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

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FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

or

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

For the Transition Period from ___ to ___

Commission file number 0-12957

ENZON PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

| Delaware | 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) |

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No__

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date 43,793,494.

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

| | September 30, 2004 | June 30, 2004 |
|---|---|---|
| | | (*) |
| ASSETS | | |
| Current assets: | | |

| | | |
|---|---|---|
| Cash and cash equivalents | $ 76,055 | $ 91,532 |
| Short-term investments | 44,243 | 27,119 |
| Accounts receivable, net | 26,500 | 25,977 |
| Inventories | 14,108 | 11,215 |
| Deferred tax and other current assets | 15,207 | 12,382 |
| Total current assets | 176,113 | 168,225 |
| Other assets: | | |
| Property and equipment, net | 34,468 | 34,859 |
| Marketable securities | 61,273 | 67,582 |
| Investments in equity securities | 39,076 | 37,906 |
| Amortizable intangible assets, net | 189,588 | 194,067 |
| Goodwill | 150,985 | 150,985 |
| Deferred tax and other assets | 67,677 | 68,786 |
| | 543,067 | 554,185 |
| Total assets | $719,180 | $722,410 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $9,169 | $8,663 |
| Accrued expenses | 18,190 | 23,001 |
| Total current liabilities | 27,359 | 31,664 |
| Other liabilities | 1,407 | 1,655 |
| Notes payable | 400,000 | 400,000 |
| | 401,407 | 401,655 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock-$.01 par value, authorized 90,000,000 shares; issued and outstanding 43,793,464 shares at September 30, 2004 and 43,750,934 shares at June 30, 2004 | 438 | 438 |
| Additional paid-in capital | 322,565 | 322,486 |
| Accumulated other comprehensive loss | (3,472) | (5,035) |
| Deferred compensation | (3,346) | (3,571) |
| Accumulated deficit | (25,771) | (25,227) |
| Total stockholders' equity | 290,414 | 289,091 |
| Total liabilities and stockholders' equity | $719,180 | $722,410 |

(*)Condensed from audited financial statements.

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



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

| | Three months ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Revenues: | | |
| Product sales, net | $27,527 | $24,961 |
| Manufacturing revenue | 2,513 | 1,604 |
| Royalties | 10,115 | 13,811 |
| Contract revenue | 299 | 268 |
| Total revenues | 40,454 | 40,644 |
| Costs and expenses: | | |
| Cost of sales and manufacturing revenue | 10,901 | 10,912 |
| Research and development | 10,046 | 6,551 |
| Selling, general and administrative | 12,199 | 11,209 |
| Amortization of acquired intangible assets | 3,358 | 3,358 |
| Total costs and expenses | 36,504 | 32,030 |
| Operating income | 3,950 | 8,614 |

| | | |
|---|---|---|
| Other income (expense): | | |
| Investment income, net | 770 | 474 |
| Interest expense | (4,957) | (4,957) |
| Other | (670) | 307 |
| | (4,857) | (4,176) |
| (Loss) income before tax provision | (907) | 4,438 |
| Income tax (benefit) provision | (363) | 1,634 |
| Net (loss) income | $(544) | $2,804 |
| Basic (loss) earnings per common share | $(0.01) | $0.06 |
| Diluted (loss) earnings per common share | $(0.01) | $0.06 |
| Weighted average number of common shares outstanding - basic | 43,470 | 43,290 |
| Weighted average number of common shares and dilutive potential common shares outstanding | 43,470 | 43,629 |

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



ENZON PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Three Months Ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Cash flows from operating activities: | | |
| Net (loss) income | $(544) | $2,804 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 5,652 | 5,925 |
| Non-cash expense for issuance of common stock | 166 | 344 |
| Gain on sale of equity investment | (163) | - |
| Non-cash loss (gain) relating to equity collar arrangement | 882 | (307) |
| Amortization of debt issue costs | 457 | - |
| Amortization of bond premium/discount | 737 | (126) |
| Deferred income taxes | (363) | 1,240 |
| Changes in operating assets and liabilities | (10,656) | (5,991) |
| Net cash (used in) provided by operating activities | (3,832) | 3,889 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (783) | (1,649) |
| Proceeds from sale of marketable securities | 7,830 | 3,000 |
| Purchase of marketable securities | (22,830) | (8,950) |
| Maturities of marketable securities | 4,000 | - |
| Net cash used in investing activities | (11,783) | (7,599) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 138 | - |
| Net cash provided by financing activities | 138 | - |
| Net decrease in cash and cash equivalents | (15,477) | (3,710) |
| Cash and cash equivalents at beginning of period | 91,532 | 66,752 |
| Cash and cash equivalents at end of period | $76,055 | $63,042 |

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

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

(1) Organization and Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared from the books and records of Enzon Pharmaceuticals, Inc. (the "Company") and its subsidiaries in accordance with United States generally accepted accounting principles for interim financial information pursuant to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete annual financial statements. In the opinion of management, all adjustments (consisting only of normal and recurring adjustments) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for the year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K/A.

(2) Comprehensive Income

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

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

| | Three months ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Net (loss) income | $(544) | $2,804 |
| Other comprehensive income: | | |
| Unrealized gain on securities that arose during the period | 556 | (54) |
| Unrealized gain (loss) on NPS investment arising during the period | 844 | 1,682 |
| Reclassification adjustment for gain included in net income | 163 | - |
| Total other comprehensive income | $1,563 | $1,628 |
| Comprehensive income | $1,019 | $4,432 |



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

(3) Earnings Per Common Share

Basic earnings per share is computed by dividing the net (loss) income available to common stockholders by the weighted average number of shares of Common Stock issued and outstanding during the periods. For purposes of

calculating diluted earnings per share for the three months ended September 30, 2004 and 2003, the denominator includes both the weighted average number of shares of Common Stock outstanding and the number of dilutive Common Stock equivalents. During the three months ended September 30, 2004 the exercise or conversion of approximately 353,000 dilutive potential common shares are not included for purposes of the diluted loss per share calculation. The number of dilutive Common Stock equivalents includes the effect of non-qualified stock options calculated using the treasury stock method. The number of shares issuable upon conversion of the Company's 4.5% Convertible Subordinated Notes due 2008 (the "Notes") and the effect of the vesting of certain restricted stock and certain stock options using the treasury stock method have not been included as the effect of their inclusion would be antidilutive. As of September 30, 2004, the Company had 9,472,000 dilutive potential common shares outstanding that could potentially dilute future earnings per share calculations.

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

| | Three months ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Net (loss) income available to common stockholders | $(544) | $2,804 |
| Weighted average number of common shares issued and outstanding - basic | 43,470 | 43,290 |
| Effect of dilutive common stock equivalents: | | |
| Exercise of stock options | - | 339 |
| | 43,470 | 43,629 |

(4) Stock Based Compensation

As permitted by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", the Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principals Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees". Compensation expense for stock options issued to employees is based on the difference on the date of grant between





the fair value of the Company's stock and the exercise price of the option. No stock option-based employee compensation cost is reflected in net income, as all options granted to employees had exercise prices equal to the market value of the underlying common stock at the date of grant.

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Net (loss) income applicable to common stockholders: | | |
| As reported | $(544) | $2,804 |

| | | |
|---|---|---|
| Add stock-based employee compensation expense included in reported net income, net of tax (1) | 100 | 176 |
| Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax (1) | (3,180) | (2,221) |
| Pro forma net (loss) income | $(3,624) | $759 |
| Earnings per common share - basic: | | |
| As reported | $(0.01) | $0.06 |
| Pro forma | $(0.08) | $0.02 |
| Earnings per common share - diluted: | | |
| As reported | $(0.01) | $0.06 |
| Pro forma | $(0.08) | $0.02 |

(1) Information for 2004 and 2003 has been adjusted for taxes using estimated tax rates of 40% and 37%, respectively.

(5) Inventories

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

| | September 30, 2004 | June 30, 2004 |
|---|---|---|
| Raw materials | $4,827 | $3,143 |
| Work in process | 3,651 | 3,716 |
| Finished goods | 5,630 | 4,356 |
| | $14,108 | $11,215 |

(2) The Company has recently recalled three lots of ONCASPAR. The Company has established a sales return reserve of $415,000 in accrued expenses with respect to the related recall. In addition, the Company wrote off $195,000 of ONCASPAR inventory.





(6) Intangible Assets

Intangible assets consist of the following (in thousands):

| | September 30, 2004 | Estimated Useful lives |
|---|---|---|
| Product Patented Technology | $ 64,400 | 12 years |
| Manufacturing Patent | 18,300 | 12 years |
| NDA Approval | 31,100 | 12 years |
| Trade name and other product rights | 80,000 | 15 years |
| Manufacturing Contract | 2,200 | 3 years |
| Patent | 2,092 | 15 years |
| Product Acquisition Costs | 26,194 | 10-14 years |
| | 224,286 | |
| Less: Accumulated amortization | 34,697 | |
| | $189,589 | |

Amortization charged to operations relating to intangible assets totaled $4.5 million including $1.1 million which is classified in cost of sales and manufacturing revenue for both the three months ended September 30, 2004 and 2003. Amortization expense for these intangibles and certain other product acquisition costs for the next five fiscal years is expected to be approximately $15.5 million per year.

(7) Goodwill

On November 22, 2002, the Company acquired the North American rights and operational assets associated with the development, manufacture, sales and marketing of ABELCET(R) (Amphotericin B Lipid Complex Injection) (the "North American ABELCET business") from Elan Corporation, plc ("Elan"), for $360.0 million plus acquisition costs of approximately $9.3 million. The acquisition is being accounted for by the purchase method of accounting in accordance with SFAS No. 141 "Business Combinations". The amount assigned to goodwill in connection with the ABELCET product line acquisition was recorded at $151.0 million. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized, but rather is reviewed at least annually for impairment. For income tax purposes, the entire amount of goodwill is deductible and is being amortized over a 15 year period.

(8) Cash Flow Information

The Company considers all highly liquid securities with original maturities of three months or less to be cash equivalents. Cash payments for interest were approximately $9.0 million for the three months ended September 30, 2004 and September 30, 2003. Income tax payments for the three months ended September 30, 2004 and 2003, respectively were $271,000 and $2.5 million.

(9) Income Taxes

The Company recognized a tax provision for the three months ended September 30, 2004 at an estimated annual effective tax rate of 40%, which is based on the projected income tax expense and taxable income for the fiscal year ending June 30, 2005.





At September 30, 2004, the Company recognized approximately $67.5 million as a net deferred tax asset because management concluded that it is more likely than not that the net deferred tax assets will be realized, including the net operating losses from operating activities and stock option exercises, based on future operations. As of September 30, 2004, the Company retained a valuation allowance of $18.0 million with respect to certain capital loss carryforwards, deductible temporary differences that would result in a capital loss carryforward when realized and federal research and development tax credits, as the ultimate utilization of such losses and credits is not more likely than not. The Company will continue to reassess the need for such valuation allowance based on the future operating performance of the Company.

The tax provision for the three months ended September 30, 2003 was based on the Company's projected income tax expense and taxable income for the fiscal year ended June 30, 2004.

(10) Business Segments

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

Related Information".

(11) Derivative Instruments

In August 2003, the Company entered into a Zero Cost Protective Collar arrangement with a financial institution to reduce the exposure associated with the 1.5 million shares of common stock of NPS received as part of the merger termination agreement with NPS Pharmaceuticals, Inc. ("NPS"). By entering into this equity collar arrangement and taking into consideration the underlying put and call option strike prices, the terms are structured so that the Company's investment in NPS stock, when combined with the value of the Collar, should secure ultimate cash proceeds in the range of 85%-108% of the negotiated fair value per share of $23.47 (representing a 4.85% discount off of the closing price of NPS common stock on the day before the collar was executed). The Collar is considered a derivative hedging instrument under SFAS No. 133 and as such, the Company periodically measures its fair value and recognizes the derivative as an asset or a liability. The change in fair value is recorded in other comprehensive income (See Note 2) or in the Statement of Operations depending on the portion of the derivative designated and effective as a hedge. As of September 30, 2004, the market value of NPS' common stock was $21.78 per share. When the underlying shares become unrestricted and freely tradable, the Company is required to deliver to the financial institution as posted collateral, a corresponding number of shares of NPS common stock. During the quarter ended September 30, 2004, we sold and re-purchased 375,000 shares of common stock of NPS. The unrealized gain previously included in other comprehensive income prior to the sale and repurchase with respect to these shares aggregating $163,000 for the quarter ended September 30, 2004, was recognized in the Statements of Operations and is included in "Other Income". The fair value of the Collar represents a receivable from the counterparty of $847,000 at September 30, 2004. The change from June 30, 2004 in the time value component of the Collar represents a loss of $882,000 for the quarter ended September 30, 2004, and was recorded as "Other Income" in the Statement of Operations. For the quarter ended September 30, 2003 there were no sales under the equity collar arrangement. The Collar will mature in four separate three-month intervals from November 2004 through August 2005, at which time the Company will receive the proceeds from the sale of the securities. The amount due at each maturity date will be determined based on the market value of NPS' common stock on such maturity date. The contract requires the Company to maintain a minimum cash balance of $30.0 million and additional collateral up to $10.0 million (as defined) under certain circumstances with the financial institution. The strike prices of the put and call options are subject to certain adjustments in the event the Company receives a dividend from NPS.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information contained herein contains forward-looking statements which can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. We cannot assure you that the future results covered by the forward-looking statements will be achieved. The matters set forth in the "Risk Factors" section of the Company's Annual Report on Form 10-K/A for the fiscal year ended June 30, 2004, which is incorporated herein by reference, constitute cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to vary materially from the future results indicated in such forward-looking statements. Other factors could also cause actual results to vary materially from the future results indicated in such forward-looking statements.

LIQUIDITY AND CAPITAL RESOURCES

Total cash reserves, which include cash, cash equivalents and marketable securities, were $181.6 million as of September 30, 2004, as compared to $186.2 million as of June 30, 2004. The decrease is primarily due to the payment of accrued interest on our convertible subordinated notes. We invest our excess cash primarily in United States government-backed securities and investment-grade corporate debt securities.

During the three months ended September 30, 2004, net cash used in

operating activities was $3.8 million, compared to net cash provided of $3.9 million for the three months ended September 30, 2003, primarily reflecting the payment of accrued interest of $9.0 million on our convertible subordinated note and our net loss of $544,000, offset by depreciation and amortization of $5.7 million.

Cash used in investing activities totaled $11.8 million for the three months ended September 30, 2004 compared to $7.6 million for the three months ended September 30, 2003. Cash used in investing activities during the three months ended September 30, 2004, consisted of $783,000 of capital expenditures and net purchases of marketable securities of $11.0 million.

As of September 30, 2004, we had $400.0 million of 4.5% convertible subordinated notes outstanding. The notes bear interest at an annual rate of 4.5%. Interest is payable on January 1 and July 1 of each year. Accrued interest on the notes was $4.5 million as of September 30, 2004. 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.

In August 2003, we entered into a Zero Cost Protective Collar arrangement with a financial institution to reduce the exposure associated with the 1.5 million shares of common stock of NPS we received as part of the merger termination agreement with NPS. By entering into this equity collar arrangement and taking into consideration the underlying put and call option strike prices, the terms are structured so that our investment in NPS stock, when combined with the value of the Collar, should secure ultimate cash proceeds in the range of 85%-108% of the negotiated fair value per share of $23.47 (representing a 4.85% discount off of the closing price of NPS common stock on the day before the Collar was executed). The Collar is considered a derivative hedging instrument under SFAS No. 133 and as such, we periodically measure its fair value and recognize the derivative as an asset or a liability. The change in fair value is recorded as either other comprehensive income (See Note 2) or in the Statement of Operations depending on the portion of the derivative designated and effective as a hedge. As of September 30, 2004, the market value of NPS' common stock was $21.78 per share. When the underlying shares become unrestricted and



freely tradable, we are required to deliver to the financial institution as posted collateral, a corresponding number of shares of NPS common stock. During the quarter ended September 30, 2004, we sold and re-purchased 375,000 shares of common stock of NPS. The unrealized gain previously included in other comprehensive income prior to the sale and repurchase with respect to these shares aggregating $163,000 for the quarter ended September 30, 2004, was recognized in the Statements of Operations and is included in "Other Income". The fair value of the Collar represents a receivable from the counterparty of $847,000 at September 30, 2004. The change from June 30, 2004 in the time value component of the Collar which represents a loss of $882,000 for the quarter ended September 30, 2004, was recorded as "Other Income" in the Statement of Operations. For the quarter ended September 30, 2003 there were no sales under the equity collar arrangement. The Collar will mature in four separate three-month intervals beginning November 2004 through August 2005, at which time we will receive the proceeds from the sale of the securities. The amount due at each maturity date will be determined based on the market value of NPS' common stock on such maturity date. The contract requires us to maintain a minimum cash balance of $30.0 million and additional collateral up to $10.0 million (as defined) under certain circumstances with the financial institution. The strike prices of the put and call options are subject to certain adjustments in the event we receive a dividend from NPS.

Our current sources of liquidity are our cash reserves, interest earned on such cash reserves; short-term investments, marketable securities, sales of

ADAGEN(R), ONCASPAR(R), DEPOCYT(R) and ABELCET(R), royalties earned, which are primarily related to sales of PEG-INTRON(R), and contract manufacturing revenue. Based upon our currently planned research and development activities and related costs and our current sources of liquidity, we anticipate our current cash reserves and expected cash flow from operations will be sufficient to meet our capital, debt service and operational requirements for the foreseeable future.

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

OFF-BALANCE SHEET ARRANGEMENTS

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPE"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow limited purposes. As of September 30, 2004 we are not involved in any SPE transactions.

CONTRACTUAL OBLIGATIONS

Our major outstanding contractual obligations relate to our operating leases, inventory purchase commitments, our convertible debt, and our license agreements with collaborative partners. Since June 30, 2004, there has been no material change with respect to our contractual obligations as disclosed under Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations in our annual report on Form 10-K/A for the year ended June 30, 2004.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

Revenues. Total revenues for the three months ended September 30, 2004 were $40.5 million, as compared to $40.6 million for the three months ended September 30, 2003. The components of revenues are product sales and contract manufacturing revenue, royalties we earn on the sale of our products by others and contract revenues.



Net product sales increased by 10% to $27.5 million for the three months ended September 30, 2004, as compared to $25.0 million for the three months ended September 30, 2003. The increase in sales was due to increased sales of three of our internally marketed products: ABELCET(R), DEPOCYT(R), and ONCASPAR(R). Sales of ABELCET in North America increased by 10% to $16.5 million for the three months ended September 30, 2004, as compared to $15.0 million for the three months ended September 30, 2003 as a result of our focused marketing efforts to combat the launch of competitive products from Merck and Co., Inc. ("Merck") and Pfizer Inc. ("Pfizer"). Sales of DEPOCYT increased by 82% to $2.3 million for the three months ended September 30, 2004 as compared to $1.3 million for the three months ended September 30, 2003. Sales of ONCASPAR increased by 7% to $4.4 million for the three months ended September 30, 2004 from $4.1 million in the corresponding period in the prior year. These increased product sales were driven by our focused sales and marketing efforts to support ONCASPAR and DEPOCYT. The increase in ONCASPAR sales was offset in part by approximately $415,000 in returns related to the recall of three lots in recent months. Sales of ADAGEN decreased by 7% for the three months ended September 30, 2004 to $4.3 million as compared to $4.6 million for the three months ended September 30, 2003 due to the timing of shipments.

Contract manufacturing revenue for the three months ended September 30, 2004 increased to $2.5 million, as compared to $1.6 million for the comparable period of the prior year. Contract manufacturing revenue is related to the manufacture and sale of ABELCET for the international market and other contract manufacturing revenue.

Royalties for the three months ended September 30, 2004, decreased to $10.1 million as compared to $13.8 million in the same period in the prior year. The decrease was primarily due to decreased sales of PEG-INTRON by Schering-Plough, our marketing partner, due to competitive pressure from the competing pegylated alpha interferon product, PEGASYS(R), which Hoffmann-La Roche launched as a combination therapy for hepatitis C in December 2002.

Due to the competitive pressure from PEGASYS, we believe royalties from sales of PEG-INTRON may continue to decrease in the near term. This decrease may be offset by the potential launch of PEG-INTRON in combination with REBETOL in Japan. In October 2004, Schering-Plough announced the approval of a New Drug Application in Japan for PEG-INTRON combination therapy. PEG-INTRON is expected to become available in Japan upon National Health Insurance Reimbursement Price Listing. Since its launch, PEGASYS has taken market share away from PEG-INTRON in the U.S. and Europe and the overall market for pegylated alpha interferon in the treatment of hepatitis C has not increased enough to offset the effect PEGASYS sales have had on sales of PEG-INTRON. As a result, quarterly sales of PEG-INTRON and the royalties we receive on those sales have declined in recent quarters. We cannot assure you that PEGASYS will not continue to gain market share at the expense of PEG-INTRON, which could result in lower PEG-INTRON sales and royalties to us.

Based on our focused marketing efforts for ABELCET we believe that we have been able to stabilize the pressure from the introduction of new products in the antifungal market, namely Pfizer's VFEND(R) and Merck's CANCIDAS(R). Given the highly competitive landscape of the antifungal market, we expect ABELCET to have modest growth over the next year.

We expect ADAGEN sales to grow over the next year at similar levels to those achieved for the year ended June 30, 2004. Assuming we are able to successfully address certain manufacturing and product stability problems we have experienced with ONCASPAR, which have resulted in the recent recalls mentioned above, we expect ONCASPAR sales to continue to grow, but at a pace slower then the 46% growth rate achieved in fiscal 2004. ONCASPAR sales may decline, however, if we are unable to correct these manufacturing and product stability problems. We expect DEPOCYT sales to gain modestly from the current sales levels. However, we cannot assure you that any particular sales levels of ABELCET, ADAGEN, ONCASPAR, DEPOCYT or PEG-INTRON will be achieved or maintained.



Contract revenues for the three months ended September 30, 2004 remained relatively consistent at $299,000 as compared to $268,000 for the three months ended September 30, 2003.

During the three months ended September 30, 2004, we had export sales and royalties on export sales of $10.8 million, of which $7.9 million were in Europe. Export sales and royalties recognized on export sales for the prior year quarter were $9.6 million, of which $8.2 million were in Europe.

Cost of Sales and Manufacturing Revenue. Cost of sales and manufacturing revenue, as a percentage of net sales and manufacturing revenue, decreased to 36% for the three months ended September 30, 2004 as compared to 41% for the same period last year. The decrease was principally due to higher 2003 inventory costs as a result of certain purchase accounting adjustments to the inventory acquired with the North American ABELCET Business which was sold during the three months ended September 30, 2003.

Research and Development. Research and development expenses increased by 52% to $10.0 million for the three months ended September 30, 2004 from $6.6 million for the same period last year. The increase was primarily due to, (i) increased spending on our late stage development program for ATG Fresenius S of approximately $670,000; (ii) increased spending of approximately $1.5 million related to our strategic partnership with Inex on Inex's proprietary oncology product MARQIBO; (iii) increased preclinical spending of $670,000; and (iv) increased personnel-related expenses of approximately $560,000.

Selling, General and Administrative. Selling, general and administrative expenses for the three months ended September 30, 2004 increased by 9% to $12.2 million, as compared to $11.2 million in the same period last year. The increase was primarily due to increased sales and marketing expense of

approximately $1.7 million of which $1.1 million related to expenses attributed to our oncology sales operations. Approximately 46% of the increase in our oncology sales and marketing costs are associated with the potential launch of MARQIBO. This increase was offset in part by a decrease in general and administrative personnel and other related costs of approximately $650,000.

Amortization. Amortization expense remained unchanged at $3.4 million for the three months ended September 30, 2004 and 2003. Amortization expense for both periods relates to intangible assets acquired in connection with the ABELCET acquisition during November 2002. Amortization of intangible assets is provided over their estimated lives ranging from 3-15 years on a straight-line basis.

Other income (expense). Other income (expense) for the three months ended September 30, 2004 was an expense of $4.9 million, as compared to an expense of $4.2 million for the three months ended September 30, 2003. Other income (expense) includes: net investment income, interest expense, and other income.

Net investment income for the three months ended September 30, 2004 increased to $770,000 from $474,000 for the three months ended September 30, 2003 due to an increase in our interest bearing investments and higher interest rates.

Interest expense was $5.0 million for each of the three months ended September 30, 2004 and 2003. Interest expense is related to $400.0 million in 4.5% convertible subordinated notes, which were outstanding for each of the periods.

Other income (expense) decreased to an expense of $670,000 for the three months ended September 30, 2004, as compared to income of $307,000 for the three months ended September 30, 2003. The decrease in other income was related to a derivative instrument we formed as a protective collar arrangement to reduce our exposure associated with the 1.5 million shares of NPS common stock.



Income Taxes. During the three months ended September 30, 2004 we recognized a tax benefit of approximately $363,000 compared to tax expense $1.6 million, for the three months ended September 30, 2003. We recognized a tax benefit for the three months ended September 30, 2004 at an estimated annual effective tax rate of 40%, which is based on the projected income tax expense and taxable income for the fiscal year ending June 30, 2005. The tax provision for the three months ended September 30, 2003 was based on the Company's projected income tax expense and taxable income for the fiscal year ended June 30, 2004.

CRITICAL ACCOUNTING POLICIES

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

Our consolidated financial statements are presented in accordance with accounting principles that are generally accepted in the United States. All professional accounting standards effective as of September 30, 2004 have been taken into consideration in preparing the consolidated financial statements. The preparation of the consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Some of those estimates are subjective and complex, and, consequently, actual results could differ from those estimates. The following accounting policies have been highlighted as significant because changes to certain judgments and assumptions inherent in these policies could affect our consolidated financial statements.

Revenues from product sales and manufacturing revenue are recognized at the time of shipment and a provision is made at that time for estimated future

credits, chargebacks, sales discounts, rebates and returns. These sales provision accruals, except for rebates which are recorded as a liability, are presented as a reduction of the accounts receivable balances. We continually monitor the adequacy of the accruals by comparing the actual payments to the estimates used in establishing the accruals. We ship product to customers primarily FOB shipping point and utilize the following criteria to determine appropriate revenue recognition: pervasive evidence of an arrangement exists, delivery has occurred, selling price is fixed and determinable and collection is reasonably assured.

Royalties under our license agreements with third parties are recognized when earned through the sale of the product by the licensor net of any estimated future credits, chargebacks, sales discount rebates and refunds.

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

Under the asset and liability method of Statement of Financial Accounting Standards ("SFAS") No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance on net deferred tax assets is provided for when it is more likely than not that some portion or all of the deferred tax assets will not be realized. We have significant net deferred tax assets, primarily related to net operating loss and other carryforwards, and continue to analyze what level of the valuation allowance is needed taking into consideration the expected future performance of the Company.



We assess the carrying value of our cost method investments in accordance with SFAS No. 115 and SEC Staff Accounting Bulletin (SAB) No. 59. Commencing with the first quarter of fiscal 2005 we will evaluate investments in accordance with Emerging Issues Task Force ("EITF") 03-01, the Meaning of Other-Than-Temporary Impairment and its application to Certain Investments. An impairment write-down is recorded when a decline in the value of an investment is determined to be other-than-temporary. These determinations involve a significant degree of judgment and are subject to change as facts and circumstances change.

In accordance with the provisions of SFAS No. 142, goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination, are not subject to amortization, are tested at least annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. We completed our annual goodwill impairment test on May 31, 2004, which indicated that goodwill was not impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the Company level because the Company is in one reporting unit and consists of two steps. First, we determine the fair value of our reporting unit and compare it to its carrying amount. Second, if the carrying amount of its reporting unit exceeds our fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FASB Statement No. 141, Business Combinations. The residual fair value after this allocation is the implied fair value of our goodwill. Recoverability of amortizable intangible assets is determined by comparing the carrying amount of the asset to the future undiscounted net cash flow to be generated by the asset. The evaluations involve amounts that are based on management's best estimate and judgment. Actual results may differ from these estimates. If recorded values are less than the fair values, no impairment is indicated. SFAS No. 142 also requires that intangible assets with estimated useful lives be amortized over their respective

estimated useful lives.

We apply 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 of options to employees and members of the Board of Directors 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, we have elected to continue to apply the intrinsic value-based method of accounting described above, and have adopted the disclosure requirements of SFAS No. 123, as amended.

When the exercise price of employee or director stock options is less than the fair value of the underlying stock on the grant date, we record deferred compensation for the difference and amortize 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.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our holdings of financial instruments are comprised of debt securities and time deposits. All such instruments are classified as securities available-for-sale. We do not invest in portfolio equity securities or commodities or use financial derivatives for trading purposes. Our debt security portfolio represents funds held temporarily pending use in our business and operations. We manage these funds accordingly. We seek reasonable assuredness of the safety of principal and market liquidity by investing in rated fixed income securities while at the same time seeking to achieve a favorable rate of return. Our market risk exposure consists principally of exposure to changes in interest rates. Our holdings are also exposed to the risks of changes in the credit quality of issuers. We typically invest the majority of our investments in the shorter-end of the maturity spectrum, and at September 30, 2004 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 September 30, 2004 (in thousands):

| | 2005 | 2006 | 2007 | 2008 | Total | Fair Value |
|---|---|---|---|---|---|---|
| Fixed Rate | $44,445 | $34,346 | $17,308 | $10,012 | $106,111 | $105,516 |
| Average Interest Rate | 1.65% | 2.13% | 2.32% | 3.16% | 2.06% | - |
| Variable Rate | - | - | - | - | - | - |
| Average Interest Rate | - | - | - | - | - | - |
| | $44,445 | $34,346 | $17,308 | $10,012 | $106,111 | $105,516 |

Our 4.5% convertible subordinated notes in the principal amount of $400.0 million due July 1, 2008 have fixed interest rates. The fair value of the notes was approximately $378.5 million at September 30, 2004. The fair value of fixed interest rate convertible notes is affected by changes in interest rates and by changes in the price of our common stock.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.

Subsequent to filing our original Form 10-K on September 13, 2004, and in connection with preparation and review of our consolidated financial statements for the quarter ended September 30, 2004, management determined that an error related to the accounting for a derivative hedging instrument as of and for the quarter and year ended June 30, 2004 and an error in assessing the realizeability of deferred tax assets related to the unrealized loss on available-for-sale securities included in accumulated other comprehensive loss as of June 30, 2004 had occurred.



Executive management and the Finance and Audit Committee determined that there was a material weakness relating to the timely review and monitoring of certain account analyses, including the derivative hedging instrument and the assessment of the realizeability of deferred tax assets established through accumulated other comprehensive loss. In connection with restating our consolidated financial statements as of June 30, 2004 on Form 10-K/A, our acting principal executive officer and principal financial officer supervised and participated with other management in reevaluating the effectiveness of our disclosure controls and procedures for the year ended June 30, 2004 and based on the reevaluation, the acting principal executive officer and principal financial officer concluded that as of the year ended June 30, 2004 there were deficiencies in our disclosure controls and procedures, which has resulted in the conclusion that the disclosure controls were ineffective. Further background on this matter and the changes in internal controls instituted as a result of the errors are described below.

CHANGES IN INTERNAL CONTROLS

Prior to the filing and in connection with filing this report on Form 10-Q, we made changes in our internal controls over financial reporting.

On October 29, 2004, we announced that we would restate our consolidated financial statements for the year ended June 30, 2004, and the quarterly information for the quarter ended June 30, 2004 included therein to correct an error related to the accounting for a derivative hedging instrument and an error in assessing the realizeability of deferred tax assets related to the unrealized loss on available-for-sale securities included in accumulated other comprehensive loss.

The error related to the derivative resulted in a misallocation between other income and accumulated other comprehensive loss as of and for the quarter and year ended June 30, 2004. The error related to the assessment of the realizeability of the deferred tax assets resulted in a decrease to deferred tax assets and an increase to accumulated other comprehensive loss as of June 30, 2004. Executive management and the Finance and Audit Committee determined that there was a material weakness relating to the timely review and monitoring of certain account analyses, including the derivative hedging instrument and the assessment of the realizeability of deferred tax assets established through accumulated other comprehensive loss. Other than the matters discussed above, no other matters were identified that required significant adjustments to or modification of disclosure in our consolidated financial statements. We have instituted more comprehensive review and monitoring procedures to mitigate the risk of errors in these particular areas from occurring in the future.



PART II OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K.

| Exhibit Number | Description | Incorporation By Reference |
|---|---|---|
| 3.1 | Certificate of Incorporation, as amended | ^^^ |
| 3.2 | Amendment to Certificate of Incorporation | \\ |
| 3.3 | By laws, as amended | ^^ |
| 4.1 | Indenture dated as of June 26, 2001, between the Company and Wilmington Trust Company, as trustee, including the form of 4 1/2% Convertible Subordinated Notes due 2008 attached as Exhibit A thereto | ++++ |
| 4.2 | Rights Agreement dated May 17, 2002 between the Company and Continental Stock Transfer Trust Company, as rights agent | ^ |
| 4.3 | First Amendment to Rights Agreement, dated as of February 19, 2003 | * |
| 31.1 | Certification of Principal Accounting and Acting Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | o |
| 32.1 | Certification of Principal Accounting and Acting Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | o |

o Filed herewith.

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

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

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

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

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

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



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENZON PHARMACEUTICALS, INC.
(Registrant)

Date: November 15, 2004

By: /s/Kenneth J. Zuerblis
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Executive Vice President Finance,
Chief Financial Officer and
(Principal Accounting Officer and
Acting Principal Executive Officer)
Corporate Secretary

Exhibit 31.1

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

I, Kenneth J. Zuerblis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 of Enzon Pharmaceuticals, Inc. ("Enzon");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 15, 2004

By: /s/Kenneth J. Zuerblis
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Executive Vice President Finance,
Chief Financial Officer and
(Principal Accounting Officer and
Acting Principal Executive Officer)
Corporate Secretary

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Enzon Pharmaceuticals, Inc. (the "Company") for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth J. Zuerblis, Chief Financial Officer and (Principal Accounting Officer and Acting Principal Executive Officer) Corporate Secretary of the Company, certify to my knowledge, pursuant to 18 U.S.C. Section 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.

November 15, 2004

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

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

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