* Stock options to purchase 3,644,428 shares of our common stock at a weighted average exercise price of approximately $38.07 per share; of this total, 1,410,153 were exercisable at a weighted average exercise price of $24.84 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 175,000 shares of our common stock as of such date.

- *Convertible subordinated notes.* Notes which will convert to 5,635,390 shares of our common stock at a conversion price of $70.98 as of such date.

The shares of our common stock that may be issued under the options and upon conversion of the Convertible Subordinated Notes 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.

The issuance of preferred stock may adversely affect rights of common stockholders or discourage a takeover.

Under our certificate of incorporation, our board of directors has the authority to issue up to 3,000,000 shares of preferred stock and to determine the price, rights, preferences and privileges of those shares without any further vote or action by our stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any shares of preferred stock that may be issued in the future.

In May, 2002, our board of directors authorized shares of Series B Preferred Stock in connection with its adoption of a stockholder rights plan, under which we issued rights to purchase Series B Preferred Stock to holders of the common stock. Upon certain triggering events, such rights become exercisable to purchase common stock (or, in the discretion of our board of directors, Series B Preferred Stock) at a price substantially discounted from the then current market price of the Common Stock. Our stockholder rights plan could generally discourage a merger or tender offer involving our securities that is not approved by our board of directors by increasing the cost of effecting any such transaction and, accordingly, could have an adverse impact on stockholders who might want to vote in favor of such merger or participate in such tender offer.

While we have no present intention to authorize any additional series of preferred stock, such issuance, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could also have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock. The preferred stock may have other rights, including economic rights senior to the Common Stock, and, as a result, the issuance thereof could have a material adverse effect on the market value of the common stock.

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 years ended June 30, 2002 and 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 years ended June 30, 2002 and 2001 are disclosed below (dollars in thousands):

	Year Ended June 30,				
	2002	2001	2000	1999	1998
Ratio of earnings to fixed charges*	3:1	22:1	N/A	N/A	N/A
Deficiency of earnings available to cover fixed charges*	N/A	N/A	($6,306)	($4,919)	($3,617)

*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, 2002 all of our holdings were in instruments maturing in four years or less.

The table below presents the principal amounts and related weighted average interest rates by year of maturity for our investment portfolio as of June 30, 2002.

	2003	2004	2005	2006	Total	Fair Value
Fixed Rate	$75,062,270	$79,974,578	$124,212,652	$90,152,455	$369,401,955	$371,155,695
Average Interest Rate	2.54%	3.45%	3.84%	4.41%	3.63%	-
Variable Rate	-	-	-	-	-	-
Average Interest Rate	-	-	-	-	-	-
	$75,062,270	$79,974,578	$124,212,652	$90,152,455	$369,401,955	$371,155,695

Our 4.5% convertible subordinated notes in the principal amount of $400,000,000 due July 1, 2008 have fixed interest rates. The fair value of fixed interest rate convertible notes is affected by changes in interest rates and by changes in the price of our common stock.

Item 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 3, 2002.

Item 14. Controls and Procedures

Based upon KPMG's management letter to our Board of Directors, dated September 11, 2002, there were no deficiencies or weaknesses in our internal controls and therefore, we have not made any changes to our internal controls since KPMG's last evaluation of such controls on September 11, 2002.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) and (2). The response to this portion of Item 15 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	^^(3(ii))
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)
4.3	Rights Agreement dated May 17, 2002 between the Company and Continental Stock Transfer Trust Company, as rights agent	^(1)
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	Stock Purchase Agreement between the Company and Schering Corporation dated as of June 30, 1995	~(10.16)
10.7	Independent Directors' Stock Plan	~~~(10.24)
10.8	Employment Agreement dated May 9, 2001, between the Company and Arthur J. Higgins	///(10.30)
10.9	Amendment dated May 23, 2001, to Employment Agreement between the Company and Arthur J. Higgins dated May 9, 2001	///(10.31)
10.10	Form of Restricted Stock Award Agreement between the Company and Arthur J. Higgins	////(4.3)
10.11	Form of Employee Retention Agreement dated as of August 3, 2001 between the Company and certain key employees	+++(10.13)
10.12	Lease – 685 Route 202/206, Bridgewater, New Jersey	####
10.13	Employment Agreement with Ulrich Grau dated as of March 6, 2002	####
10.14	2001 Incentive Stock Plan	♦
10.15	Development, License and Supply Agreement between the Company and Schering Corporation; dated November 14, 1990, as amended*	♦
12.1	Computation of Ratio of Earnings to Fixed Charges	♦
21.0	Subsidiaries of Registrant	♦
23.0	Consent of KPMG LLP	♦

99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	♦
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	♦

♦ Filed herewith

*** 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 Annual Report on Form 10-K for the fiscal year ended June 30, 2001 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 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 December 31, 1996 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.

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

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

Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 and incorporated herein by reference thereto.

* Copy omits information for which confidential treatment has been requested.

(b) Reports on Form 8-K.

On April 11, 2002, we filed with the Commission a Current Report on Form 8-K dated April 10, 2002 reporting our multi-year strategic collaboration with Micromet AG.

On May 9, 2002, we filed with the Commission a Current Report on Form 8-K dated May 8, 2002 reporting our financial results for the third quarter in fiscal year 2002.

On May 22, 2002 we filed with the Commission a Current Report on Form 8-K dated May 17, 2002 reporting that we declared a dividend of one preferred share purchase right per share for each outstanding share of Common Stock, par value $0.01 of the Company. The dividend will be payable on June 3, 2002 to holders of the Common Shares of record on that date.

On June 12, 2002 we filed with the Commission a Current Report on Form 8-K dated June 12, 2002 reporting a voluntary recall of the prescription medication ONCASPAR, a product used for the treatment of acute lymphoblastic leukemia.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENZON, INC.
(Registrant)

Dated: September 26, 2002

by: /S/ Arthur J. Higgins
Arthur J. Higgins
Chairman, President and Chief Executive Officer
(Principal 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	Chairman, President and Chief Executive Officer (Principal Executive Officer)	September 26, 2002
/S/ Kenneth J. Zuerblis Kenneth J. Zuerblis	Vice President, Finance, Chief Financial Officer (Principal Financial and Accounting Officer) and Corporate Secretary	September 26, 2002
/S/ David S. Barlow David S. Barlow	Director	September 26, 2002
/S/ Rolf A. Classon Rolf A. Classon	Director	September 26, 2002
/S/ Rosina B. Dixon Rosina B. Dixon	Director	September 26, 2002
/S/ David W. Golde David W. Golde	Director	September 26, 2002
/S/ Robert LeBuhn Robert LeBuhn	Director	September 26, 2002
/S/ Robert L. Parkinson, Jr. Robert L. Parkinson, Jr.	Director	September 26, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Arthur J. Higgins, certify that:

1. I have reviewed this annual report on Form 10-K of Enzon. Inc. ("Enzon");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Enzon as of, and for, the periods presented in this annual report.

September 26, 2002

/s/ Arthur J. Higgins
Arthur J. Higgins
Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth J. Zuerblis, certify that:

1. I have reviewed this annual report on Form 10-K of Enzon. Inc. ("Enzon");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Enzon as of, and for, the periods presented in this annual report.

September 26, 2002

/s/ Kenneth J. Zuerblis
Kenneth J. Zuerblis
Chief Financial Officer

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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Short Hills, New Jersey
August 8, 2002

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2002 and 2001

	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	$113,857,998	$310,223,837
Short-term investments	75,165,094	129,520,083
Accounts receivable	26,050,415	11,087,748
Inventories	2,213,667	1,852,144
Other current assets	4,174,652	2,837,199
Total current assets	221,461,826	455,521,011
Property and equipment	19,230,456	13,181,671
Less accumulated depreciation and amortization	9,128,545	9,761,999
	10,101,911	3,419,672
Other assets:		
Marketable securities	295,990,601	76,634,780
Cost method equity investments	48,381,782	40,777
Debt issue costs, net	10,946,380	12,774,951
Product acquisition costs, net	14,008,047	-
Deferred tax assets	8,342,000	-
Patents and other assets, net	1,515,336	1,284,626
	379,184,146	90,735,134
Total assets	$610,747,883	$549,675,817
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$4,526,180	$4,670,259
Accrued expenses	6,174,304	4,490,081
Accrued interest	9,000,000	250,000
Total current liabilities	19,700,484	9,410,340
Accrued rent	552,256	581,438
Unearned revenue	-	694,814
Notes payable	400,000,000	400,000,000
	400,552,256	401,276,252
Commitments and contingencies		
Stockholders' equity:		
Preferred stock-$.01 par value, authorized 3,000,000 shares; issued and outstanding 7,000 shares in 2002 and 2001 (liquidation preference aggregating $347,000 in 2002 and $333,000 in 2001)	70	70
Common stock-$.01 par value, authorized 90,000,000 shares issued and outstanding 42,999,823 shares in 2002 and 41,990,859 shares in 2001	429,999	419,909
Additional paid-in capital	262,854,210	257,682,479
Accumulated other comprehensive income	1,095,739	884,935
Deferred compensation	(1,202,221)	(1,509,171)
Accumulated deficit	(72,682,654)	(118,488,997)
Total stockholders' equity	190,495,143	138,989,225

Total liabilities and stockholders' equity	$610,747,883	$549,675,817

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

ENZON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended June 30, 2002, 2001 and 2000

	2002	2001	2000
Revenues:			
Net sales	$22,182,704	$20,768,767	$15,557,906
Royalties	53,329,494	8,251,234	33,582
Contract revenue	292,548	2,567,708	1,426,309
Total revenues	75,804,746	31,587,709	17,017,797
Costs and expenses:			
Cost of sales	6,077,454	3,864,284	4,888,357
Research and development expenses	18,426,860	13,051,714	8,382,772
Selling, general and administrative expenses	16,687,365	11,795,398	12,956,118
Total costs and expenses	41,191,679	28,711,396	26,227,247
Operating income (loss)	34,613,067	2,876,313	(9,209,450)
Other income (expense):			
Interest and dividend income	18,680,908	8,401,526	2,943,311
Interest expense	(19,828,918)	(275,049)	(4,051)
Other	3,217,878	10,627	(36,274)
	2,069,868	8,137,104	2,902,986
Income (loss) before tax benefit	36,682,935	11,013,417	(6,306,464)
Tax benefit	9,123,408	511,647	-
Net income (loss)	$45,806,343	$11,525,064	($6,306,464)
Basic earnings (loss) per common share	$1.07	$0.28	($0.17)
Diluted earnings (loss) per common share	$1.04	$0.26	($0.17)
Weighted average number of common shares outstanding - basic	42,726,112	41,602,104	38,172,515
Weighted average number of common shares and dilutive potential common shares outstanding	44,025,783	43,606,194	38,172,515

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, 2002, 2001 and 2000

	Preferred stock			Common stock							
	Amount per share	Number of Shares	Par Value	Amount per share	Number of Shares	Par Value	Additional paid-in capital	Other Comprehensive Income	Deferred Compensation	Accumulated Deficit	Total
Balance, July 1, 1999		107,000	$1,070		36,488,684	$364,886	$146,970,289			($121,761,026)	$25,575,219
Common stock issued for exercise of non-qualified stock options	-	-	-	4.25	807,181	8,072	3,286,246	-	-	-	3,294,318
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	-	-	-	-	-	-	-		-	(1,946,571)	(1,946,571)
Common stock issued for exercise of common stock warrants	-	-	-	4.57	1,012,116	10,121	4,395,803	-	-	-	4,405,924
Net Proceeds from common stock offering				44.50	2,300,000	23,000	95,647,262	-	-	-	95,670,262
Common stock issued for Independent Directors' Stock Plan	-	-	-	30.82	2,863	29	88,208	-	-	-	88,237
Common stock options issued for consulting services	-	-	-	-	-	-	181,239	-	-	-	181,239
Net loss	-	-	-	-	-	-	-	-	-	(6,306,464)	(6,306,464)
Balance, June 30, 2000		7,000	70		40,838,115	408,381	250,567,774	-	-	(130,014,061)	120,962,164
Common stock issued for exercise of non-qualified stock options	-	-	-	-	1,032,468	10,325	5,345,647	-	-	-	5,355,972
Issuance of restricted common stock	-	-	-	61.40	25,000	250	1,534,750	-	(1,534,750)	-	250
Common stock issued on conversion of common stock warrants	-	-	-	1.79	93,993	940	167,810	-	-	-	168,750
Common stock issued for Independent Directors' Stock Plan	-	-	-	51.84	1,283	13	66,498	-	-	-	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, carried forward		7,000	$70		41,990,859	$419,909	$257,682,479	$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 STOCKHOLDERS' EQUITY (continued)
Years ended 2002, 2001 and 2000

	Preferred stock			Common stock							
	Amount per share	Number of Shares	Par Value	Amount per share	Number of Shares	Par Value	Additional paid-in capital	Other Comprehensive Income	Deferred Compensation	Accumulated Deficit	Total
Balance, June 30, 2001, brought forward		7,000	$70		41,990,859	$419,909	$257,682,479	$884,935	($1,509,171)	($118,488,997)	$138,989,225
Common stock issued for exercise of non-qualified stock options	-	-	-	-	1,007,638	10,077	5,171,731	-	-	-	5,181,808
Common stock issued for Independent Directors' Stock Plan	-	-	-	-	1,326	13	-	-	-	-	13
Amortization of deferred compensation	-	-	-	-	-	-	-	-	306,950		306,950
Unrealized gain on securities, net of income taxes of $658,000	-	-	-	-	-	-	-	210,804	-	-	210,804
Net income	-	-	-	-	-	-	-	-	-	45,806,343	45,806,343
Balance, June 30, 2002		7,000	$70		42,999,823	$429,999	$262,854,210	$1,095,739	($1,202,221)	($72,682,654)	$190,495,143

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, 2002, 2001 and 2000

	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	$45,806,343	$11,525,064	($6,306,464)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	971,569	587,495	499,245
Amortization of bond premium/discount	(2,680,372)	(830,481)	-
Amortization of debt issue costs	1,828,571	-	-
Deferred income taxes	(9,000,000)	-	-
Loss on retirement of assets	2,870	2,746	36,274
Non-cash expense for issuance of restricted common stock, warrants, and options	306,950	92,090	269,476
Changes in operating assets and liabilities:			
Increase in accounts receivable	(14,962,667)	(5,645,293)	(837,608)
Increase (decrease) in inventories	(361,523)	(905,427)	379,884
Increase in other current assets	(1,337,453)	(567,315)	(1,232,483)
(Increase) decrease in deposits	(385,609)	(101,419)	326,952
(Decrease) increase in accounts payable	(144,079)	2,204,899	749,271
Increase (decrease) accrued expenses	1,981,362	(1,216,730)	(473,442)
Increase in accrued interest	8,750,000	250,000	-
Decrease in accrued rent	(29,182)	(26,476)	(26,476)
Increase (decrease) in unearned revenue	-	184,814	(300,363)
Net cash provided by (used in) operating activities	30,746,780	5,553,967	(6,915,734)
Cash flows from investing activities:			
Purchase of property and equipment	(7,502,741)	(2,082,621)	(768,415)
Purchase of intangible asset	(15,000,000)	-	-
Proceeds from sale of equipment	962	3,525	-
Purchase of cost method equity investments	(48,341,005)	-	-
Proceeds from sale of marketable securities	270,549,000	24,972	-
Purchase of marketable securities	(512,001,000)	(163,244,000)	(90,478,010)
Maturities of marketable securities	80,260,000	45,303,000	4,000,000
Decrease in long-term investments	(259,656)	(20,437)	-
Net cash used in investing activities	(232,294,440)	(120,015,561)	(87,246,425)
Cash flows from financing activities:			
Proceeds from issuance of common stock	5,181,821	5,524,972	103,370,504
Proceeds from issuance of notes	-	400,000,000	-
Preferred stock dividend paid	-	-	(1,946,571)
Debt issue costs	-	(12,774,951)	-
Net cash provided by financing activities	5,181,821	392,750,021	101,423,933
Net increase (decrease) in cash and equivalents	(196,365,839)	278,288,427	7,261,774
Cash and cash equivalents at beginning of year	310,223,837	31,935,410	24,673,636
Cash and cash equivalents at end of year	$113,857,998	$310,223,837	$31,935,410

The accompanying notes are an integral part of these 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®, and ONCASPAR®, royalties on sales of PEG-INTRON™, 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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been 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.

Cash Equivalents

Cash equivalents consist primarily of U.S. Government instruments, commercial paper, and money market funds. The Company considers all highly liquid debt instruments with original maturities not exceeding three months to be cash equivalents.

Investments In Securities

The Company classifies its investments in debt and marketable equity securities as held-to-maturity or available-for-sale. Debt and marketable equity securities classified as available-for-sale are carried at fair market value, with the unrealized gains and losses, net of related tax effect, included in the determination of comprehensive income and reported in stockholders' equity. As of June 30, 2002 and 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, 2002 were as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Market Value
U.S. Government agency debt	$339,638,000	$2,052,000	$ -	$341,690,000
U.S. corporate debt	29,764,000	-	(298,000)	29,466,000
	$369,402,000	$2,052,000	($298,000)	$371,156,000

Maturities of debt securities classified as available-for-sale at June 30, 2002 were as follows:

Years ended June, 30	Amortized Cost	Fair Market Value
2003	$75,062,000	$75,165,000
2004	79,975,000	80,171,000
2005	124,213,000	124,911,000
2006	90,152,000	90,909,000
	$369,402,000	$371,156,000

Gross realized gains from the sale of investment securities included in income for the year ended June 30, 2002 were $1,185,000.

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

	Amortized Cost	Gross 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

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

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 carried at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) 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, 2002 and 2001 was $1,490,000 and $1,372,000, 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 stated at cost. Depreciation of fixed assets is provided by straight-line methods over estimated useful lives. 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

In accordance with statement of Financial Accounting ("SFAS") No. 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, the Company reviews long-lived assets for impairment whenever events or changes in business circumstances occur that indicate the carrying amount of the assets may not be recovered. The Company assesses the recoverability of long-lived assets held and to be used based on undiscounted cash flows.

Product Acquisition Cost

Cost related to acquisition of products are recorded on the balance sheet at cost and amortized

over the estimated life of the product.

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 13).

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

All research and development costs are expensed as incurred. These include the following types of costs incurred in performing research and development activities: salaries and benefits, allocated overhead and occupancy costs, clinical trial and related clinical manufacturing costs, contract services and other outside costs.

Stock-Based Compensation Plans

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

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

Cash Flow Information

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. 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, 2002 and 2001.

Cash payments for interest were approximately $9,250,000, $25,000 and $4,000 for the years ended June 30, 2002, 2001 and 2000, respectively. There were no income tax payments made for the years ended June 30, 2002, 2001 and 2000.

Reclassifications

The Company made certain reclassifications to the 2001 and 2000 financial statements to conform to the 2002 presentation.

(3) Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income (loss) consists of net income (loss) and net unrealized gains (losses) on securities and is presented in the consolidated statements of stockholders' equity.

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

	Years ended June 30,		
	2002	2001	2000
Net income (loss)	$45,806,000	$11,525,000	($6,306,000)
Unrealized gain on securities net of tax of $658,000 for 2002 and $0 for 2001 and 2000	211,000	885,000	-
Total comprehensive income (loss)	$46,017,000	$12,410,000	($6,306,000)

(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 years ended June 30, 2002 and 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 year ended June 30,

2000, 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 that period. As of June 30, 2002, the Company had 6,955,000 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,		
	2002	2001	2000
Net income (loss)	$45,806,000	$11,525,000	($6,306,000)
Less: preferred stock dividends	14,000	14,000	14,000
Net income (loss) available to common stockholders	$45,792,000	$11,511,000	($6,320,000)
Weighted average number of common shares issued and outstanding – basic	42,726,112	41,602,104	38,172,515
Effect of dilutive common stock equivalents:			
Conversion of preferred stock	16,000	16,000	-
Exercise of non-qualified stock options and restricted stock	1,283,671	1,988,090	-
	44,025,783	43,606,194	38,172,515

(5) Inventories

Inventories consist of the following:

	June 30,	
	2002	2001
Raw materials	$827,000	$421,000
Work in process	1,043,000	737,000
Finished goods	344,000	694,000
	$2,214,000	$1,852,000

(6) Property and Equipment

Property and equipment consist of the following:

	June 30,		Estimated
	2002	2001	useful lives
Equipment	$ 9,123,000	$8,692,000	3-7 years
Furniture and fixtures	1,362,000	1,446,000	7 years
Vehicles	55,000	24,000	3 years
Leasehold improvements	8,690,000	3,020,000	3-15 years

$19,230,000	$13,182,000

During the years ended June 30, 2002 and 2001, the Company's fixed asset disposals were approximately $1,454,000 and $991,000, respectively. The Company disposed of $1,450,000 in fully depreciated assets during the year ended June 30, 2002.

Depreciation and amortization charged to operations relating to property and equipment totaled $817,000, $442,000 and $348,000 for the years ended June 30, 2002, 2001 and 2000, respectively.

(7) Accrued Expenses

Accrued expenses consist of:

	June 30,	
	2002	2001
Accrued wages and vacation	$3,685,000	$1,596,000
Accrued Medicaid rebates	1,418,000	943,000
Unearned revenue	183,000	630,000
Accrued costs associated with subordinated notes offering	-	371,000
Other	888,000	950,000
	$6,174,000	$4,490,000

(8) 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 $9,000,000 as of June 30, 2002. 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. The fair value of the 4.5% Convertible Subordinated Notes was approximately $286,520,000 at June 30, 2002.

(9) Stockholders' Equity

During May 2002 the Company adopted a shareholder rights plan ("Rights Plan"). The Rights Plan involves the distribution of one preferred share purchase right ("Right") as a dividend on each outstanding share of the Company's common stock to each holder of record on June 3, 2002. Each right shall entitle the holder to purchase one-thousandth of a share of Series B Preferred Stock ("Preferred Shares") of the Company at a price of $190.00 per one-thousandth of Preferred Share. The Rights are not immediately

exercisable and will become exercisable only upon the occurrence of certain events. If a person or group acquires, or announces a tender or exchange offer that would result in the acquisition of 15 percent or more of Enzon's common stock while the stockholder rights plan remains in place, then, unless (1) the rights are redeemed by Enzon for $0.01 per right or (2) the Board of Directors determines that a

tender or exchange offer for all of the outstanding Common Stock of the Company is in the best interest of the Company and the stockholders, then the rights will be exercisable by all right holders except the acquiring person or group for one share of Enzon or in certain circumstances, shares of the third party acquirer, each having a value of twice the Right's then-current exercise price. The Rights will expire on May 16, 2012.

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, 2002 and 2001, undeclared accrued dividends in arrears were $172,000 or $24.54 per share and $158,000 or $22.54 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

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 is being recognized over the five year vesting period.

In December 2001, the stockholders approved the amendment of the Company's certificate of incorporation to increase the total number of shares of common stock the Company is authorized to issue from 60,000,000 shares to 90,000,000 shares.

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.

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.

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, 2002, the Company has reserved its common shares for special purposes as detailed below:

Shares issuable upon conversion of Series A Preferred Shares	16,000
Non-Qualified Stock Option Plan	5,194,000
Shares issuable upon conversion of Notes	5,635,000
	10,845,000

Common Stock Warrants

As of June 30, 2002 and 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 the Company's 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.

(10) 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, 2002, 2001 and 2000, the Company issued 1,000, 1,000 and 3,000 shares of Common Stock, respectively, to independent directors, pursuant to the Independent Directors' Stock Plan. Commencing with the stock issuable for the quarter ended March 31, 2002, the Compensation Committee has determined to issue the common stock previously issuable to the independent directors under the Independent Plan under the Company's 2001 Incentive Stock Plan which was approved by the Company's stockholders in December 2001.

(11) Stock Option Plans

In November 1987, the Company's Board of Directors adopted a Non-Qualified Stock Option Plan (the "Stock Option Plan"). As of June 30, 2002, 5,194,000 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. Some of the options granted contain accelerated vesting provision, under which the vesting and exercisability of such shares will accelerate if the closing price of the Company's Common Stock extends $100 per share for at least twenty consecutive days as reported by the NASDAQ national market. 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.

In October 2001, the Board of Directors adopted, and in December 2001 the stockholders approved, the 2001 Incentive Stock Plan (the "2001 Incentive Stock Plan"). The 2001 Incentive Stock Plan provides for the grant of stock options and other stock-based awards to employees, officers, consultants, independent contractors and directors providing services to Enzon and its subsidiaries as determined by the Board of Directors or by a committee of directors designated by the Board of Directors to administer the 2001 Incentive Stock Plan.

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.

	2002	2001	2000
Net income (loss) – as reported	$45,806,000	$11,525,000	($6,306,000)
Net income (loss) – pro forma	23,055,117	1,609,000	($10,008,000)
Net income (loss) per diluted share – as reported	$1.04	$0.26	($0.17)
Net income (loss) per diluted share – pro forma	$0.52	$0.04	($0.26)

The fair value of each option granted during the three years ended June 30, 2002 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 78%, 83% and 84% and (iv) a risk-free interest rate of 4.00%, 5.72% and 6.19% for the years ended June 30, 2002, 2001 and 2000, respectively. The weighted average fair value at the date of grant for options granted during the years ended June 30, 2002, 2001 and 2000 was $44.39, $56.79 and $33.78 per share, respectively.

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

	Shares	Weighted Average Exercise Price	Range of Prices
Outstanding at July 1, 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
Granted at exercise prices which equaled the fair market value on the date of grant	1,399,000	44.39	$25.10 to $65.86
Exercised	(1,008,000)	4.13	$ 2.00 to $37.38
Canceled	(31,000)	41.56	$22.31 to $70.69
Outstanding at June 30, 2002	3,644,000	38.07	$ 2.47 to $73.22

Of the options the Company granted for the fiscal year ended June 30, 2002, some contain accelerated vesting provisions based on the achievement of certain milestones.

As of June 30, 2002, the Stock Option Plans 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
$1.87 - $ 4.50	541,000	2.74	$3.54	541,000	$3.54
$4.62 - $15.75	370,000	6.02	$8.78	350,000	$8.47
$22.31 - $28.17	463,000	9.54	$27.41	20,000	$22.60
$29.75 - $43.75	389,000	8.88	$39.78	108,000	$41.67
$43.85 - $44.75	424,000	8.16	$44.71	41,000	$44.75
$45.98 - $55.99	498,000	9.12	$51.13	20,000	$51.53
$57.12 - $58.63	494,000	9.28	$57.82	64,000	$58.62
$60.35 - $69.50	26,000	8.44	$63.82	7,000	$63.22
$70.00 - $73.21	439,000	8.86	$70.11	259,000	$70.04
	3,644,000	7.76	$38.08	1,410,000	$24.84

(12) 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 components of the income tax benefit are summarized as follows:

	June 30, 2002	June 30, 2001
Current:		
Federal	$ -	$217,000
State	(857,067)	(728,647)
Total current	(857,067)	(511,647)
Deferred:		
Federal	(6,132,696)	-
State	(2,133,645)	-
Total deferred	(8,266,341)	-
Income tax benefit	($9,123,408)	($511,647)

The following table represents a reconciliation between the reported income taxes and the income taxes which would be completed by applying the federal statutory rate (35%) to income before taxes:

	June 30, 2002	June 30, 2001
Income tax expense (benefit) computed at federal statutory rate	$12,839,027	$3,854,696
Add (deduct) effect of:		
State income taxes (including sale of state net operating loss carryforwards), net of federal tax	(1,930,962)	(473,620)
Federal tax benefit through utilization of net operating loss carryforwards against current period income	(13,116,686)	(3,892,723)
Reduction in beginning of year valuation allowance	(6,914,787)	-
	($9,123,408)	($511,647)

At June 30, 2002 and 2001, the tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	2002	2001
Deferred tax assets:		
Inventories	$49,000	$116,000
Investment valuation reserve	78,000	78,000
Contribution carryover	63,000	36,000
Compensated absences	271,000	190,000
Excess of financial statement over tax depreciation	719,000	862,000
Royalty advance – Aventis	396,000	396,000
Accrued expenses	356,000	315,000
Federal and state net operating loss carryforwards	74,574,000	63,662,000
Research and development and investment tax credit carryforwards	12,009,000	9,851,000
Total gross deferred tax assets	88,515,000	75,506,000
Less valuation allowance	(78,809,000)	(74,800,000)
	9,706,000	706,000
Deferred tax liabilities:		
Unrealized gain on securities	(658,000)	-
Book basis in excess of tax basis of acquired assets	(706,000)	(706,000)
	(1,364,000)	(706,000)
Net deferred tax assets	$8,342,000	$ -

During 2002 and 2001, the Company recognized a tax benefit of $857,000 and $728,000 respectively, from the sale of certain state net operating loss carryforwards.

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. At June 30, 2002, the Company had Federal net operating loss carryforwards of approximately $202,000,000 and combined state net operating loss carryforwards of approximately $120,000,000 that will expire in the years 2003 through 2021. The Company also has federal research and development tax credit carryforwards of approximately $9,042,000 for tax reporting purposes, which expire in the years 2003 to 2021. In addition, the Company has $2,967,000 state research and development tax credit carryforwards, which expire in the years 2003 to 2008. The Company's ability to use the net operation loss 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 related to the federal and state net operating loss carryforwards, approximately $54,260,000 relates to a tax deduction for non-qualified stock options. The Company will increase paid in capital when these benefits are realized for tax purposes. Management believes that it is more likely than not that a portion of the deferred tax asset will be realized associated with the net operating losses from operating activities, based on future operations, and has recognized approximately $9 million as a deferred tax asset at June 30, 2002 related to the expected future profits. The Company has provided a

valuation allowance of $78,809,000 against the remaining deferred tax asset and will continue to reassess the need for such in accordance with SFAS 109 and based on the future operating performance of the Company.

In addition to the net operating loss carryforward stated above, the Company has additional net operating loss of $39,945,000 from the acquisition of Enzon Labs, Inc. which is limited to a maximum of $4,921,000 per year. The $39,945,000 is not included in the determination of the deferred tax asset figure in the table above.

(13) 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 litigation, 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

During June 2002, the Company amended its license agreement with Aventis to reacquire rights to market and distribute ONCASPAR in the United States, Mexico, Canada and the Asia/Pacific region. In return for the marketing and distribution rights the Company paid Aventis $15 million and will pay a 25% royalty on net sales of ONCASPAR through 2014. Prior to the amendment Aventis was responsible for the marketing and distribution of ONCASPAR. Under the previous agreement Aventis paid the Company a royalty on net sales of ONCASPAR of 27.5% on annual sales up to $10 million and 25% on annual sales exceeding $10 million.

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. If the Company ceases to distribute ONCASPAR, Aventis has the option to distribute the product in the territories under the original license.

Under the Company's license agreement with Aventis in effect prior to the June 2002 amendment discussed above (the "Prior 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 was 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 included Aventis' cost of purchasing ONCASPAR under a separate supply agreement. The agreement was also extended until 2016. Additionally, the Prior License Agreement eliminated the super royalty of 43.5% on net sales of ONCASPAR which exceed certain agreed-upon amounts. The Prior License Agreement also provided for a payment of $3,500,000 in advance royalties, which was received in January 1995.

As part of the June 2002 amendment, the remaining unpaid royalty advance on the balance sheet of $1 million was eliminated. This will be offset against the $15 million payment to Aventis and the net $14 million is included in product acquisition cost, net and will be amortized over 14 years, the estimated remaining life of ONCASPAR.

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 was 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 called for a payment of $100,000 beginning in May 2000 and for each month that expired 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 obligation was terminated pursuant to the June 2002 amendment to the license agreement. Payments as required were made through June 2002.

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.

Nova Factor Agreement

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

Inhale Agreement

In January 2002, the Company entered into a broad strategic alliance with Inhale Therapeutic Systems, Inc. that includes the following components:

- The companies agreed to enter into a collaboration to jointly develop three products to be specified over time using Inhale's Inhance™ pulmonary delivery platform and SEDS™ supercritical fluids platform. Inhale will be responsible for formulation development, delivery system supply, and in some cases, early clinical development. Enzon will have responsibility for most clinical development and for commercialization.
- The two companies also agreed to collaborate on the development of single-chain antibody (SCA®) products to be administered by the pulmonary route.
- Enzon granted to Inhale the exclusive right to grant sub-licenses under Enzon's PEG patents to third parties. Enzon will receive a share of profits for certain products that currently incorporate Enzon's branched PEG technology and royalties on sales of products that are subject to new sub-licenses that Inhale grants to its partners under Enzon's PEG patents. Enzon retains the right to use all of its PEG technology for its own product portfolio, as well as those products it develops in co-commercialization collaborations with third parties. Enzon purchased $40 million of newly issued Inhale convertible preferred stock in January 2002. The preferred stock is convertible into Inhale common stock at a conversion price of $22.79 per share. In the event Inhale's common stock price three years from the date of issuance of the preferred stock or earlier in certain circumstances is less than $22.79, the conversion price will be adjusted down, although in no event will it be less than $18.23 per share. Conversion of the preferred stock into common stock can occur anywhere from 1 to 4 years following the issuance of the preferred stock or earlier in certain circumstances. The preferred stock investment will be accounted for under the cost method.

- The two companies also agreed in January 2002 to a settlement of the patent infringement suit filed in 1998 by Enzon against Inhale's subsidiary, Shearwater Polymers, Inc. Inhale will receive licensing access to the contested patents under a cross-license agreement. Enzon received a one-time payment of $3 million from Inhale to cover expenses incurred in defending Enzon's branched PEG patents which is included in other income.

Micromet Agreement

On April 10, 2002, the Company announced a multi-year strategic collaboration with Micromet AG ("Micromet"), a private company based in Munich, Germany, to identify and develop the next generation of antibody-based therapeutics.

Under the terms of the agreement, Enzon and Micromet (collectively, the Partners) will combine their significant patent estates and complementary expertise in single-chain antibody ("SCA") technology to create a leading platform of therapeutic products based on antibody fragments. The collaboration will also benefit from a non-exclusive, royalty-bearing license from Enzon for PEGylated SCA products. The companies will establish a new R&D Unit located at Micromet's research facility in Germany. The R&D Unit will be staffed initially with 25 scientists and plans to be fully operational by the end of 2002. During the first phase of the collaboration, covering a 30-month period beginning in the third quarter of calendar 2002, the new R&D Unit will focus on the generation of at least two clinical product candidates in therapeutic areas of common strategic interest. The Partners will share equally the costs of research and development, and plan to share the revenues generated from technology licenses and from future commercialization of any developed products.

In addition to the R&D collaboration, Enzon made an $8.3 million investment into Micromet in the form of a note convertible into common stock of Micromet. This note is convertible into Micromet Common Stock at a price of $1,015 per share.

We hold core intellectual property in SCAs. These fundamental patents, combined with Micromet's key patents in SCA linkers and fusion protein technology, generate a compelling technology platform for SCA product development. The Partners have entered into a cross-license agreement for there respective SCA intellectual property and have decided to jointly market their combined SCA to third parties. Micromet will be the exclusive marketing partner and will institute a comprehensive licensing program on behalf of the partnership, for which the parties will share equally in the costs and revenues. Current licensees to Enzon and Micromet SCA intellectual property include Alexion, Bristol-Myers Squibb, Cambridge Antibody Technologies, Cell Genesys, Celltech, Crucell, Eli Lilly, Seattle Genetics and Xoma. Several SCA molecules are in clinical trials. Alexion Pharmaceuticals, Inc. is currently in Phase III clinical studies in cardiopulmonary bypass surgery.

(14) 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 problems, and all previous imposed restrictions were lifted.

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 and certain members of upper management which provides for severance payments in addition to the change in control provisions discussed above.

(15) Leases

The Company has several leases for office, warehouse, production and research facilities and equipment. The non-cancelable lease-terms for the operating leases expire at various dates between 2003 and 2021 and each agreement includes renewal options.

Future minimum lease payments, for non-cancelable operating (leases with initial or remaining lease terms in excess of one year) as of June 30, 2002 are:

Year ending June 30,	Operating leases
2003	$1,274,000
2004	1,261,000
2005	1,250,000
2006	1,264,000
2007	1,174,000
Thereafter	9,806,000
Total minimum lease payments	$16,029,000

Rent expense amounted to $847,000, $856,000 and $1,055,000 for the years ended June 30, 2002, 2001 and 2000, respectively.

(16) 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, 2002, 2001, and 2000 were $196,000, $156,000 and $128,000, respectively.

(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, 2002, 2001 and 2000, the Company had export sales and royalties recognized on export sales of $26,302,000, $11,161,000 and $4,137,000, respectively. Of these amounts, sales and royalties in Europe and royalties recognized on sales in Europe represented $22,671,000, $10,226,000 and $3,617,000 during the years ended June 30, 2002, 2001 and 2000, respectively.

ADAGEN sales represent approximately 61%, 64% and 78% of the Company’s total net sales for the year ended June 30, 2002, 2001 and 2000, respectively. A portion of the Company's ADAGEN sales for the years ended June 30, 2002, 2001 and 2000, were made to Medicaid patients.

(18) Quarterly Results of Operations (Unaudited)

The following table presents summarized unaudited quarterly financial data.

	Three Months Ended				
	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002	Fiscal Year 2002
Revenues	$12,143,702	$18,601,788	$19,844,153	$25,215,103	$75,804,746
Gross Profit [1]	3,715,629	4,416,756	4,352,880	3,619,985	16,105,250
Tax (Provision) Benefit	(86,331)	183,002	267,174	8,759,563	9,123,408
Net income	$ 4,230,220	$ 8,645,525	$12,167,075	$20,763,523	$45,806,343
Net income per common share:					
Basic	$ 0.10	$ 0.20	$ 0.28	$ 0.48	$ 1.07
Diluted	$ 0.10	$ 0.20	$ 0.28	$ 0.47	$ 1.04
Weighted average number of shares of common stock outstanding-basic	42,122,284	42,766,699	42,969,222	42,982,052	42,726,112
Weighted average number of shares of common stock outstanding-diluted	43,922,829	43,959,216	43,933,865	43,839,982	44,025,783

	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
Gross profit [1]	3,613,914	4,134,146	4,393,680	4,762,744	16,904,484
Tax (Provision) Benefit	(11,654)	(43,622)	632,879	(65,956)	511,647
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	$ 0.09	$ 0.28
Diluted	$ 0.01	$ 0.05	$ 0.13	$ 0.07	$ 0.26

	Three Months Ended				
	September 30, 2000	December 31, 2000	March 31, 2001	June 30, 2001	Fiscal Year 2001
Weighted average number of shares of common stock outstanding-basic	41,101,289	41,568,723	41,802,586	41,935,820	41,602,104
Weighted average number of shares of common stock outstanding-diluted	43,658,659	43,850,319	43,718,044	43,956,840	43,606,194

(1) Gross Profit is calculated as Product Sales less Cost of Goods sold.

EXHIBIT INDEX

EXHIBIT 12.1

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

	Years ended June 30,				
	2002	2001	2000	1999	1998
Net Income (Loss)	$45,806	$ 11,525	($6,306)	($4,919)	($3,617)
Add:					
Fixed Charges	20,109	557	352	468	597
Less:					
Capitalized interest	-	-	-	-	-
Net Income (Loss) as adjusted	$65,915	$ 12,082	($5,954)	($4,451)	($3,020)
Fixed charges:					
Interest (gross)	$19,829	$ 275	$ 4	$ 8	$ 14
Portion of rent representative of the interest factor	280	282	348	460	583
Fixed charges	$20,109	$ 557	$ 352	$ 468	$ 597
Deficiency of earnings available to cover fixed charges	N/A	N/A	($6,306)	($4,919)	($3,617)
Ratio of earnings to fixed charges	3:1	22:1	N/A	N/A	N/A

EXHIBIT 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 8, 2002, relating to the consolidated balance sheets of Enzon, Inc. and subsidiaries as of June 30, 2002 and 2001 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, 2002, which report appears in the June 30, 2002 annual report on Form 10-K of Enzon, Inc.

/s/ KPMG LLP
KPMG LLP

Short Hills, New Jersey
September 26, 2002

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Enzon, Inc. (the "Company") on Form 10-K for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur J. Higgins, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Arthur J. Higgins
Arthur J. Higgins
Chief Executive Officer
September 26, 2002

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Enzon, Inc. (the "Company") on Form 10-K for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth J. Zuerblis, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Kenneth J. Zuerblis
Kenneth J. Zuerblis
Chief Financial Officer
September 26, 2002

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. Certain factors could cause actual results to vary materially from the future results indicated in such forward-looking statements. These factors are discussed in detail in the Risk Factors section of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002, under the headings: "Our near term success is heavily dependent on Schering-Plough's effective marketing of PEG-INTRON," "We may not 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," "We have experienced problems complying with the FDA's regulations for manufacturing our products, and we may not be able to resolve these problems," "Our clinical trials could take longer to complete and cost more than we expect," "If preclinical and clinical trials do not yield positive results, our product candidates will fail," "Even if we obtain regulatory approval for our products, they may not be accepted in the marketplace," "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 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," "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," "We have limited sales and marketing experience, which makes us dependent on our marketing partners," "We may acquire other companies or products and may be unable to successfully integrate such companies with 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," "We depend on key personnel and may not be able to retain these employees or recruit additional qualified personnel, which would harm our business," "We face rapid technological change and intense competition, which could harm our business and results of operations," "We may be sued for product liability," "Sales of our products could be adversely affected if the costs for these products are not reimbursed by third-party payors," "The price of our common stock has been, and may continue to be, volatile which may significantly affect the trading price of our notes," "Our notes are subordinated," "We may be unable to redeem our notes upon a fundamental change," "A public market for our notes may fail to develop or be sustained," "Events with respect to our share capital could cause the price of our common stock to decline," "We have a significant amount of indebtedness," "The market for unrated debt is subject to disruptions, which could have an adverse effect on the market price of the notes." Other factors could also cause actual results to vary materially from the future results indicated in such forward-looking statements.

Corporate Headquarters

Enzon, Inc.
685 Route 202/206
Bridgewater, NJ 08807
(908) 541-8600

Enzon's Executive Senior Management

Arthur J. Higgins
Chairman and
Chief Executive Officer

Ulrich M. Grau, Ph.D.
Chief Scientific Officer

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

Enzon's Board of Directors

Arthur J. Higgins
Chairman

David S. Barlow
President of Black Diamond Capital,
a private investment company

Rolf A. Classon
President of Bayer Diagnostics and
Executive Vice President of Bayer Corporation

Dr. Rosina B. Dixon, M.D.
Pharmaceutical industry consultant and
Director of Cambrex Corporation and
Church & Dwight Co., Inc.

David W. Golde, M.D.
Professor at Cornell University Medical College
and Graduate School of Medical Sciences and
Member and Attending physician,
Memorial Sloan-Kettering Cancer Center

Robert LeBuhn
Private investor and Director of
Cambrex Corporation and
US Airways Group, Inc.

Robert L. Parkinson, Jr.
Dean of Loyola University Chicago's
School of Business Administration and
Graduate School of Business

Directors Emeriti

Richard Cooper, M.D.

Frank F. Davis, Ph.D.
(Co-Founder)

Martin B. Stein

Peter G. Tombros

Auditors

KPMG LLP
Short Hills, NJ

SEC Counsel

Dorsey & Whitney LLP
New York, NY

Investor Relations

Updated information about the Company is available by accessing Enzon's home page located on the world wide web at http://www.enzon.com. Enzon's website includes summaries of the Company's technologies, products on the market and some products under development. The site also contains press releases and current financial data. Copies of current press releases and quarterly earnings releases can also be obtained through fax, e-mail, or the mail. To register for the Company's fax service, e-mail list, or mailing list, please call the corporate communications request line at (908) 541-8777.

Registrar and Transfer Agent

The transfer agent is responsible, among other things, for handling shareholder questions regarding lost stock certificates, address changes including duplicate mailings, and changes in ownership or name in which shares are held. These requests may be directed to the transfer agent at the following address:

Continental Stock Transfer & Trust Company
17 Battery Place, 8th Floor
New York, NY 10004
(212) 509-4000

Common stock is traded on the Nasdaq National Market® under the symbol: ENZN

Annual Shareholders Meeting

The annual meeting of shareholders will be held at 10:00 a.m. on Tuesday, December 3, 2002 at the Embassy Suites Hotel, 121 Centennial Avenue, Piscataway, NJ 08854.

Form 10-K

A copy of Enzon's Annual Report on Form 10-K for the fiscal year ended June 30, 2002 is included with this Annual Report and is incorporated by reference herein.

Enzon Trademarks

Adagen®
Enzon®
Oncaspar®
Prothecan®
SCA®

Other trademarks and trade names used in this Annual Report are the property of their respective owners.

Equal Opportunity Statement

Enzon, Inc. is an equal opportunity employer, and does not discriminate against any individual on the basis of sex, gender, race, color, national origin, religion, ethnicity, sexual orientation, or other characteristic protected by law.

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ENZON

Enzon, Inc.

685 Route 202/206

Bridgewater, NJ 08807