



Enzon Pharmaceuticals Inc.

(Ticker: ENZN)

Activist Investor: DellaCamera Capital Management

10 June 2009

COMPANY PROFILE

Previous Close:	7.62
52 -week Range:	2.95 – 9.48
Revenues(TTM):	197M
Market Cap:	345M
Enterprise Value:	458M
Net Cash:	-64M
EBITDA:	28M
EV/EBITDA:	16.2

INVESTOR PROFILE

Activist Investor:	DellaCamera Capital
Percent Outstanding:	8.3%
Cost Basis:	\$7.70

CAPITAL STRUCTURE

Common Shares Outstanding	45,298,257
Preferred Shares:	None
Short Term Debt	0
Long Term Debt	250M

CATALYST SUMMARY

On April 22 DellaCamera Capital Management (DCM), an 8.3% stakeholder, began a Consent Solicitation seeking to obtain the approval from a majority of Enzon shareholders to remove the Company’s President & CEO from office. As soon as the Company sets a record date for the solicitation (we expect this to be issued soon) shareholders will have 60 days to vote.

DCM says their chief point of contention is CEO compensation. Over the past few years Enzon’s CEO has received \$4.9M (2008), \$5.3M (2007) and \$3.9M (2006) in total comp despite a 56% reduction in share value since being appointed to the position in December 2004. However, we suspect DCM’s anger is compounded by the fact that the CEO has not monetized the value of the Company’s various assets through a series of transactions as DCM has suggested.

Like many activist investors, DCM uses a “sum-of-the-parts” valuation methodology to determine the Company’s intrinsic value. In short, DCM believes if the Specialty Pharmaceuticals business and the Royalty business are sold, Enzon will be worth between \$9.91 and \$12.75 per share. (DCM’s analysis does not take into consideration any value attributed to the company’s Biotech pipeline).

Enzon’s Board of Directors, on the other hand, unanimously supports their CEO and have sued DCM claiming the Consent Solicitation is unlawful and invalid. They state that they are intimately familiar with the Company’s operations and are in the best position to evaluate the performance of the CEO and reach a conclusion about his retention or removal from office.

Background to the Solicitation

In late 2007 DCM sent a letter to Enzon suggesting they retain independent financial advisors to examine ways to increase share value. Less than a month later, in January 2008, DCM nominated three candidates for election to the Company’s board at the 2008 annual meeting. In March, Carl Icahn disclosed a 7% stake and also called on the Company to explore strategic alternatives. Over the course of the next few months DCM and Enzon agreed to settle their dispute by adding one independent director to an expanded board.

In January 2009, DCM nominated two candidates to stand for election at the 2009 annual meeting. Later that month Enzon announced they would nominate two directors recommended by Carl Icahn for election to an eight person board at the next annual meeting. Subsequent to this announcement DCM did not file a contested proxy statement to elect directors but instead filed a preliminary consent solicitation for the removal of the Company’s CEO.

ACTIVIST INVESTOR PROFILE

DCM invests in various strategies including (among others) event-driven trading, catalyst trading, distressed investments and liquidations. Prior to co-founding DCM, Ralph DellaCamera held investment management positions at Elliott Associates for 14 years and later with Guggenheim Capital and Maxcor Financial.

On March 3, 2009 DellaCamera disclosed a 6.6% ownership stake in CuraGen Corporation – a Biopharmaceutical development company - and announced plans to seek two board seats. In late May CuraGen entered into a stock-for-stock agreement to be acquired by Celldex Therapeutics (CLDX), generating a potential 150% profit for DCM on their investment.

Other recent activist situations include Nabi Biopharmaceuticals (February 2008) and Southern Connecticut Bancorp (June 2007).

COMPANY PROFILE

Enzon Pharmaceuticals, Inc. <http://www.enzon.com> is a biopharmaceutical company that develops and manufactures drugs used to treat cancer and other life threatening illnesses. The Company currently sells four products: Oncaspar, which is used with other chemotherapeutics to help treat acute lymphoblastic leukemia, DepoCyt, an injectable used to treat a form of meningitis, Abele, which is used to treat invasive fungal infections, and Adagen, which is used to treat Severe Combined Immunodeficiency Disease (SCID), more commonly known as “Bubble Boy Disease”. The Company also receives considerable royalties on four products that utilize the company’s proprietary PEGylation platform, engages in contract manufacturing, and new drug development.

HEDGE FUND SOLUTIONS’ VALUE ANALYSIS (IRRESPECTIVE OF THE ACTIVIST’S INVOLVEMENT)

Enzon’s total revenue rose 6.1% in 2008, to \$196.9 million. The company lost \$2.7 million for the year or \$0.06 per share, versus income of \$83 million or \$1.29 per share (fully diluted) in 2007, which included an \$88.7 million gain on the sale of a 25% interest in the company’s Peg-Intron royalty. Revenues from the company’s four major products represented 58% of total 2008 revenue, or \$113.8 million, with Oncaspar accounting for \$50.1 million, or 25.4% of the total. Oncaspar is clearly the main driver in terms of products, with revenue growth of 29% in 2008, and 25% in 2007.

While Royalty revenue fell 11.5% in 2008 to \$59.6 million, the nature of this segment is that there are very few associated costs, making profit margins extremely high. Meanwhile, revenues from the Contract Manufacturing unit rose 33.9% to \$23.6 million.

Research and Development costs and SG&A, represented a total \$129.4 million, or nearly 66% of total costs during 2008, up from 2007’s \$120.3 million (64.8%). These represent the costs that are most controllable by the company.

Enzon had a solid first quarter in 2009, earning \$6.2 million, or \$0.12 per diluted shares, despite the fact that overall revenue was flat at \$48.6 million (versus \$48.8 million). Product sales grew 8.4% to \$29.7 million, with Oncaspar up 15%, to \$14.1 million. Both the Royalties (\$13.6 million, -7 percent) and Contract Manufacturing businesses (\$5.3 million, -20 percent) showed declines for the quarter.

Enzon’s balance sheet is fairly strong. The company ended Q1 with \$74 million in cash (\$1.65 per share) and \$62.8 million in short term investments (\$1.40 per share). On the long-term side, Enzon had another \$49 million in marketable securities, primarily corporate debt (\$1.09). At the current price of \$7.67, total cash and investments of \$4.14 per share are significant. However, Enzon also has \$250 million in long-term debt on the books, in the form of 4% convertible senior notes due 6/1/2013 (conversion price of \$9.55 per share). Enzon did repurchase \$20.4 million principal amount of its 4% notes during the quarter, reducing debt slightly.

There’s little doubt that there’s value in Enzon, the question is how that it can best be realized. Clearly, the Pharmaceuticals business, driven by Oncaspar, and the Royalty business, which for all intents and purposes represents nearly pure profit, are both significant assets. The key to unlocking that value, however, is unclear. Although the company’s proposed spin-off of their Biotech pipeline assets last May never materialized, it is apparent that the separation of the existing Pharmaceuticals and Royalties businesses from the development side and its heavy associated R&D costs is one possibility.

IMPORTANT DISCLOSURE INFORMATION

Jonathan Heller and Damien Park do not hold any positions in the company mentioned in this report.

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PRINCIPALS



Damien Park, President & CEO

Mr. Park is an expert on shareholder activism. He regularly advises boards of directors, CEOs and institutional investors on these issues and has been a featured commentator on *RealMoney.com* discussing activist investments.

Damien is often quoted in publications like *The Wall Street Journal*, *BusinessWeek*, *CFO Magazine*, *The Deal*, *CNN Money*, *The New York Times*, *The Nikkei* and *Newsweek Japan*.

In addition, Damien is the chairman of the largest activist investing conference in the world and manages *The Official Activist Investing Blog*.

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Mr. Heller, CFA, is an expert on value investing. He is a Partner at Hedge Fund Solutions, the President of KEJ Financial Advisors and a featured commentator on *RealMoney.com* discussing deep value investments.

Previously, Jon was with SEI Investments after spending 17 years at Bloomberg Financial Markets in various roles which included the management of Bloomberg's Equity Fundamental Research Department and Bloomberg's Equity Data Research Department. Jon was also a senior markets editor of Bloomberg's Publishing Group, a writer for Bloomberg Personal Finance Magazine, and an associate editor and contributor for Bloomberg Markets Magazine.

In addition, Jon manages the blog *Cheap Stocks: Below Net Current Asset Value, Real Estate and other Value Strategies*.

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PORTFOLIO PERFORMANCE

Catalyst Investment Research Portfolio				
Company	Research Issue Date	Issue Date Share Price	Current Price	Gain
TIER	4-Mar	5.01	7.10	41.7%
AVGN	24-Mar	1.13	1.24	9.7%
CTO	8-Apr	29.03	34.44	18.6%
TECUA	24-Apr	7.60	9.19	20.9%
CHE	8-May	40.56	39.37	-2.9%
PPCO	27-May	2.11	2.15	1.9%
				15.0%

Updated June 8, 2009

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- Timothy Brog
Locksmith Capital Management

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